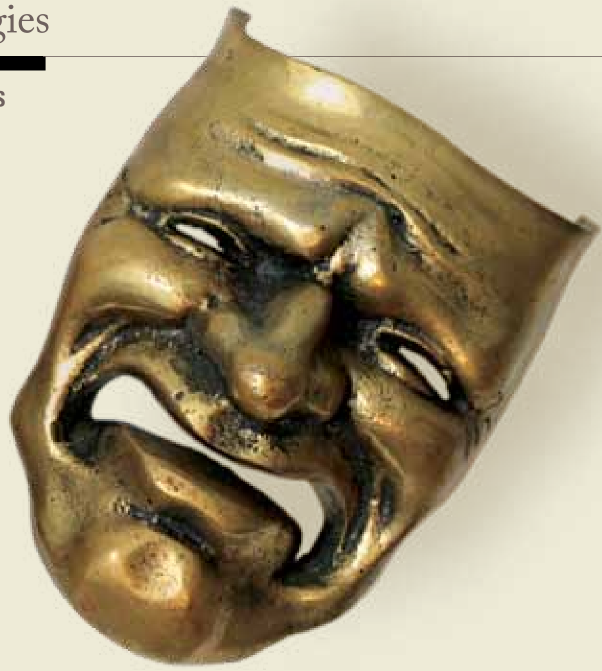
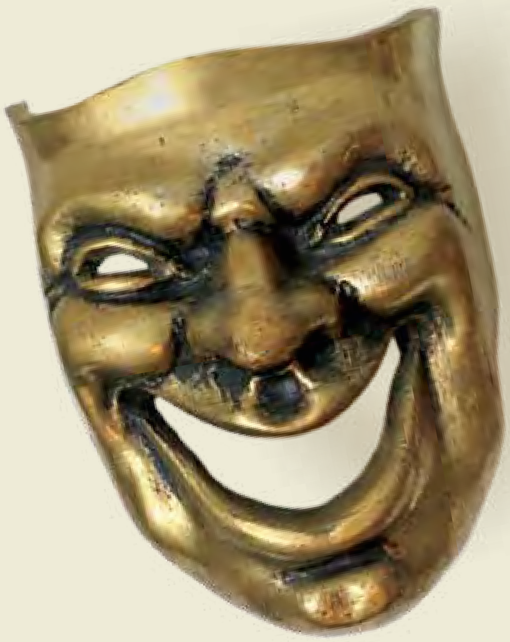


Rehearsals *for the* big drama



We're into the final breathless lap before the January 2013 launch of the revolutionary Retail Distribution Review. Forum Members assess its impact in our three key constituencies:

- CONSUMERS: the benefits – and likely downsides
- PROVIDERS: how they'll adapt their business models
- DISTRIBUTORS: how the IFA community will adjust

CHOICES FOR CONSUMERS

Bring it on!

Steve McDowell, Editor in Chief, Interactive Investor PLC

The best IFAs will prosper in any environment. It doesn't matter to them how they get paid, commission or fee, their performance justifies them to their clients. It's the clients who will be at less than an advantage.

We're serving more than 1m private investors online, so when RDR disenfranchises any individual with less than, say, £50,000 of investable assets, we're in the best place to give them all the guidance they need – free of charge. Bring it on, we say.

Doomed to failure

David Jackson, Chief Executive Officer, Clicktools

The RDR programme is doomed to failure. Regulation doesn't solve a problem rooted in how senior managers think about business and the ethics they tolerate in business. If it was, the TCF programme would already have made a substantive difference to consumers: it has not. It has burdened many that are customer focused with extra bureaucracy and cost, and it's been ignored or circumvented by those who continue to abuse the trust customers rely on.

A new self-service paradigm

Keith Evins, Executive Director, Head of UK Marketing, JP Morgan Asset Management

Advice will likely be replaced for many by execution only or guided purchasing solutions catering for this 'orphaned' section of the public. Sounds awful? I'm not so sure. RDR actually plays to the growing trend towards self-service. A burgeoning section of society prefers to do its own research, digging out the best deal (look at how we buy car insurance). Consumers are increasingly looking for financial products on-line. If the new paradigm takes them to sites with more guidance and relevant solutions, then that's an improvement on today, where information and jargon are overwhelming and solutions hard to find.

It's hopelessly unrealistic

Toby Clark, Head of UK Financial Services Research, Mintel

For more affluent investors, the RDR will be positive. They'll benefit from better-qualified advisers and more transparent charging. I'm less optimistic for the mid-market that would benefit most from better financial advice. In theory, most people approve of the switch from commission to fees – but just 7% would be prepared to pay even £100 for financial advice. That's a hopelessly unrealistic expectation of the real cost of getting independent advice from a highly qualified professional.

