



Carole Nicholls brings members up to speed with the market-changing Retail Distribution Review

Getting to grips with RDR

In the last edition of Financial Solutions, I talked about how the FSA's review of retail distribution (RDR) is of vital importance to all PFS members and to all your businesses. This issue contains a lengthy analysis of RDR and sets out PFS/CII thinking on many of the key issues – see page 12.

For my part, I want to cover some of the high-level background and outline the timetable to the review.

First, the PFS is running a series of initiatives to engage members in the RDR debate over the remainder of the year, and these include:

- Full and half-day conferences presenting panel debates with key industry spokespeople
- Regional meetings tailored to the RDR debate
- A dedicated RDR Website

- Hard-copy and electronic RDR Discussion Paper summaries
- A series of Surveys establishing member sentiment.

Central to all this activity is our wish to try to guide our members through this review and help members engage in the debate or simply keep informed.

What is the RDR Review?

The Financial Services Authority (FSA) launched the Retail Distribution Review in

June 2006 in response to perceived problems in the market for the distribution of retail investment products. The first phase of the review involved the FSA, industry and consumer representatives working together to understand better the “root cause of the current market inefficiencies and to find solutions that are attractive both to consumers and to firms”.

The FSA's objective for the review is to “improve market efficiency and lead to better outcomes for consumers”.

Key conclusions of the review:

- **Quality of financial advice and professional standards need to increase significantly.**
- **Requires industry and regulatory change**
- **Solutions proposed could increase the cost of full financial advice**
- **There needs to be an economical way to deliver simple advice on simple products to more consumers**

The FSA used five formal groups of senior market individuals to come up with ideas that could be used in the Discussion Paper and to try to reach consensus on the possible solutions to these problems. The FSA Discussion Paper was published in June 2007 and sets out suggested ideas for reform. It is not yet a set of concrete proposals – a point which has confused people who have found some of the content difficult to navigate.

What happens now – the timetable
The consultation period for the Discussion Paper began on 27 June 2007 and ends on 31 December 2007. In the first half of 2008, the FSA will publish a feedback statement in response to what people have said during the consultation. Depending on the outcome of this, there will be further consultation on what it may all mean for firms and the FSA.

It is important to stress that these changes – whatever is finally agreed – will not be implemented immediately so there is time to prepare and understand the business implications as the process unfolds. The FSA has not defined an implementation timetable for the RDR 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

The FSA Discussion Paper articulates a number of conclusions (see box) and proposes to address them by creating a new, clearly-labelled segmentation of the advice market, matched with appropriate regulation. The extent to which the individual recommendations offer more or less well-defined options varies significantly through the Discussion Paper.

Key recommendations in more detail

The FSA commissioned five groups to explore specific areas of concern:

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.

*For more thoughts on this aspect of the review see the paper ‘Professionalism and Reputation’ produced by the CII as an input to the RDR review and available on the PFS 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 to create greater certainty and encourage new capital investment.

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 the benefits and limitations of ‘factory gate pricing’ or ‘customer agreed remuneration (CAR)’ (i.e. CAR means where the costs of the intermediary services are separated from the cost of the product).

Consumer access group

- simple models of advice, related to a limited range of products, that could reduce costs 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 any possible constraints, including those arising from UK law or from EU directives.

The advice sector

The Discussion Paper suggests that the shape of the advice sector should be realigned to tackle the problems identified (see Figure 1). The FSA is thus proposing to split the provision of 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 – as now firms providing financial advice with a range of qualifications and accepting payment by methods including commission.

Basic advice will be replaced by a new primary advice service:

- 3 Primary Advisers – a new advice category offering a limited service, the FSA will be looking for significant feedback on the DP in this area.

Subject to the conclusions emerging from the Thoresen Review of Generic Advice (currently being undertaken for the Government and due to report by the end of 2007), a fourth, unregulated category of advice could be created:

- 4 Generic or Holistic Advice – offering advice on a variety of financial issues, from debt-management to saving. Potentially an output from generic advice could be a portable fact find which could be used as an entry into regulated advice.

For more detailed information about the review, please access the special RDR page of the CII/PFS website which carries up to date information about the status of the review and how to get more information:
http://www.cii.co.uk/cii/research/responses_consults.aspx

We as a profession should not be frightened by the RDR. It gives us a splendid opportunity to ensure that professional advisers achieve appropriate regulatory recognition. But we must be prepared to fight our corner, and that means engaging with each other, with the rest of the industry and with the regulator itself.

Rest assured that I and everyone else at the PFS will be battling hard on your behalf over the weeks and months to come. **FS**

To find out all you need to know about the Retail Distribution Review, visit www.thepfs.org

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