RETAIL DISTRIBUTION REVIEW

What were the most important themes of the RDR proposals?

KEY SPEAKERS

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NICK CANN: Firstly, clarification around adviser roles. It is clear to me is there is a lot of noise around qualifications for retail advisers, but that is the easiest bit to deal with; it is a transaction, it has a timetable, so do it or don't do it. What has surprised us is the lack of realisation among the majority of the market about the huge amount of work to move their businesses to a fee-based financial planning service on January 1, 2013. Having worked with IFP members and financial planning businesses now for 10 years and seeing the effort it takes, that is completely underestimated and a challenge of that is enormous for most businesses.

JOHN MORET: A lot of the focus of the review document has been, understandably, on distribution. The impact is potentially as profound, if not more profound, on the manufacturing side and echoing what Nick said, I don't sense that the marketplace has yet taken that on board. It is three years since Callum McCarthy's Gleneagles speech and while all the signals were pretty clear, life companies have adopted a head in the sand approach. Even now, people in life companies are saying: "This isn't going to happen." When will they learn?

CANN: There are some providers that are definitely ahead of the curve and some that are still expecting marketing to come out with a solution that will suit the market and continue to earn money. The winners are those that have already embarked on or are partway through the journey towards a fee-based model and have consistency around delivery, are putting advisers through programmes, and have clarity around their proposition. That is encouraging and some of the larger firms have done that well.

PÁDRAIG FLOYD: Will they be able to deal with both sides of the market, ie those offering restricted advice and those that are whole of the market?

CANN: If they choose to do so. The bigger issue is what they will do when they have changed their focus and take that new proposition directly to the consumer.

FLOYD: Some intermediaries fear that some providers are shaping up to deliver a direct model.

CANN: I don't think they should be worried, because ultimately if you have clarity and confidence in your proposition, they know how to do it and how to make good money. Those that don't are worried, because they haven't got a clear strategy. Providers invested in new platforms and wrap capability will look to go direct and attempt to emulate the success of firms like Hargreaves Lansdown. It is just nonsense to think they wouldn't consider it.

FLOYD: John, what is your take on that?

MORET: For me, the biggest potential winner from this is the customer. Behind this comment is my view that businesses will aim to be more customer-centric in their approach. I am totally confident in the top end of the market solution. I don't know how many advisers there will be playing there; I suspect there won't be enough to satisfy the growing need, as baby boomers come through in the next five to 10 years with their accumulated wealth, but the model for that market is largely in place. For me it is all about platforms, not about products, and platforms generally put the customer at the centre, which hasn't historically been the case with life company solutions.

I am not so sure what happens to the rest of the mass market. It is imperative that we invest in more education across the industry. There are initiatives underway, some of them government-sponsored, and over time I could see that there will be a growing marketplace for direct to the customer solutions. There is a good case for saying that annuities should be advised sales, but equally if you are an informed investor, then an annuity is something that can be bought off the internet, just like travel insurance.

CANN: The next three years will offer opportunities to do something quite revolutionary for our market. There is an effort to make the industry look quite attractive, so the people we might lose will be replaced by new people coming into more uniform businesses. There are a couple of challenges; everybody is very nervous about telling the IFA what to do and there are thousands of businesses all doing it differently. However, we are now starting to see some businesses that have clarity and good business leadership and we can start to capture what is happening there.

A lot of the firms are controlled by people who are self-employed or on a contract and businesses are worried they might walk away. You can't build or grow businesses on that sort of basis. Inevitably there will be change over the next few years which will improve their standing and ability to attract new people. If we can commoditise the proposition then you can go back to the providers who are coming into the marketplace with platforms which, as John rightfully acknowledges, enables them to put the client at the front of their proposition.

How we communicate is also important. It is becoming less true that face-to-face advice with a peer is essential. My kids don't care who they talk to and they can find their way around the internet. Therefore, providing you can make it interesting enough and relevant enough for consumers, they will happily use technology. We need to understand the dynamics of the generation that we are focusing on.

MORET: I would agree, it is about how we service the next generation and the next one. They cope with technology in a way that my generation could never aspire to.

CANN: People like a challenge, so if you can make it entertaining, you could develop games based upon financial planning and take them into schools. This is my challenge for the next three years, to find a way of engaging with people so they really want to use the game, rather than us thinking we have developed a particularly snappy communication model.

