

AEGON IFA Insights Survey Research and Analysis

Report Four: [September 2007](#)

Introduction from Graham Dumble

Director of Risk & Regulation

The financial services industry is on the brink of the biggest shake up in years in the way people access and pay for financial advice. Faced with growing consumer mistrust and increasing numbers of people unable to access affordable advice, the FSA has published its Retail Distribution Review discussion paper outlining one possible set of proposals for tackling the issues. Taking forward the ideas of the five industry-led working groups it looks at ways of improving the quality of advice and providing more transparency for consumers over the cost of advice services. It also proposes the introduction of new channels of regulated advice to tackle the widening advice gap.

This latest wave of IFA Insights research, conducted in mid July, tests IFAs' initial reaction to the discussion paper proposals and canvasses opinion on how significant they think the problems the RDR are seeking to address are. With much of the early debate centring on the value of the "independent" label and on adviser remuneration models, we asked IFAs what independent advice means to consumers and their clients and what they think of proposals to make Customer Agreed Remuneration more widespread. We also looked at whether IFAs intend to seek Professional Financial Planner status in the new advice regime and what that could mean for the current advice gap.

During the preparation stage of the report, we invited a number of industry publications, who have followed our research closely, to participate in this initiative. We were delighted to include exclusive questions from Financial Adviser, Money Marketing and New Model Adviser in this wave of research, which you will find at the back of the report. We would like to thank these publications for participating and would be delighted to hear from any media organisations interested in participating in future waves of the research.

This latest report adds valuable new information to the debate which I hope will encourage advisers to make their voices heard. There is still a long way to go but, if we focus on the outcomes we want to achieve, together we can create the right framework to improve the retail distribution market.

If you have any comments or queries on the report please do not hesitate to contact me, as I would be delighted to hear your views. For more information on the IFA Insights project or to see previous reports please visit our website at: www.aegon.co.uk/media.

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Question 1

The FSA has recently published its Discussion Paper on the Retail Distribution Review. On balance do you think the proposals outlined in the review to increase adviser qualifications, make capital requirements more risk-based, make Customer Agreed Remuneration more widespread and introduce new categories of adviser will...

	Yes	No
Improve consumer confidence and trust in the financial services industry	25%	69%
Improve consumer access to financial products	10%	88%
Provide an opportunity for IFAs to enhance their professional status and reputation	52%	47%
Pose a threat to IFAs and their way of working	63%	36%
I don't know what impact the proposals will have	40%	55%

Commentary

At this early stage in the consultation process it is perhaps not surprising to find there is still some uncertainty as to whether the FSA proposals will meet the stated objectives. Only a quarter of IFAs believe the Retail Distribution Review (RDR) will actually improve consumer confidence and trust in the financial services industry and a mere one in ten believe it will improve consumer access to financial products. In February 2007 we tested IFA opinion on whether they thought the RDR would provide them with an opportunity to enhance their professional status and reputation and whether it would pose a threat to IFAs and their way of working. While the percentage regarding it as an opportunity to enhance their professional status and reputation has stayed broadly the same (55% in February and 52% now), the numbers seeing it as a threat have risen substantially. In February 20% of IFAs said they thought it would pose a threat to IFAs and their way of working whereas 63% of IFAs now hold this view. This could be a consequence of the initial negative response to some aspects of the discussion paper. However by focusing on the objectives rather than specific proposals IFAs have the opportunity to put forward alternative solutions that might be more appropriate.

AEGON Analysis

- IFAs believe the RDR's main impact will be felt within the industry without having significant benefits for the end consumer.
- Seven out of ten IFAs don't believe the RDR will improve confidence and trust in the industry.
- Half of advisers think the RDR provides an opportunity to enhance their professional status and reputation.
- Over six out of ten (63 per cent) believe the RDR poses a threat to IFAs and their way of working. This has risen from 20 per cent of IFAs in February 2007 who said they thought it would pose a threat.

Question 2

Thinking about the industry as a whole, how significant do you think the problems with the distribution of retail investment products outlined by the FSA are – very significant, quite significant, quite insignificant or very insignificant?

