

Delivering the RDR: AEGON's response

Retail Distribution Review 13

November 2009

Introduction

We passed another major milestone on 30 October – the deadline for responding to the Financial Services Authority's (FSA's) Consultation Paper 09/18, *Distribution of retail investments: Delivering the RDR*. Here we give an overview of our response. Our previous bulletin, RDR12, summarised our response to the questions on corporate pensions, which had an earlier deadline.

The main points

- The RDR is at risk of not delivering on its objective to widen access to advice.
- We're encouraging the FSA to work with the industry to develop the Simplified Advice Process (SAP) concept.
- We remain firmly against the ban on provider factoring as it will lead to widespread consumer detriment across all regular contribution savings, including group personal pensions.
- We'd like some standardisation of how various Adviser Charging (AC) agreements are described and recorded.
- Asking providers to operate 'decency limits' on AC would be highly problematic and we believe the FSA is in a better position to monitor trends.
- We believe the distinction between Independent and Restricted Advice could become blurred if there isn't full clarity on how a 'relevant market' can be defined.
- Proper implementation of AC for vertically integrated firms is essential to create a level playing field and to avoid customer confusion.
- We support the new qualification and professionalism standards but don't expect we'll need QCF level 4 for SAPs.
- We believe the protection market could benefit from RDR-style interventions but these should focus on enhancing remuneration disclosure. AC in its current form wouldn't be appropriate.



AEGON's response

Access to advice

We're very concerned that the RDR reforms as currently proposed won't deliver on one of the original objectives – to improve consumer access to advice. This in turn will limit access to savings and investment products.

It's widely expected that the number of advisers will fall before RDR is implemented at the end of 2012. Those who remain will be subject to higher standards of professionalism and qualifications, and will have adjusted their business model to incorporate AC. These changes are expected to increase the focus on higher net worth individuals (although a broader range may still be served through the corporate pensions market).

The proposed ban on provider factoring will, if implemented, create a further major barrier to providing advice on regular savings – especially for the many customers not prepared to pay a separate upfront fee for advice. We believe that the concept of Simplified Advice Processes (SAPs) could have a part to play here.

We've always been firmly behind finding ways of broadening access to advice. While many customers are very well served by current advice models, the current regulatory regime means others are hard to reach – and this could get worse. The absence of an adviser lessens the motivation, or 'call to action', for the consumer to save. We continue to hope the RDR can remedy this through introducing new advice and guidance models, but there's a real risk we'll miss this opportunity to get new people saving more for their future.

There's no single solution here – we believe the key is to think innovatively about how best to reach different groups of consumers with different needs. We're suggesting the FSA should work with industry and consumer representatives on a number of topics. We'd like to see improved clarity on what exactly constitutes an SAP. The concept of Basic Advice (which we view as a subset of SAPs) needs to be reviewed and modernised. And more generally, we believe there's a real consumer demand for further, more flexible advice models.

The need for provider factoring

We strongly oppose the FSA's proposed ban on provider factoring. This will be harmful to many consumers, particularly those who'd benefit from regular savings. If providers are banned from factoring, then unless advisers are prepared to be paid in instalments, these customers will be faced with paying for their advice upfront – something we know discourages many from saving, particularly those of modest means who arguably have the greatest need.

There are claims that the regular savings market is small. We disagree with this for the individual market and importantly, it ignores the millions who benefit from tax-efficient regular savings through group personal pensions. Some seem resigned to an irreversible decline in regular savings but we view this as a defeatist approach. As an industry, we need to find ways of re-engaging with those who'd benefit from a regular savings habit.

We're continuing to urge the FSA to re-examine its proposed factoring ban and to recognise the consumer benefits in allowing a limited form of factoring. We believe allowing providers to pay the adviser the full AC upfront but to collect this from the customer's plan over a five-year period strikes the right balance for all parties.



Standardising AC agreements

While we have major concerns over the provider factoring ban, we still believe there are benefits in moving to AC. These include improved consumer understanding and trust in our industry and, in the corporate pensions market, more engaged employers. But the move from commission to AC isn't straightforward and we've been analysing its practical implications for both advisers and providers. We expect AC agreements to take a wide variety of forms and to be expressed in different ways – including fixed monetary amounts and percentages of either contribution or fund. There will be different combinations of AC for initial and ongoing advice. The consequences of cancellation, early termination, change of adviser and additional ad hoc ACs for extra services all need careful consideration. In some areas such as cancellation, we believe the FSA should set rules. In others, we see benefits for providers, advisers and consumers in having a degree of industry standardisation in how we describe and record detailed AC agreements.