What is the right price?

Lorna Bourke, Freelance columnist, Citywire

Wealthier clients prepared to pay fees will continue to benefit from good, impartial advice while the rest will be shunted down the restricted route and will probably end up in the arms of the high street banks – not an attractive proposition, given the recent mis-selling scandals. For consumers unused to paying fees for financial advice, it will be difficult to know what the right price is. But it should allow those who pay for independent advice to know what it's actually costing.

Vulnerable will be hit hardest

Greg Becker, Product Development Actuary, RGA

Some think guns should be banned because they kill people. Others point out that guns don't kill people, people do. Regulation needs to be carefully aimed to ensure it leads to the intended outcome. The biggest effect of RDR may be on the most vulnerable, many of whom are forecast to be precluded from existing forms of financial advice. Efforts should be made to ensure the RDR improves existing standards of advice and financial product distribution.

The balance of power shifts

Mike Roderick, Group Director, Illuminas

With consumers paying for advice, the balance of power will rest with the customer. The adviser will become the representative of the customer rather than, as currently, the financial provider. Greater fee transparency means consumers become more educated about the value of advice and service provided. As consumer trust increases, so will positive word-of-mouth recommendation for advice. Post-RDR, there may be fewer IFAs available to give advice but, given the laws of supply and demand, I'd expect this to balance out over time.

It may be found wanting

Guy Corbet, Director, Fishburn Hedges

The financial services industry exists to help ordinary people plan their financial futures, particularly where the state won't provide. It's that simple. The RDR may be found wanting. For sure, a minority, who already invest time and money in planning and optimising their fortunes, may be better prepared and protected. For the vast majority, though, there's little cause for optimism that they'll start paying upfront for a service whose value they didn't see when the costs were far less obvious. An 'advice gap' seems inevitable.

FOR THE VAST MAJORITY, THERE'S LITTLE CAUSE FOR OPTIMISM THAT THEY'LL START PAYING UPFRONT FOR A SERVICE WHOSE VALUE THEY DIDN'T SEE WHEN COSTS WERE FAR LESS OBVIOUS. **GUY CORBET**

That 'zero moment of truth'

Ian Morgan, Industry Director, Financial Services, Google UK Ltd

We're observing a trend towards self-direction – people are pursuing information and 'advice' through a range of sources, increasingly online. The RDR will accelerate this trend. Through online research, consumers are considering a range of information and options before they even encounter an IFA or provider – going through what we call the 'zero moment of truth'. There's huge opportunity for investment houses, IFAs and banks to consider their customer segmentation, acquisition and servicing models, and drive innovative digital marketing strategies in the post-RDR market.

Predictions for 2013

John Eastgate, Sales & Marketing Director, Saffron Building Society

It's difficult to imagine your average investor being enamoured at the prospect of stumping up cash up front for advice, especially when that sum could easily reach four figures. So investors will look for alternatives – self-selection (enter Google), advice from peers (Facebook), complete paralysis (mattress or staying in cash). I also envisage non-traditional players entering the market: Tesco's grocery profits could shore up a lot of fee-free advice to gain market share. Will RDR deliver better consumer outcomes? Sufficient room for doubt.

More transparency, fewer advisers

Grenville Turner, Group Chief Executive, Countrywide

The key benefit to consumers is that advisers are qualified to a professionally high standard. Similarly – if implemented well – the ending of commission paid for advised sales should remove the risk of commission bias. With a tariff based on the level of service, the process should become more transparent. We believe that the combination of prescribed customer contact strategies, the need for qualifications and changes to commissions will lead to a 10-20% exodus from those currently providing advice to consumers.

THE RDR'S RATIONALE SEEMS A GOOD ONE: TO OPEN UP THE MARKET AND IMPROVE THE LINES OF SIGHT BETWEEN COMPANIES, ADVISERS AND CONSUMERS. **JOE HALE**

An opportunity to regain trust

John Prout, Director, Retail Customer, NS&I

If the RDR is to make a truly meaningful contribution to regaining trust in the industry then it must speak directly to consumers. They need to know how the new rules will directly benefit them in their dealings with financial services providers. The results of the RDR must be presented in an engaging way, and one that consumers can quickly see as having relevance and benefit to them. To fail here would actually make things even more confusing.

