

August 2010

Financial Services Consumer Panel Views: Retail Distribution Review (RDR)

The Panel views the RDR as one of the most significant developments in financial services regulation since the FSA was set up over ten years ago. The Panel has strongly supported its objectives and we will continue to engage with the FSA as well as the industry on outstanding issues such as simplified advice, which we view as an essential feature of the post-RDR distribution sector if small savers are to be certain of access to advice. The development of professional standards is also an area where we would like to see the FSA and industry go further and the question of the regulation of platforms is still the subject of further consultation.

We were pleased to hear at the FSA's Annual Public Meeting that the FSA intends to continue its work to put the RDR into operation by 2012. It is important that in this period of regulatory change there is no loss of momentum or slipping of target dates. Successful delivery of the RDR will involve joined-up thinking on the many aspects of the review and, while we would not wish to see constructive debate curtailed in the interests of speed, it is important that 2012 sees an integrated package of development with clear timetables and deadlines put into place.

The FSA's objectives for the RDR, which are attached, are key issues for retail investors. Improvements in these areas will deliver real benefits for consumers and should go some way towards countering the lack of confidence and trust in the financial services industry caused by mis-selling scandals; actual and perceived bias on the part of advisers arising from the current commission based remuneration structure; and confusion about the basis on which services are provided. It is important that staff working for banks are not incentivised to sell in a way which will defeat the objectives of the RDR. This will be an important area for scrutiny by the regulator.

The benefits of change might not be evident for some time however. It is likely that many consumers will need greater financial capability before they feel confident enough to start to negotiate fees and to 'shop around' for the best adviser services.

Simplified advice

The Panel does not underestimate the impact of the FSA's proposed changes on the retail investment distribution market. We accept that as a result of the RDR there could be a reduction in the number of advisers operating in the market¹ and that independent advisers might in future focus on more wealthy

¹ Oxera research June 2009 RDR proposals: impact on market structure and competition

individuals. Advice seems likely to become more expensive for consumers. These factors could create a gap in the market for consumers seeking advice that goes wider than restricted advice, but whose needs fall short of a fully comprehensive package.

We envisage this gap being filled by an affordable process of Simplified Advice offering a range of simple, safer products. The Panel supports the work of the industry and the FSA in developing such a service, which the FSA believes can be delivered within the RDR structure². We will continue to take an active role in representing consumer interests in this debate. The Panel has commissioned a report on safer products that we hope will stimulate discussion.

We do not have fixed views on the form that a simplified advice process would take, although we believe it could be delivered effectively through a medium such as interactive computing or decision trees. The Panel supports the use of a standard form of portable fact-find covering basic areas including income, number of dependents, and details of current protection policies. Provided that this was regularly updated it should help both consumers and those working in the simplified and focused advice sectors.

Platforms

The Panel has contributed to the discussion on the future regulation of platforms and a consultation paper is expected shortly. The prevalence of platforms and supermarkets in the investment market shows that there is an appetite for the services that they provide and that they can in certain circumstances deliver real benefits for consumers. This can only happen however if there is sufficient transparency surrounding costs and services and if independent advisers are not constrained in the advice that they give by their choice of platform or platforms. It is important too that consumers are able to compare costs across the market and to be able to switch from one platform to another if they choose to do so.

We hope that the forthcoming consultation paper will set out specific proposals to tackle these issues and ensure that platforms operate on a basis consistent with the principles of the RDR at a transparent cost.

Adviser remuneration

What is effectively the elimination of commission in the advised sector is a major step forward for consumers. Suspicions of bias in favour of particular products, product types or product providers that will generate high levels of commission for the adviser will fall away and consumers will know - and have the opportunity to discuss - the level of charges set by their advisers, which will be addressed up-front. As with other professional services the adviser's charge will be directly related to the service provided by the firm. Investors who would rather not pay separately for advice will retain the option of having the agreed fee deducted from their investments. The new system of "Adviser

² Speech by Sheila Nicoll, ABI Conference, 18 May 2010

Charging” will ultimately make it easier for consumers to ‘shop around’ more easily than at present and to consider factors such as value for money in terms of the service they have received.

Disclosure

Post RDR consumers should know from the outset whether their adviser is truly independent and acting as their agent, providing advice that reflects the customers’ interests; or offering a restricted service which is limited in scope in terms of the number of providers or products included within the adviser’s range of business. It will be important to make sure that for restricted advice in particular, the form of disclosure really does set out in an understandable way the limitations on the advice that is to be provided.

The Panel believes that once a simplified advice service is available, these three types of advised sale – together with the opportunity to invest on an execution only basis for those sufficiently knowledgeable to do so – provide consumers with a real choice of ways to engage with the market and ultimately to choose the right investments.

There is still work to be done in identifying and disclosing the types of non-financial and sometimes more subtle support that providers can give to advisers, where RDR principles need to apply.

Professional standards

Raising standards of professionalism within the industry is to be welcomed. We see QCF Level 4 as a good starting point for investment advisers, but ultimately we believe that Level 5 is the appropriate standard. While the Panel has strongly supported the measures that the FSA is putting in place to ensure that advisers pursue a programme of continuing professional development and for compliance with standards of professionalism to be independently verified, we have urged the FSA to reconsider its current model for a Professional Standards Board. A PSB should in the Panel’s view be independently chaired; separately accountable for its professional standards function; led by an identifiable senior executive who is responsible for driving the work forward; and have a clear mechanism for ensuring that consumer interests are taken into account.

The FSA's RDR objectives

In its first Discussion Paper, published in 2007, the FSA set out its overall objectives for the RDR:

- an industry that engages with consumers in a way that delivers more clarity for them on products and services;
- a market which allows more consumers to have their needs and wants addressed;
- standards of professionalism that inspire consumer confidence and build trust;
- remuneration arrangements that allow competitive forces to work in favour of consumers;
- an industry where firms are sufficiently viable to deliver on their longer term commitments and where they treat their customers fairly; and
- a regulatory framework that can support delivery of all of these aspirations and which does not inhibit future innovation where this benefits consumers.

Over the course of the next few years and as a result of extensive consultation, the FSA refined its key objectives and the work streams necessary to achieve those objectives, to the following:

- Improving the clarity with which firms describe their services to consumers;
- Addressing the potential for adviser remuneration to distort consumer outcomes; and
- Increasing the professional standards of advisers.