



# The Retail Distribution Review (RDR)

## **Briefing Note**

June 2011

**Informed Choice**  
Independent Financial Advice

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First edition published in Great Britain 2011.

# Introduction

We have prepared this briefing note ahead of the implementation of the Retail Distribution Review (RDR) at the end of next year.

This briefing note has been created to help our existing and prospective clients, as well as our professional connections and advocates, understand the new regulatory regime being applied to all retail investment advisers from 1<sup>st</sup> January 2013.



Within this briefing note, you will find:

- Background to the Retail Distribution Review (RDR).
- A summary of the new rules and regulations.
- Other factors to consider and what happens next.
- Our response to the new rules and how we have positioned our business for the change.

We have attempted to provide a plain English interpretation of the new rules. If you have any questions about anything in this briefing note, please do get in touch. You can call me on 01483 274566, email [martin@icl-ifa.co.uk](mailto:martin@icl-ifa.co.uk) or talk to me on Twitter @martinbamford.

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## Background

Change is a constant feature within the retail financial services sector.

Since the Financial Services Act 1986, we have been witness to frequent changes to our regulatory environment including commission disclosure, depolarisation, moving towards principles-based regulation, the Treating Customers Fairly (TCF) initiative and, more recently, the Retail Distribution Review.

All of these initiatives were designed to improve outcomes for the consumers of financial services.

The Retail Distribution Review (RDR) was launched by the regulator in June 2006 as a response to perceived recurring problems in the retail financial services sector. These problems included product and provider bias, churning of products, lack of access to financial advice and a perceived lack of professionalism in the sector.

It has been an industry-led review, initiated with the creation of a number of working parties, consisting of industry leaders, to address several themes:

- Sustainability of the distribution sector
- Impact of incentives on the advice process
- Professionalism and the reputation of the sector
- Consumer access to financial products/advice
- Regulatory barriers and enablers for market solutions

These working parties reached a broad consensus and their proposals were then published on 27<sup>th</sup> June 2007 within a Discussion Paper (DP07/1: A Review of Retail Distribution).

Informed Choice executive director Nick Bamford was one of only a handful of independent financial advisers to attend the Retail Distribution Review conference in London on the day of publication, to hear first hand the feedback from these working parties.

In June 2009, the FSA published a Consultation Paper (CP09/08 Distribution of retail investments: delivering the RDR) and held a period of consultation which closed on 30<sup>th</sup> October 2009.

This Consultation Paper set out three main measures that the regulator believed would have the biggest impact on achieving their aims of improving the interaction between consumers and the industry:

- Improve the clarity with which firms describe their services
- Address the potential for adviser remuneration to distort consumer outcomes
- Increase the professional standards of investment advisers

A further Consultation Paper (CP09/31 Delivering the Retail Distribution Review) was published in December 2009. The consultation period for this paper, which specifically covered professional qualification requirements and the treatment of group pensions, remained open until 16<sup>th</sup> March 2010.

On 26<sup>th</sup> March 2010, the FSA published a Policy Statement (PS10/6 Distribution of retail investments: delivering the RDR) which contained their feedback on the two previous Consultation Papers and their draft final rules.

A further Consultation Paper (CP09/18 Delivering the RDR: Professionalism, including its applicability to pure protection advice) was published on 28<sup>th</sup> June 2010 and this included feedback to previous Consultation Papers.

The FSA published a Policy Statement (PS11/01 Distribution of retail investments: Delivering the RDR – professionalism) on 20<sup>th</sup> January 2011 and this described the new professionalism standards that will apply to all financial advisers.

This briefing note considers the final rules published during this process along with our views on the impact of these rules and the factors of which advisers, consumers and other interested parties should be aware.

## Clarity of status

Under current rules, an investment adviser must be very clear about their status when interacting with consumers. Since the introduction of 'depolarisation' in June 2005, advisers have been described as:

- Independent
- Whole of market
- Multi-tied
- Tied

This replaced a system where there was clear polarisation between independent and tied advisers.

The depolarised categories described above create the potential for confusion. In particular, where a consumer was dealing with a multi-tied adviser and believed they were independent because it was claimed that they selected products using a 'best of breed' approach.

The new rules will effectively reintroduce polarisation on 1<sup>st</sup> January 2013. From this date onwards, advisers will need to offer 'independent' or 'restricted' advice.

It is not possible to make a simple comparison between the current categories for advisers and the new labels, as an 'independent financial adviser' today will not necessarily satisfy the new rules for 'independent' advice in 2013.

It would also be unfair to claim that a 'restricted' adviser from 1<sup>st</sup> January 2013 will be similar in attributes to a 'tied' or 'multi-tied' adviser today, as the restriction will apply to the scope of advice rather than the product providers which can be recommended.

For this reason, it will be possible for a 'restricted' adviser under the new rules to act in the best interests of their clients, although not to the same high standards as an 'independent' adviser.

Both independent and restricted advisers will be subject to the same regulations from 2013 onwards, including the same high standards of remuneration disclosure and professional qualifications.

Other than for the sake of business efficiency and commercial advantages with a limited number of product providers, it is difficult to see why an adviser who is able to meet the higher standards of 'independence' would want to do anything different under the new regime.

Advisers will have to be very clear about the nature of advice they are providing under the new rules. Restricted advisers will have to provide an oral disclosure of the fact they are providing restricted advice and the nature of these restrictions.