Increased value and effectiveness

Joe Hale, Client Director, Dragon Rouge

The increasing pressure to market directly to consumers will bring greater choice, clarity and empowerment to those looking to buy. This is a good thing, as commission bias has been a major factor in the past, with advisors controlling the provision of products and making it hard for consumers to find and choose the most appropriate product. The RDR's rationale seems a good one: to open up the market and improve the lines of sight between companies, advisers and consumers. This will in turn drive greater value to consumers by making the market more transparent and competitive. The advent of new technology platforms and services should also shift the balance of power further in favour of consumers.

AGENDA FOR PROVIDERS

Caveat emptor won't apply

Michelle Cracknell, Bluerock Consulting Ltd

Platforms often compete on the number of funds they offer, but is it what the consumer wants? It is costly and the RDR change to pricing will exacerbate this. It is well researched that consumers faced with huge choice end up making none. In addition, TCF requires a provider to demonstrate that its proposition is suitable for its target consumer segment so a platform cannot put any fund on and hope that 'caveat emptor' applies. The greatest marketing challenge will be to give consumers the right amount of funds so they are empowered to act rather than disarmed by the overwhelming choice.

Focus on retention and engagement

Chris Byrom, Senior Customer Engagement Specialist, Graymatter iQ

Increased cost and complexity of compliance and having to pay more for better qualified advisers might see the end of the IFA as we know it. The dynamics will change: product providers will incur marketing and distribution costs of selling directly to consumers. Greater operational costs mean that some providers might not survive, further reducing customer choice. One thing is certain – providers will be looking more at their existing customers to sustain and grow their businesses, engaging with them better and retaining them longer.

A path of least resistance

Andrew Wood, Head of Pensions and Public Policy, RS Consulting/Consensus

The pensions industry is about to gain millions of customers through automatic enrolment, and thousands of new employers with a duty to provide a pension – just as the 'free advice' tap is turned off. Many employers won't pay for advice, so that puts the spotlight on providers. We can expect to see 'compliance made easy' tools, corporate wraps, more integrated flexi-benefits and financial planning platforms and, no doubt, loads more fund choices. Employers will follow the path of least resistance and turn to the companies they already have a relationship with. So banks may well have a head start over insurance companies, if they can go to their existing customers and become the one-stop shop for all their banking, investment and pension needs.

For some, time is running out

Campbell Macpherson, Managing Director, Campbell Macpherson & Associates Ltd

Many life companies will need to question the value they add post-RDR. They've built a business on actuarial wizardry and paying intermediaries generous commission to distribute their products. Some will decide to become fund managers, some will become cheap and efficient administrators and others will go back to their roots and become genuine insurance companies again – taking and managing investment performance risk. Not all will survive the transition. For some life companies, time is running out.

The impetus to go direct

Graeme Mckenzie, Managing Director, redtag

Over 62% of product providers will seek to grow their direct business, according to our recent research findings. For all adviser-led distribution channels, there's clear evidence of the business desire to substantially expand or launch effective direct and digital channels. And over 70% of the 24 organisations participating state that simplified advice is of keen interest, with the need for product innovation in the development of a range of light touch simple products, which match the mass consumer needs. Redtag's RDR research findings are on www.redtagdm.co.uk/rdr.

Towards a multi-channel future

Stephen Lowe, Group External Affairs Director & Group RDR Lead, Just Retirement

RDR changes the distribution landscape, creating new advice channels and forcing a rethink of some old ones. As a provider our focus has been on preparing for this multi-channel future. The scope for growth in the retirement income market is huge as increasing numbers of 'baby boomers' reach pension age and shop around for the best solutions tailored for their needs. The RDR is triggering increased consumer choice and those advisers who want to stand out from the competition will need to have the right balance of personal service with affordable yet profitable processes. ➜

The two challenges we face

Jeremy Forty, Senior Consultant, Towers Watson

Providers face two sales and marketing challenges: first, to ensure that the promotional approach adopted in the intermediated sector fits with the needs of advisers as they adapt their customer propositions and business models; second, how to engage with customers direct, in ways that help mitigate price pressure and sustain market access. We expect to see increased polarisation between companies successfully using the RDR as a catalyst for strategic change and those who fail to adapt to new market realities.

Compliance alone isn't enough

Jon Phillips, Client Director, Lloyd Northover

It looks like the industry's reputation is by no means out of the woods yet. Above all, long-term success depends on rebuilding a strong foundation of customer confidence and trust. Compliance alone won't be enough. Standing out will require new standards in professionalism and service quality delivered in a human and engaging way. Brand owners have no time to lose. Customers will quickly see through empty pledges. Make sure change goes to the heart of how business is actually done.

