

Why the Retail Distribution Review is great news for your clients

(For Professional Adviser Use Only)



At the beginning of the year I wrote about the Retail Distribution Review (RDR) on the 'News and Views' section of our website. The review was launched by the Financial Services Authority (FSA), the industry regulator, in June 2006.

The review had three core aims:

- To improve the clarity for consumers of the characteristics of different financial advice service types and the distinctions between them
- To raise professional standards in the financial advice industry
- To reduce the conflicts of interest inherent in remuneration practices of financial advisers and improve transparency of the cost of all advisory services

On 25 June 2009 the FSA released the draft implementation rules of the RDR. These rules represent a radical and fundamental reform of the way financial advice will be delivered and paid for in the UK. The outcome will be a stronger and more highly qualified profession.

We consider it important that private clients and their other advisers understand the significance of these changes.

Independent or restricted advice

"We are proposing changes to make it easier for consumers to distinguish between the different forms of advice on offer to them (consumers), with all investment firms clearly describing their services as either 'independent advice' or 'restricted advice'. Our rules and guidance will ensure that firms that describe their advice as 'independent' genuinely do make their recommendation based on comprehensive and fair analysis, and provide unbiased, unrestricted advice. Equally, where consumers choose to use a restricted service, such as a firm that can only give advice on its own range of products, this will be made clear."
(Source: *Distribution of Retail Investments: Delivering the RDR*, Financial Services Authority, June 2009)

Wealth Advisers will be categorised as either providing "independent advice" or "restricted advice" and they will be expected to disclose this to clients at the outset. Independent advice will be 'fee only' and any product recommendations will be made from the whole of the market. Restricted advice will refer to advisers selling products from one or a limited number of companies.

These new definitions will provide much greater clarity. If a client is receiving restricted advice they should ask whether this is really in their best interests.

Qualifications

"We have made clear that we believe a higher minimum qualification requirement is needed for investment advisers. We agreed with the recommendation that this should be set at Qualifications Credit Framework (QCF) Level 4 or equivalent." (Source: Distribution of Retail Investments: Delivering the RDR, Financial Services Authority, June 2009)

The current minimum standard for financial advisers is Qualifications and Credit Framework (QCF) Level 3 – equivalent to 'A' Level. The new minimum standard will be QCF Level 4 – equivalent to the first year of a degree. Towry Law's minimum standard for 2012 is QCF Level 6, Chartered Financial Planning status – equivalent to an honours degree.

It is estimated that approximately 75% of advisers today do not have QCF Level 4 qualifications (Source: FSA: 'Estimation of Total Incremental Compliance Costs for RDR Proposals' paper – June 2009).

The rules around pensions and the complexity of the investment world require professionally qualified people to give advice. Our view is that any advice given should be the advice of the firm not of an individual. Central teams of pension and investment experts working alongside client facing advisers is the only way clients can be assured of getting the most appropriate advice.

The end of commission

"Under our proposals, all firms that give investment advice must set their own charges, in agreement with their clients, and will have to meet new standards regarding how they determine and operate these charges. The proposals bring to an end the current, commission-based system of adviser remuneration: we propose to ban product providers from offering amounts of commission to secure sales from adviser firms and, in turn, to ban adviser firms from recommending products that automatically pay commission." (Source: Distribution of Retail Investments: Delivering the RDR, Financial Services Authority, June 2009)

Many firms dress up their service as being free but the truth is that they are being paid large sums of commission by product manufacturers to sell their products. By way of example, in today's world, if a commission-based financial adviser wants to sell a £200,000 investment bond to your client they may take an initial commission of 7%. This is £14,000. This is a cost to the client but dressed up as a payment from the insurance company. In the new world, commissions are banned. How many clients are going to opt to pay £14,000 for an hour's advice to buy an investment bond?

Towry Law is entirely fee-based and we have long campaigned for the abolition of all commission payments to financial advisers.

Review your relationships

The FSA announcements represent a challenge to the industry to become a profession. This is great news for your clients. There will be greater clarity of the types of financial advice they can access, greater transparency of the cost of that advice and greater confidence in the competency of those giving the advice.

However, the end of commission payments, along with measures to improve professional qualification standards, is not mandatory until 31 December 2012. Until then your clients are still at risk of receiving inappropriate advice if they consult the wrong financial adviser. There are some firms, such as Towry Law, that offer fee based independent advice today, delivered by appropriately qualified people. We would be delighted to discuss our services with you.



Andrew Fisher
Chief Executive
Towry Law

If you would like to learn more, please contact your usual Wealth Adviser at Towry Law or Jon Bowes on 0207 936 7157

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