	Significant*	Not significant**
Customers don't understand the risks, complexity and price of retail investment products	62%	35%
Commission bias and remuneration-driven sales lead to inappropriate product switching and poor persistency	25%	72%
Issues with advice or product performance may not become clear for many years by which time the responsible firm may not be in business leaving others in the industry to meet the costs of compensation	75%	22%
Many consumers can't afford full advice or find an adviser willing to advise them	76%	21%
Compared to other professions many advisers have relatively low levels of training or qualifications which may lead to issues of trust or mean they can't make consumers understand the benefits, risks and costs of their services clearly	37%	58%

* Those saying 'Very significant' or 'Quite significant'

** Those saying 'Very insignificant' or 'Quite insignificant'

Commentary

Clearly IFAs accept some of the FSA's analysis of the problems with the retail distribution market even if they may be sceptical of the suitability of some of the proposed solutions for tackling them. Three quarters agree that lack of access to advice for many consumers is a significant problem for the industry and the same number are concerned about who should meet compensation costs if there are problems with advice or product performance and the responsible firm is no longer in business. This shows a clear appetite for exploring further suggestions in the discussion paper around greater capital, wind down cover and new forms of professional indemnity insurance. However IFAs are less convinced of the FSA's concerns over commission bias and adviser qualifications. Only a quarter believe commission bias leads to inappropriate product switching and poor persistency and less than four out of ten think higher qualifications will improve consumer trust and understanding.

AEGON Analysis

- 43 per cent of respondents thought that it was very significant that 'many consumers can't afford full advice or find an adviser willing to advise them' with a further third (33 per cent) saying that this was quite significant.
- Respondents were most likely to view as insignificant that 'Commission bias and remuneration-driven sales lead to inappropriate product switching and poor persistency' with nearly a third (32 per cent) thinking this was very insignificant.

Question 3

Please choose the three features of independent financial advice you think best reflect:

	What consumers in general understand by independent financial advice	What your clients value about independent financial advice
Selecting products from the whole of the market rather than a restricted number of providers	85%	87%
Selecting products from the whole of market with no formal or informal panels	33%	32%
Always remunerated by a separate fee	7%	6%
Offering the option to pay by fee	53%	49%
Are an agent of the client rather than the product provider	42%	48%
Giving advice that isn't linked to a product sale	23%	34%
Having the highest possible level of professional qualification	19%	11%

Commentary

According to IFAs by far the most important element of independent financial advice is its whole of market offering. This is perceived as a much more important factor of independence than how advisers are paid, with only half of IFAs choosing “offering the option to pay a fee” as an important feature. IFAs also thought acting in the interests of the client rather than being tied to a product provider was something their clients valued. Despite the FSA’s proposals to link independence with high levels of professional qualifications less than two out of ten advisers thought consumers or their clients perceived this as an important factor of the ‘independent’ label. What consumers expect from an independent advice service in any new regime is an important issue and it will be essential to test this fully with consumers as the consultation process develops.

AEGON Analysis

- 87 per cent of IFAs believe their ‘whole of market’ offer is one of the top three aspects of what clients regard as representing independence.
- Only six per cent felt that ‘always remunerated by a separate fee’ was a top three aspect.

Question 4

Looking at the key decisions you or your firm may have to take in light of the retail distribution review proposals do you strongly agree, agree, disagree or strongly disagree with the following:

	Agree*	Disagree**
I already have the appropriate level of qualifications or intend to obtain further qualifications to move to professional financial planner status	80%	19%
If I move to professional financial planner status I might not be able to serve all my existing clients	62%	37%
Losing the 'independent' label would not matter to my clients	30%	69%
Ignoring any costs involved, it would be attractive to be able to offer more than one form of advice to my clients	51%	38%

*Those saying 'Strongly agree' or 'Agree'.

** Those saying 'Strongly disagree' or 'Disagree'.

Commentary

Nearly seven out of ten IFAs say that losing the 'independent' label would matter to their clients. Therefore it is not surprising to find that eight out of ten say they will join a flight to quality and seek to become professional financial planners in the new advice regime, allowing them to retain their independent status. However this could lead to fewer people being served at the top of the advice spectrum and a widening of the advice gap as more than six out of ten say they might not be able to serve all of their existing clients if they do so. One way to resolve this would be for firms to offer different types of advice to clients and, encouragingly, half say this could be an attractive option to them.

AEGON Analysis

- Nearly half (46 per cent) felt strongly that losing the 'independent' label would matter to their clients.
- More than a quarter (26 per cent) felt strongly that, ignoring any costs involved, it would be attractive to be able to offer more than one form of advice to their clients.

Question 5

How important would the following measures by providers be in helping advisers make the transition to a new advice regime – very important, quite important, quite unimportant or very unimportant?