FLOYD: What about the impact on pensions and retirement ▸

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ANALYSIS

Technology is changing fast to meet the requirements of the RDR, but advisers and providers must be willing to change at the same pace

Although there are those who refuse to accept that the retail development review (RDR) will be delivered without further dilution, the fact is that this market is changing – and fast. RDR will force change upon advisers, demonstrating better knowledge and higher qualification than ever before. But the providers, as the other half of the distribution equation, must also change.

It may seem unlikely in this most traditional of industries, but some are ahead of the curve. They are building new generation platforms that will service all areas of their business in a unified manner.

They realise that they must communicate with their clients – be they advisers or consumers – in different ways, in whichever way they prefer. And in many cases, that may not be face-to-face, but via an interface.

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Even if the ideal scenario is to have a face-to-face between a well-qualified adviser and a consumer, it simply isn't going to happen any more than it does now. So, communication via email, website, even over a mobile phone or a social network may be necessary.

The winners in this sector may not be the ones who have spent tens of millions on their new platforms. But those who fail to recognise that this move is indicative of greater change are likely to be left behind. For good.

saving in terms of RDR and how the market may change?

MORET: I am not sure RDR will specifically drive change in that marketplace; there are other factors at work. The biggest factor is that people become more aware of the impact of longevity, which continues to be underestimated

FLOYD: We are now going to see some real movement on remuneration. What else will change?

MORET: Self-invested personal pensions (Sipps) have long been portrayed as being a cut above the average product because of their transparency. That remains probably true, not in all cases, but traditionally the adviser remuneration model has been very much in line with what is now proposed.

I have always held the view that, particularly on pension transfers, the commission model is completely inappropriate and we are now two or three years away from that model being dead in the water. That is good news. There is more work to be done in the Sipp market around transparency and a couple of the areas that are vaguely touched on in the document – but have been parked because they are seen to be equally applicable to the platforms – for example, the whole issue of rebates from fund managers to other parties. We will see a push for much greater transparency and that will certainly impact the platform market.

CANN: John is right about transparency coming through, particularly with things like cash. It seems that particularly with the Sipp that there is going to be that easy, vanilla product offering to put direct to consumers or those that are able to do it for themselves, and then the one which is more complex, which people need – a greater level of engagement, either direct or advised.

FLOYD: You mentioned earlier that the greater degree of qualification and experience required for advisers is likely to see paraplanners backfilling administration work, which presupposes that they are using platforms.

CANN: If you view the market as we do at IFP, your client comes first and you want to spend all your time, energy and professional skill dealing with them. It is inevitable that you will use a platform because client circumstances will be reasonably complex. You can't have a load of advisers spending time doing administration and support work when they should be out seeing clients. We have seen that model fail time and again. Whereas, training and supporting paraplanners into a process increases margin, because the advisers see more clients.

MORET: Open architecture is clearly the way forward, but whether you use every platform probably depends on whether the platform wants you or not. It is hard to conceive there will be too many organisations prepared to bankroll that type of development in the future, so by and large it will be the players that are there now, although there might be one or two new entrants from outside the UK. It will be interesting to see the extent to which platforms can be leveraged into the direct marketplace. Hargreaves is probably the closest and it has been hugely successful, but nobody else has got close yet. However, workplace platforms is the obvious place to start, because you have a captive audience.

In the Sipp market, we are just starting to see things happen. The breakthrough has been the BT scheme, as two or three years ago you wouldn't have believed you could put a Sipp in for 18,000 employees.

FLOYD: What impact do you think the tax changes made in the Budget will have?

CANN: Clearly it gives an awful lot of opportunity for financial planners to go back to clients and work out different strategies. So from a financial planning point of view, it is great to have some broader context to look at other opportunities for clients.

MORET: I was reading about how Lane Clark & Peacock has discovered that £70,000 is the annual cost to provide pensions for their high earners. The report said the potential impact of these tax changes would effectively be £50,000 a year for high earners from 2011 onwards, so they will have to find a better solution. There is definitely a need for advice.

Will the changes stay? I suspect they probably will, because a new government will have other issues to tackle. What it has highlighted is that pensions simplification is a complete nonsense. One of the barriers to pension savings is its complexity and anything we can do to simplify can only improve things. PM

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