TISAtalks…Distribution Dilemmas 11th February 2014

TIMES ARE A CHANGIN'

You may recall previous blogs last autumn when Martin Wheatley was questioned over the impact of RDR by the Treasury Select Committee and his admittance of concerns about the emergence of the advice gap, caused largely by the banks exiting the advice market.

In a speech last week Martin spoke again about the difficulty of finding the advice models that are commercially viable and compliant with regulation. The single biggest difficulty seems to be in how the market has evolved post-RDR where the FCA is trying to work with the industry on the perceived advice gap to find a solution. It is clear that firms want to be in that space - the mass marketplace - and advisers want to be in a position to give advice and find a lower cost way of doing it. The FCA is very interested in looking at the less expensive distribution models emerging from small businesses. They are keen to make sure the market works effectively for customers, including those who perhaps thought the cost of advice might be excessive in proportion to the wealth they have. It is in this area that smaller firms are coming up with offerings that the regulator is interested in working with, especially looking at how they are communicated to customers and what benefits the customers are getting.

There are certain evolutions happening, such as the improvement in technology and apps and also the advent of auto-enrolment, which can make it more viable for advisers to service the mass market. Evidently, auto-enrolment will engage more individuals than ever before and the growing popularity of technology based DIY mass market solutions may help to address the advice gap, provided we can work closely with the regulator on building models which sit comfortably with their guidance and provide the appropriate customer outcomes. The FCA continually states it is not going to be prescriptive about the way firms charge and indeed what the price is. The key issue is a clear explanation to clients in cash terms of what the charges are and what services are provided for those charges.

Early indications following 12 months of RDR are that in the main small distribution firms have been adapting successfully in the wake of the drop in the number of bank and building society advisers from 4810 in January 2012 to 3556 in January 2013. We await the 2014 figures with interest.

However, there is evidence that small advisers are thriving in the new world with an increase of 6% since the dawn of RDR with a 4% increase in recurring revenue. While this is obviously small at present, the signs are at least encouraging. It would appear that in the regulator's feedback the smaller distributors have been more aggressive in creating new models than perhaps the larger distribution firms. The regulator creates a certain amount of structure for the market but then the market has to work out how best it delivers a service and makes money.

The FCA is currently watching closely how the market is evolving and creating these new distribution models, utilising both the opportunity of technology and auto enrolment, for the benefit of consumers. TISA hopes to give an update at its Spring Distribution Seminar on 27th March.

Peter Smith, Head of Distribution Engagement