

SPEED  
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- less change likely on payment than many might expect
- intermediary channels look 'frighteningly uncontrollable'
- for distributors, 'execution-only direct' looks indispensable
- advice bar 'too high' for all but the highest-net-worth clients
- navigation is 'too complex, jargon-ridden and time-consuming'

# IT'S THE DAMBUSTERS' BOUNCING BOMB

For a generation, says **LUCIAN CAMP**, we've all assumed that face-to-face advice is the best way to distribute financial services. It won't take long for RDR to shatter that myth.

**Y**es, obviously, I suppose the RDR will change some things for consumers in the world of financial advice. There'll be a bit less of it, more and more of it will be restricted rather than independent; it will be of somewhat better overall quality and mercifully free from commission bias; and there are some quite interesting and currently unknowable implications about the way people are going to pay for it.

On payment, my guess is that there will be less change than many people expect. First, upfront adviser charges will be paid mostly by the provider to the intermediary by deduction from the sum invested, much as initial commission is paid at the moment. And, second, ongoing service fees will look remarkably like trail commission, although a bit tricky to justify to the troublingly large

number of clients who don't really want or need much in the way of ongoing service.

But, you know, honestly, none of this is what interests me. What interests me is a scene reminiscent of that most dramatic of all moments in *The Dambusters* – the bit when the first few little cracks start appearing in the dam, and the first little trickles of water appear, and you know that in next to no time the whole thing's going to collapse and a torrent consisting of a gazillion gallons of water is going to start smashing its way down the valley.

### GAZILLION GALLONS

You may not have noticed any re-run of this scene in the documentation or reporting around the RDR, but it is there, in a form a bit less pictorial than my description. The dam is the assumption we've shared for rather more than a generation that, with only a few niche exceptions, face-to-face advice is the best way to distribute financial services. The bouncing bomb is the RDR. And the gazillion-gallon torrent is going to be the huge number of new, non-advised, non-face-to-face, direct-to-consumer services that are being launched as we rapidly realise that, whether or not face-to-face advice ever was the best way to distribute this stuff, it certainly isn't any more.

One key element of that new logic – the power, consumer acceptability and now near-universal availability of digital communications – is apparent to everyone. Beyond this, providers and distributors have their own decisive reasons for adopting the new direct rationale.

For providers, without the lever of commission, the intermediary channel looks like a frighteningly uncontrollable game to be the only game in town.

EVEN IF IT'S ALL A BIT CHAOTIC, HALF-ARSED AND UNDER-PROMOTED AT FIRST, THIS MAY EVEN BE THE BEST THING THAT'S EVER HAPPENED IN FINANCIAL SERVICES.

For distributors, who have calculated – often for the first time – just how much it costs to make a face-to-face sale, the execution-only direct alternative is looking more and more indispensable as a Plan B, ideally in close integration with Plan A (that's A for Advice) so that, when their clients are happy to act on their own initiative, without the need for advice, they don't need to go elsewhere to do so.

As a result, I don't think there is now a single major FS organisation which is not doing something new and interesting about the new direct opportunity – and dozens more major non-FS organisations are doing likewise. Much of this is still below the surface, but, wherever you look, the first cracks and trickles are starting to appear:

**High-street banks:** for them, the RDR raises the advice bar far too high for all but their highest-net-worth customers.

**Fund managers:** the intermediary market is turning before their very eyes

AT THE MOMENT, THE MARKET IS FAR TOO COMPLICATED, JARGON-RIDDEN, DIFFICULT AND TIME-CONSUMING FOR MOST CONSUMERS TO NAVIGATE IT SUCCESSFULLY.

from a cosy community of tame advisers into a frightening and unfamiliar jungle of model portfolios, DFMs and DIFs.

**Life companies:** They will try to carve out their own direct-to-consumer space with workplace-related rather than domestic services.

**Advice firms:** most don't have the money to do anything much, but a few are already hard at work on that Plan B capability.

From consumers' perspectives, even if it's all a bit chaotic, half-arsed and under-promoted at first, this may even be the best thing that has ever happened in financial services. The truth is, these days, for the huge majority of people most of the time, taking individual advice on a financial decision is far too difficult and expensive to be worth the bother.

### JARGON-RIDDEN

The market is far too complicated, jargon-ridden, difficult and time-consuming for most consumers to navigate it successfully. But it's like that for the sole and simple reason that we decided to make it like that, in order to create the clearest and most compelling role possible for intermediaries. And now we're just starting to choose not to make it like that any more.

I'm just about old enough to remember how, back in the 60s, supermarkets swept away the classic, old-fashioned, counter-service grocers. People said it could never happen because consumers couldn't slice their own bacon or weigh their own flour and sugar: What they'd failed to spot was that if you pre-pack the bacon and pre-weigh the flour and sugar, they don't have to.

And people said consumers liked having White Coat Man to slice their bacon for them: that might have been true in pure theory, but in practice there still are three decisive advantages to doing your shopping for yourself: it's much cheaper; you don't have to wait for the man in the white coat; and he can't fill your bag with nasty fatty bacon or bruised

Granny Smiths hugely inferior to the delicious-looking ones on the display.

That food retailing revolution was all over within a generation. The supermarkets wiped out White Coat Man. The financial services direct revolution will happen a lot more quickly – and, actually, with far more important and beneficial effects. In my mind, and looking at the RDR through consumers' eyes, this is by far the biggest and most important implication. ■



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