DISTRIBUTORS

**SPEED READ**

- the regulatory cost burdens are considerable and growing
- three challenges: professionalism, adviser charges and delivery
- distributors need to be better managed and more self-sufficient
- need to rectify poor understanding of the client delivery costs

# SURVIVE OR THRIVE

# *time is short*

The RDR is a sea-changing event for distributors, argues RODERIC RENNISON. They need to be better managed and more self-sufficient if they're to survive – let alone thrive.

It's no exaggeration to say that the RDR represents the single largest change and challenge to distributors since the Financial Services Act 1986. It will have far reaching implications for retail financial advice: the FSA has become more intrusive and this trend is set to continue when it's split into the Financial Conduct Authority and the Prudential Regulation Authority.

The burden and the cost of regulation are considerable and growing as are the consequences for falling foul of the regulator. One already evident impact is the need for project management skills to co-ordinate and implement the changes. This is not a resource that most firms possess. Many firms and their advisers have "muddled along", reacting to changes when they occur, and relying in varying degrees on providers to guide and support them.

This legacy of dependency is changing not least because most providers have less to spend on support and they're looking at how they'll survive in a post-RDR world as well as other avenues for distribution. RDR is a sea-change in which distributors need to be better managed and more self-sufficient. They face three specific challenges:

**Professional qualifications:** The RDR requires all those giving investment advice (excluding protection and mortgage advice) to have achieved Qualification and Credit Framework (QCF) Level 4 status before 2013. Research by the FSA in late-2011 indicates that some 15% of advisers won't achieve that level, though some, rather than leaving the market, will focus on protection and mortgages. ➤

## DISTRIBUTORS HAVE NOT YET SPENT MUCH TIME CHALLENGING PROVIDERS ABOUT WHAT THEY'LL DELIVER TO ADDRESS THE CHANGES.

Achieving QCF Level 4 status is arguably a "binary" decision: if advisers decide they want – are motivated – to sit the required exams, they'll pass them. But some firms, particularly larger ones, initially failed to devote sufficient management or project resources and have no accurate idea of the progress of individual advisers.

There's also an emerging need for different types of support for advisers. Some "big producers" have needed individual tuition or coaching to get them on track – something which firms have mostly decided to fund once they calculate the potential fall in revenue if there's no business coming in after 31st December 2012!

**Adviser charging:**
This is the major challenge. Advisers will need to agree the level of remuneration and how it's paid with their clients rather than relying on a provider's commission tariff. It's evident that most firms and their advisers have not so far had any systematic approach to charging. In effect, those prospects that take advice and implement investment products subsidise the time spent on abortive sales activity.

Most firms have not, at least initially, systematically reviewed existing client propositions or developed new ones to reflect how they intend to do business in future.

Rather than first ascertaining their overheads cost-base, and the costs of providing advice, many firms have launched straight into segmenting their clients. This exercise has had to be repeated in numerous instances because of a poor understanding of the client delivery costs.

Then there's deciding on the propositions to be offered to clients and the pitfall here is that there's often insufficient research to inform those decisions.

The final and currently the largest challenge is the successful promotion of the propositions to new and existing clients. The two key words are "confidence" and "value". If advisers are not fully confident about what they're advocating, their clients are less likely to accept the move to Adviser Charging, particularly if they don't perceive that they are getting value.

IN PROMOTING PROPOSITIONS TO NEW AND EXISTING CLIENTS THE KEY WORDS ARE 'CONFIDENCE' AND 'VALUE'.

**Key processes:**
Distributors have seemingly not yet spent much time challenging providers about what they'll deliver to address the changes. They need confirmation that their selected providers will be able to facilitate, let alone collect, Adviser Charges and provide other relevant support where required. There's an assumption all providers will be ready, but distributors would do well to seek specific undertakings particularly where they're working with just a few platform providers.

It's evident that distributors need to organise themselves to survive, let alone thrive. The starting point is to devote enough resource to identify the changes needed, then implement and monitor them. If firms are uncertain of their readiness for RDR, they should commission an audit. There are few enough days to the year end: how distributors use their time will significantly determine their future. ■

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