### **Things to consider**

If you have an existing financial adviser, ask them which status they have today and which status they will have from 1<sup>st</sup> January 2013.

When engaging with a new financial adviser, ensure that they meet the highest standards and offer 'independent' financial advice, with an intention to continue to be 'independent' from 1<sup>st</sup> January 2013 onwards.

If you are a solicitor or accountant, always make sure you are recommending your clients speak to an independent financial adviser and that your recommended IFAs are preparing to offer independent advice from 1<sup>st</sup> January 2013 onwards.

The FSA defines an independent financial adviser as follows:

*"The new definition is advice which is unrestricted, and based on a comprehensive and fair analysis of the relevant market. It is designed to reflect the idea of a genuinely independent adviser being free from any restrictions that could impact on their ability to recommend whatever is best for the customer."*

# Adviser remuneration

The introduction of these new rules on 1<sup>st</sup> January 2013 sees the abolition of commission in its current form. The ability for an investment adviser to receive commission from a financial product will be replaced with what is being called 'adviser charging'.

This means that independent and restricted advisers will need to develop their own charging structures, with no influence on the level of remuneration from product providers such as insurance companies.

Product providers will no longer be able to pay commission to advisers from 1<sup>st</sup> January 2013, although they will be able to facilitate the payment of any agreed adviser remuneration from the cash in products and tax wrappers.

These charges will need to be disclosed to clients up front and in writing. This means the investor will have the opportunity to agree charges with their adviser before any work is done.

The new rules do not mean that advisers will have to charge a fee for their advice. Independent or restricted advisers could choose to offer this advice for 'free', but charge their clients for the implementation of recommendations.

## **Things to consider**

The new rules remove an often confusing and opaque method of adviser remuneration, where future investment charges were used to fund upfront commission payments. This old system could often make it look like the investor was getting something for nothing.

If you have an existing financial adviser, you should understand how they charge for their services and ensure you relate this to the value you are receiving. In particular, if your financial adviser is receiving ongoing remuneration from the charges on your investments, you should make sure you receive an ongoing review service from them.

When selecting a new financial adviser, you should find out if they receive commission for selling financial products or if they have work on this new adviser charging basis already.

## Professional standards

A major part of the Retail Distribution Review is a drive to increase overall levels of professional standards for financial advisers. These new rules will apply to both independent and restricted advisers.

All advisers will need to hold a higher minimum level of professional qualification by 1<sup>st</sup> January 2013 in order to continue delivering investment advice. Under current rules, investment advisers must hold a qualification equivalent to Level 3. From 1<sup>st</sup> January 2013, this minimum standard is increased to Level 4, which is equivalent to an A Level.

In addition to needing a higher minimum qualification standard, advisers will have to ensure their knowledge is kept up to date through a more rigorous schedule of Continuing Professional Development (CPD). Advisers will have to undertake 35 hours each year of CPD, of which 21 hours must be 'structured' to meet specific knowledge requirements.

All advisers will need to hold a Statement of Professional Standing (SPS) which they will obtain from an accredited professional body and will need to renew annually. We understand that details of this SPS will be noted against the adviser name on the Financial Services Authority (FSA) Register, allowing investors to check that their adviser holds such a Certificate.

### **Things to consider**

Whilst these new rules on professionalism do not come into force until 1<sup>st</sup> January 2013, as an investor you should check that your financial adviser already meets these new standards, or at least is making good progress towards achieving them.

When looking for a new financial adviser, you should look for an adviser who already satisfies these professionalism requirements and has also achieved the Chartered Financial Planner or Certified Financial Planner (CFP) status, which is evidence of a higher standard of professional achievement.

## Summary

Informed Choice is generally very supportive of the Retail Distribution Review changes. We believe it is vitally important for consumers to access impartial, independent advice, from properly qualified professionals and in an environment of transparency. The professional standards and adviser charging methods introduced by the Retail Distribution Review go a long way to creating a regime in which consumers might be confident.

There is however a lot more to do...

We need to ensure that consumers in this 'accumulation' phase of their financial lives are not "put off" engaging with an independent financial adviser because they perceive such advice to be expensive. Strangely some times transparency can be a barrier, particularly where before the consumer perceived advice to be free.

We also need to invest in the education of the consumer. It is nice to be trusted but the consumer needs to be more challenging in their relationship with the financial adviser.

For too long there has been an asymmetric relationship with the adviser holding the knowledge. We believe that in this day and age consumers should come armed with all the right questions and have capacity to understand the answers. In respect of the latter point it is down to the intermediary to acquire the skills and knowledge to be able to answer in a clear, fair and honest way.

We believe the future under RDR looks bright for the engaged intermediary and the consumer seeking professional, independent advice.

## About Informed Choice

Informed Choice is a leading firm of Chartered Financial Planners, working with individuals, trustees and business owners to help them to build, manage and protect their wealth.

We were named as **IFA of the Year** at the Money Marketing Financial Services Awards 2010 and we are four times winners of the Gold Standard for Independent Financial Advice.

We were named **Best Retirement Adviser** at the Moneyfacts Good Advice Awards 2010.



We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

Our briefing notes provide commentary on key financial planning issues, to enable clients and professional connections to understand the implications. We welcome conversations with individuals and professional advisers on any of the issues raised in this briefing note.

To find out more about our advisory and planning services, please visit [www.icl-ifa.co.uk](http://www.icl-ifa.co.uk).