THESE HIDDEN REBATES ALLOW PROVIDERS TO CLAIM THEY OFFER 'FREE' PROUCTS WHILST SUBSIDISING THE COST OF ADMINISTRATION. **GARRY MCLUCKIE**

Client engagement becomes critical

Peter Preisler, Director of International Investment Services, Head of Europe, Middle East and Africa, T. Rowe Price International Ltd

What's certain is that it will require a business model change for IFAs and it's likely to lead to consolidation. For providers, one challenge is how to structure share classes appropriately. They'll need to meet new requirements and at the same time avoid creating a proliferation of share classes which would not be beneficial to the investors/end-clients. Marketing, PR and product positioning will play an important role, with continued client engagement being critical.

Stop pretending it's 'free'

Garry Mcluckie, Marketing Director, Alliance Trust Savings

Intentionally or otherwise, our industry has created a situation where charges are completely opaque, leaving consumers with very little understanding of the true cost of their investment. One key reason is cash rebates paid from fund managers to product providers from the annual management charge. This hidden rebate allows providers to claim they offer 'free' products whilst subsidising the cost of administration. There are no 'free' products, so let's stop pretending otherwise. If you believe you have a service worth charging for, then charge for it explicitly and stop hiding behind rebates.

The challenge to prove value

Robert Kerr, Head of Distribution Development, Scottish Widows

The complete separation of advice and product charges means that many consumers will see a step change when they meet with an adviser from 2013 onwards. The significant marketing challenge is to convince consumers in the value of advice, and to separate this value both at the time they receive initial advice and through their long term relationship. Providers and distributors face a long term marketing challenge to convince consumers their separate but complementary services reflect real value for money.

Honesty is the best strategy

John Fisher, Director, FMI Group

The marketing response to new regulations always splits into two – absolute, boiler-plate compliance or devising ways to get round it. Bigger institutions tend to fall over themselves to be compliant, sometimes even fabricating rules based on rumour and hearsay to produce a marketing response that's bombproof but very off-putting to new clients. The other extreme, mostly from distributors, is to be so minimal that clients have to be IT whizz kids to get to the website bit about new compliance guidelines. Our advice is: tell the client honestly what the rules are and demonstrate you're following those rules, with their interests (not the regulator's) at heart.

THE COST OF BEING INDEPENDENT WILL RISE. BUT MOVING FROM COMMISSIONS TO FEE-CHARGING WILL DRIVE AN INCREASE IN PROFESSIONALISM, BETTER CLIENT COMMUNICATION AND A FOCUS ON LONG-TERM RELATIONSHIPS. **VINCE HARVEY**

CHALLENGE FOR DISTRIBUTORS

Drive to more professionalism

Vince Harvey, Head of Personal Development, Brooks Macdonald Group

In the discussion about 'independent' or 'restricted' advice, a consensus appears to be emerging that clients don't really mind once the difference is explained. The key is that firms decide their strategy, provide clients with a consistent message about what they'll offer, at what price. The costs of being independent will rise with even greater research, training and record keeping requirements. Moving away from commissions to fee-charging will drive an increase in professionalism, better client communication and hopefully a focus on long-term relationships.

An opportunity, not a threat

Mark Sherwin, Commercial Director, Precedent

The IFA community's elevator pitch will have to be concise and value-driven. The question is whether any IFAs will see this creative process as an opportunity to develop a pragmatic contemporary offer which leverages the currently austere financial mood, and pushes the traditional boundaries of the IFA offer and its service delivery. Might we see IFA equivalents of Wonga, Zopa, Esure and FirstDirect – all innovators in their product proposition and delivery methods? Perhaps IFAs should stop looking at the RDR as an inconvenience and see it as a defining opportunity.

Transparency on fees and services

George Higginson, CEO, Sesame Bankhall Group

Intermediaries will need to adapt their strategy to ensure a new level of transparency regarding the services being delivered to clients and the fees being charged. Clear communications and effective marketing will be pivotal in articulating new services and selling the benefits and value to both existing and potential customers. Marketing will also have a key role in ensuring existing clients receive regular updates, which will be important in justifying ongoing fees.