	Important*	Not important**
Designing products with simpler charging structures that are transparent and easier for clients to understand	76%	22%
Disclosing advice costs in point of sale material	79%	20%
More flexible initial commission options	66%	33%
More flexible upfront and renewal or trail commission options	79%	19%
Improving the clarity of product literature	82%	17%
Improving customer 'calls to action' in ongoing communications	68%	19%
Providing a Customer Agreed Remuneration option	79%	20%

*Those saying 'Very important' or 'Quite important'

**Those saying 'Very unimportant' or 'Quite unimportant'

Commentary

Many of the RDR proposals could have a significant impact on IFAs and their way of working and they clearly believe there are lots of ways in which providers can help with the transition to a new advice regime. While improving the clarity of product literature was the measure most commonly rated as important, almost eight out of 10 IFAs thought providing more flexibility and transparency of remuneration options, including a Customer Agreed Remuneration option, would help them. More than three quarters of IFAs also say they would like to see providers designing products with simpler charging structures that are transparent and easier for clients to understand.

AEGON Analysis

- A total of 52 per cent considered 'improving the clarity of product literature' to be 'very important' with a total of 82 per cent stating that it was either 'very' or 'quite' important.
- Furthest down the list, but still significant, was having more flexible initial commission options – 26 per cent thought this was quite unimportant and a further 7 per cent thought it was very unimportant.

Question 6

Do you strongly agree, agree, disagree or strongly disagree with the following statements about Customer Agreed Remuneration (CAR), whereby advice charges are agreed with the customer rather than determined by the provider?

	Agree*	Disagree**
If consumers understand the cost of advice they will be more likely to seek it	42%	56%
All types of adviser should be required to operate CAR	62%	36%
CAR will remove product bias and improve persistency	36%	62%
There are some groups of consumers for whom CAR is not appropriate as it would be difficult to agree an appropriate level of remuneration	85%	13%
A move to CAR will have a negative financial impact on my business	49%	46%
CAR would be useful across all product types	45%	53%

*Those saying 'Strongly agree' or 'Agree'

**Those saying 'Strongly disagree' or 'Disagree'

Commentary

Results from Questions two and three show IFAs don't agree with the FSA's view that commission bias and remuneration-driven sales lead to inappropriate product switching and poor persistency. Nor do they think being remunerated by a separate fee is a key factor consumers look for in independent financial advice. Therefore it is not surprising their reaction to the proposals for a new definition of fee, Customer Agreed Remuneration (CAR), is somewhat lukewarm with almost two-thirds (62 per cent) saying they do not believe CAR will remove product bias and improve persistency. And only four out of ten (42 per cent) believe a greater understanding of the cost of advice will boost the demand for it. The Impact of Incentives working group would like to see CAR applied to as much of the market as possible but 85 per cent of IFAs believe it will not be appropriate for some groups of consumers as it will be difficult to agree the right level. 62 per cent of IFAs state that all types of adviser should be required to operate CAR and 45 per cent say it would be useful across all product types.

AEGON Analysis

- Answers with which respondents disagreed the most were 'CAR will remove product bias and improve persistency' and 'if consumers understand the cost of advice they will be more likely to seek it' – over a third disagreed strongly with each of these statements (36 per cent and 35 per cent respectively).
- The most popular statement by far was, 'there are some groups of consumers for whom CAR is not appropriate as it would be difficult to agree an appropriate level of remuneration' – 43 per cent agreed strongly and a further 42 per cent agreed.

Question 7

Do you strongly agree, agree, disagree or strongly disagree with the following statements?

	Agree*	Disagree**
I will stop issuing the Menu and Initial Disclosure Document to my clients at the earliest possible date (1 November 2007)	37%	61%
The Menu has already helped customers understand the cost of advice and the options for paying for it	42%	58%
I would use 'focused advice' more if the regulations were clearer	50%	40%
I only take trail commission if I am offering an ongoing advice service	73%	27%
I welcome the proposal to time limit compensation payments to 15 years	81%	17%

*Those saying 'Strongly agree' or 'Agree'

**Those saying 'Strongly disagree' or 'Disagree'

Commentary

Although there are mixed views on how useful the Menu has been in helping customers understand the cost of advice and ways of paying for it, it is reassuring to see more than six out of ten advisers say they will continue to issue it, and the Initial Disclosure Document, to clients after 1 November 2007 when no longer required to do so. One of the more welcome RDR proposals is that to limit compensation payments to 15 years in line with common law which more than eight out of ten advisers agreed with. More than seven out of ten IFAs say they only take trail commission when offering an ongoing advice service. Despite focused advice only being used in specific areas, particularly the group pensions arena, there seems to be a significant appetite for greater clarity in the regulations as more than half the IFAs questioned said this would encourage them to use it more.

