

TIRED OF WAITING FOR YOU!

In July 2013, the FCA published their first set of findings examining how firms and advisers were implementing the Retail Distribution Review (RDR). In April this year they completed the second cycle of this work, focusing on two distinct areas - whether firms who describe their services as independent are offering an independent service in practice, and how firms are disclosing their service proposition and charging structure to clients. The second cycle delivering independent advice was published in March 2014.

It found that a high proportion of firms are failing to correctly disclose to clients the cost of their advice, the type of service they offer (i.e. independent or restricted), and the nature of the ongoing service they provide. In particular, 73% of firms failed to provide the required generic information on how they charge for advice and/or failed to clearly confirm the specific cost of advice to their individual clients in a timely manner. For example, fewer than half (42%) of firms surveyed gave their clients clear upfront generic information on how much advice might cost, and only half of the firms surveyed clearly explained how much advice would cost clients as individuals.

Needless to say the FCA is unhappy with the level of non-compliance identified and the failure of firms to meet their regulatory requirements. The findings are particularly disappointing as the disclosure requirements are clear and should be relatively straightforward for firms to implement. Advisers should have taken note as the thematic report set out the key issues for firms to consider and contained good and poor practice examples to assist firms in checking whether they were meeting the requirements. Firms are required to provide clients with generic information at the outset followed by confirmation of how much the advice will cost them as individuals.

73% of firms failed to provide the required information in at least one of these areas:

- 58% of firms failed to give clients clear upfront generic information on how much their advice might cost. The generic disclosure document is key to ensuring that clients understand the firm's charging structure and this should include how they typically charge for advice (for example, a percentage of the amount invested, an hourly rate or a fixed fee) and the level of the fees. If a firm is charging a percentage of the amount invested it is important to include examples in cash terms, and if it is charging an hourly rate it must provide an approximate indication of the number of hours that the provision of each service is likely to require. Clients should be able to use the document to compare the cost of different advisers and shop around if they wish.
- 50% of firms failed to give clients clear confirmation of how much the advice would cost them specifically as individuals. It is important that firms provide details of the cost of advice to each individual client in a clear and timely manner to ensure they understand the costs in relation to their particular situation before they are committed to paying any fees.
- 58% of firms failed to meet other important requirements in relation to the disclosure of their charges. For example, failing to highlight that ongoing charges may fluctuate and/or failing to make it clear when charges will be incurred.
- 31% of firms that operated a restricted model failed to make it clear to their clients that they were offering a restricted service and/or failed to provide clients with a clear description of the nature of their restriction. It is important that firms explain the scope of service they offer, and the nature of any restrictions, at an early stage. This is key in assisting consumers in making an informed choice about whether they feel the service offered is appropriate for their needs.

Advisory firms need to ensure these issues are addressed otherwise enforcement action will follow very shortly!

Peter Smith, Head of Distribution Engagement