

David Thomson

CII group director of public affairs



Insurance must grasp RDR nettle

The Retail Distribution Review is triggering intense debate in the financial services world – and the insurance sector will do well to keep abreast of the emerging themes and eventual conclusions

The Retail Distribution Review (RDR) Discussion Paper may not seem of great relevance to CII practitioners working outside retail distribution. However, professional standards and behaviour are at the heart of the debate, and these are of great relevance to us all. This is an important opportunity to address the issue of professionalism. The prize for raising our game will be repairing our reputation and building trust with customers.

What is the Retail Distribution Review?

The FSA launched the Retail Distribution Review in June 2006 in response to perceived problems in the distribution of retail investment products. The aim is to “improve market efficiency and lead to better outcomes for consumers”.

The FSA used five groups to come up with ideas and to try to reach consensus on possible solutions. The Paper sets out ideas for reform. It is not yet a set of concrete proposals.

What happens now?

The consultation period ends on 31 December 2007. In 2008 the FSA will publish a feedback statement and there may be further consultation. The FSA has not defined an implementation timetable but it is likely to be in the range of three to five years from the beginning of 2009 onwards.

What the Discussion Paper says

It proposes clearly-labelled segmentation of the advice market and appropriate regulation.

Key recommendations of the five RDR groups:

Professionalism and reputation group*

- better segmentation and labelling of advisory services;
- higher standards of behaviour and competence, including examinations, with a key role for trade and professional bodies.

*See 'Professionalism and Reputation' on the CII website.

Sustainability group

- risk-based prudential requirements with incentives for good risk management;
- more effective supervision of small firms (possibly with firms receiving risk ratings) and oversight of compliance service providers;
- a limitation period for complaints and claims relating to past advice.

Impact of incentives group

- intermediary or adviser remuneration should be regarded as customer money;
- improved clarity for customers over services provided and their costs;
- the group also considered 'factory-gate pricing' or 'customer-agreed remuneration (CAR)' (CAR means where the intermediary's costs are separated from the cost of the product).

Consumer access group

- simple models of advice, related to a limited product range, to reduce cost and improve clarity;
- the potential for standardised, consumer-owned, portable factfinds.

Regulatory barriers and enablers group

This group looked at the proposals from the other groups to identify possible constraints, including those arising from UK law or EU directives.

Segmentation of advice will see the introduction of 'full', 'primary' and 'unregulated' advice:

Full financial advice

The FSA is proposing to split full financial advice into two clear intermediary classes:

- 1 Professional Financial Planner – firms with Chartered status, or similar, charging by fee (or customer-agreed remuneration, which the FSA regards as a variant of fee) only.
- 2 General Financial Adviser – firms providing advice with a range of qualifications and accepting payment by methods including commission.

Primary advice

Basic advice will be replaced by a primary advice service, a new category offering a limited service. The FSA wants significant feedback in this area.

Unregulated advice

Subject to the conclusions of the Thoresen Review of Generic Advice (due by end 2007), a fourth unregulated category of advice could be created: Generic or Holistic Advice. This would offer advice on a variety of issues, from debt to saving. One output could be a portable factfind for use as an entry into regulated advice.

For more information, see the RDR page of the CII website: <http://www.cii.co.uk>