Enlightenment v. Dark Ages

Simon Bonnett, Head of Financial Planning, Duncan Lawrie Private Banking

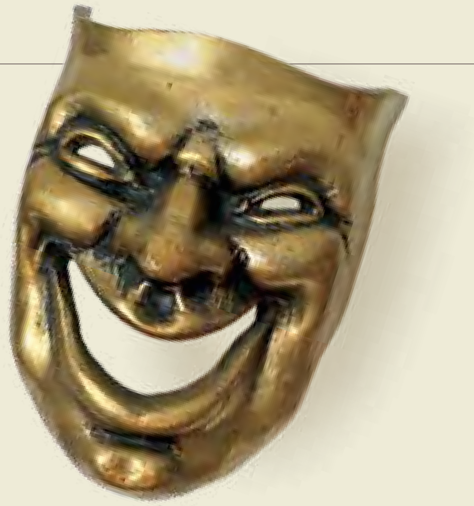
There's a very clear line emerging: RDR-ready firms have already considered their proposition. They've determined their fees for initial advisory work and then on-going reviews, ensured their planners are QCE Level 4 and obtained their Statement of Professional Standing – and are looking forward to a clearer future. Firms who haven't considered the complete impact of RDR are stuck in the transactional Dark Ages – with a business model based on commission only. Where this is the case, even some of the larger firms will soon be extinct.

Explaining the new model

Ben Curson, Managing Director, Financial & Professional Services, Hill+Knowlton Strategies

Research amongst IFAs shows large disparities in preparedness when it comes to key elements of the legislation such as commission and qualifications. Firms who are already compliant need to consider how they'll explain their new fee model to customers not used to paying up front. IFAs who have taken on a Discretionary Fund Manager will need to explain the value they continue to bring to the client. Amongst IFAs still working to meet the deadline, clear communication will be necessary to reassure clients the wheels are in motion and the deadline will be met. →

RACE TO RDR – DISTRIBUTORS



WHETHER ADVISERS REMAIN INDEPENDENT OR MOVE TO A RESTRICTED MODEL DOESN'T CHANGE THE FACT THAT THEY'LL BE MARKETING A QUALITY, PERSONALISED SERVICE. **GRAEME BOLD**

Valuing the 'independent' label

Graeme Bold, Director, UK Retail, Standard Life

We know that what consumers value most from advisers is face-to-face time, but statistically advisers spend far more time on plan preparation or admin than they do talking to clients. Contact will be key to ensuring the continued success of the sector post-RDR, but in a world where the independent label is an adviser's brand and commission is a huge source of income, RDR will prove a big adjustment.

With the advent of the new model adviser, this transition has already begun. The move to new pricing strategies via adviser charging is dependent on how advisers market themselves. Whether an adviser chooses to remain independent or move to a restricted model doesn't change the fact that they'll be marketing a quality, personalised service – whether that's giving unrestricted, 'holistic' financial advice, or specialising in one area. A clear price for quality service, agreed up front with a client, is what will be valuable in a post-RDR world.

Let the revolution begin!

Jeremy Rance, former Group COO at wealth manager Ashcourt Rowan plc

One thing's for sure – the world of financial services really will never be the same again. However, the businesses that survive and thrive in the post RDR battleground will be those that can seize the initiative, positioning themselves as adaptable to customer needs and building a true client centric proposition which gives value for money. The revolution will quickly divide the haves from the have-nots, exposing those who have failed to demonstrate customer intimacy and engender loyalty pre-RDR. The winners will:

- Clearly articulate their proposal and pricing.
- Validate it with an honest and genuine pricing model.
- Regularly reinforce their unique value-add through communications and service delivery.

There's a real prize to be won: long term, profitable relationships, with a segmented cost to serve and a differentiated model where price and service are both fit for purpose. Let the revolution begin!

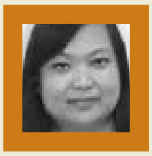
The goal is recurring income

Kevin Dowling, Head of Investment Writing, Octopus Investments

Financial advisers don't need RDR to tell them that their business is only as strong as its client base. Success comes from strong relationships with high value clients, recurring income, and through limiting both risks and liabilities. RDR should focus the minds of advisers on improving their business practices. Outsourcing investment management to product providers will let advisers provide a more holistic service, free up time to expand their client base and rebuild recurring income.

Struggle for strong income streams

Mya Myat Moe, Senior Analyst, Datamonitor Financial Services



Consumers will drive IFAs to demonstrate the value and differentiation of the advice they offer and the charges they levy. But it's far from certain the supply of new customers will be sufficient to support the higher costs of being in business for an IFA post-RDR. The less affluent may become uneconomic with the removal of cross-subsidies of commissions on investment business. Advisers will struggle to develop a new pricing strategy that gives them a sustainable income stream strong enough to keep them in business post-RDR. ◘

KNOWLEDGE CENTRE

These 60-second Strategies are edited extracts of the contributions we received in an exceptionally lively response from Members. You can read the full versions of their perspectives on the likely impact of the Retail Distribution Review for Consumers, Providers and Distributors online via:

www.thefsforum.co.uk/knowledge