Disclosure

We support the FSA's aim of improving consumer understanding of products and services and their costs. The key to success is better disclosure material. At a European level, there's consultation on introducing new rules around disclosure and advice for Packaged Retail Investment Products (PRIPs). The FSA has understandably deferred setting any specific disclosure rules until the outcome of the PRIPs consultation – expected mid-2010 – is clearer. We're urging the FSA to start considering contingency arrangements in case the PRIPs work is delayed. This would involve setting up interim arrangements that reflect the change from commission to AC, while minimising other costly changes.

More generally, while we appreciate that EU regulations prohibit additional prescription, we see benefit in the FSA giving guidance on what it expects disclosure material to convey – for example, the extent and nature of any restrictions around advice provided. A restricted adviser may be tied, multi-tied, or have no contractual ties but advise solely on packaged products. These three options are all very different and consumers need to be able to understand this.

'Decency limits'

To treat our customers fairly, we must consider the respective roles of providers and distributors. Replacing commission with AC means advisers will explicitly agree the amount and shape of their remuneration with their client, with providers no longer having any role in this.

The FSA is suggesting providers should retain a monitoring role around AC, but we believe any such role has to be broadly based. Under Treating Customers Fairly (TCF), providers will want to review distributors' business practices and make sure these are consistent with TCF. This works both ways and provider/distributor discussions will cover a range of topics, including clarity of provider literature, adviser customer segmentation, product target markets and persistency trends. Approaches to remuneration and typical levels and shapes fit well into this framework.

But anything more formal is fraught with difficulties. For example, providers don't know if the adviser has given the client holistic advice beyond the product that's bearing the AC. We believe FSA is better placed to spot any worrying trends by looking across providers. This will be aided by enhanced product sales data and other management information the FSA will collect from advisers.

Distinguishing independent advice

We support the new independence standard. However, we have concerns that the distinction between Independent and Restricted could become blurred unless the FSA provides further guidance. For example, we're keen to better understand how a 'relevant market' might be defined. We're also unclear on where 'focused' advice sits in the new landscape.



Wraps and platforms

We believe wraps and platforms can offer advantages to advisers and their clients. We agree that the FSA needs to review its regulatory approach – both to the wrap/platform provider and to advisers using them. Wraps and platforms are increasingly extending beyond a technology-driven administration tool into areas that would be regulated if delivered by product providers or advisers.

Current disclosure requirements are designed for a packaged product regime and don't lend themselves well to platforms. As a result, charges aren't always disclosed, meaning clients can't see the full extent of these, either for manufacturing, fund management or advice. This has to be a concern against the backdrop of RDR seeking to improve clarity in this area, including through the separation of adviser and provider charges.

We also find it hard to see how the use of a single wrap or platform is consistent with the new standard of independence, unless it has fully open architecture.

Vertically integrated firms

We welcome the consideration the FSA is giving to applying AC principles to firms where there's no clear separation between adviser and provider (vertically integrated firms). This is a complex but key area and we need a solution that provides a level playing field across all types of adviser and provider firm. In particular, we need clear and comparable disclosure to customers about how much they'll pay for advice, so they can make informed decisions.

Qualifications and professionalism

We broadly support the proposals to enhance professionalism and qualifications. Our primary concern is that setting unnecessarily high standards for those using SAPs could discourage the development of this market, to the detriment of consumers.

RDR and protection

The FSA is considering whether to apply RDR-style interventions to the protection market. We've taken the opportunity to explore what might be beneficial and what would be unlikely to work.

Our conclusion is that the FSA should focus on making sure that adviser remuneration is always disclosed, and in a clear way. We also believe there should be maximum equivalence between protection sold under COBS and ICOBS to limit the potential for unhelpful regulatory arbitrage. Enhancements in professionalism and qualifications should also be considered, but in a way that recognises the competencies and expertise required to advise effectively in these markets.

AC for protection is problematic as it relies on the explicit deduction of charges to cover the separate costs of advice and manufacturing. In protection, there are no explicit charges for advice or manufacturing and no build-up of fund from which to deduct charges. Instead, these costs and risk premiums are typically bundled together into a flat premium rate. We're also not aware of any evidence that the current commission approach in remuneration practices creates any consumer detriment. Again, we believe the key area for improvement is making sure the amount the adviser receives is clearly disclosed at the point of sale.



What next?

The FSA has promised us final rules in the first quarter of 2010. In addition, we're expecting a further consultation on draft rules for corporate pensions and perhaps more clarity on the read-across to protection, later this year.

What this means for you

With the passing of each milestone, we get a better flavour for how the final rules might look. We're continuing to lobby the FSA to change some of its proposals – most notably around the ban on provider factoring – and to define more clearly what might be allowed under SAPs. But there's now enough clarity for adviser firms to take forward their thinking on what model they want to adopt in future and what they can be doing now to prepare for this – be it considering enhancing qualifications or determining how to position AC with their customers.

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