AEGON Analysis

- 40 per cent of IFAs strongly disagreed that 'the Menu had already helped customers understand the cost of advice and the options for paying for it'.
- Nearly half (46 per cent) strongly agreed that they welcomed the proposal to time limit compensation payments to 15 years. An additional third (35 per cent) agreed.

Question 8

In conjunction with Financial Adviser

Are we heading for a commission-free IFA world?

Yes	13%
No	86%

Commentary

According to the vast majority of IFAs, commission-based remuneration will not be a casualty of the RDR as initially feared. Under FSA proposals, advisers will only be able to use the “independent” label if they offer their services on a new definition of a fee basis. This will mean the adviser remuneration is determined in discussion with the customer and not influenced by the product provider. Commission payments will therefore be possible as long as the level of payment is agreed between customer and adviser up front. For many people commission is likely to remain a popular way of paying for advice though there is clearly a lot of discussion to be had around what types of commission payments should qualify as being customer agreed and be available to independent advisers.

Question 9

In conjunction with Money Marketing

If the FSA gives financial or other incentives to being a “professional financial planning” adviser, which will require higher qualifications and remuneration to be agreed with clients, therefore making it more expensive to be a “general financial adviser” would you consider changing your business model to professional financial planner?

Yes	61%
No	33%

Commentary

More than six out of ten IFAs say they would consider gaining higher qualifications and introducing Customer Agreed Remuneration to meet the FSA’s proposed requirements for professional financial planners if the regulator made it more expensive to be a general financial adviser. Advisers are clearly working out what the FSA’s various tiers of advice might mean for them and their clients and looking for evidence that the FSA will encourage and enable the changes many want to make to their businesses. We would like to see clear incentives in the form of worthwhile carrots for good businesses and firm sticks for those who decline to make the grade.

Question 10

In conjunction with New Model Adviser

Which of the following applies to you?

(Respondents could choose more than one answer. Table shows percentage of responses to each question)

I already consider myself to be a professional financial planner, as defined by the FSA's retail distribution review discussion paper	47%
I am going to make every effort to become a professional financial planner in the next two or three years	32%
I would be prepared to become a general financial adviser – dropping the 'independent' label and undergoing higher levels of FSA scrutiny - in return for sticking with the current system of provider-led commissions	21%
I would consider becoming a primary adviser working for a bank, insurer or national	0%

Commentary

These results indicate a strong interest in retaining or achieving the highest tier of advisory service and also show the importance to many of retaining the independent label. Only a fifth say they would be prepared to drop the independent label and become a general financial adviser and, not surprisingly, none say they would consider becoming a primary adviser. This echoes the findings in Question four which showed a flight to quality amongst IFAs at the top of the advice spectrum. If we are to avoid a widening of the advice gap it will be important to develop the other advice channels to meet the needs of those who are unable to access independent advice.

Conclusion

We are now almost half way through the six month feedback period for the Retail Distribution Review discussion paper. Initial reaction, as captured in this wave of research and in media commentary, has highlighted major IFA concerns with some elements of the FSA proposals. These have most notably been about how “independence” will be defined in the new regime, transition to new exam qualifications and the practicalities of Customer Agreed Remuneration. But, with widespread consensus that large numbers of people don't have access to advice and concerns about lack of consumer confidence in the industry, it's important to keep our focus on the end goals and find solutions to address these issues.

Our research shows IFAs agree with some of the FSA's analysis of the retail distribution market, particularly that customers don't understand the risks, complexity and price of retail investment products and that many can't afford or access full advice. However they are much more sceptical about the FSA's concerns about commission bias and adviser qualifications. And, perhaps not surprisingly at this early stage in the consultation process, few thought the FSA proposals would meet the objectives of improving consumer confidence and trust in the industry or improving access to financial products.

There is evidence of a flight to quality emerging among IFAs with the vast majority saying they will seek professional financial planner status in the new advice regime. This is perhaps driven by a desire to retain the 'independent' advice label which they see as important to their clients. Clearly this is an area that deserves thorough consumer research and AEGON has already started this both by testing consumers' understanding of independent financial advice and by asking consumers what they want from an advice market.

Indications are that independent advice will be available to fewer people in the new regime with many IFAs accepting a move to professional financial planner status may mean they can't serve all their existing clients. To help fill the potential advice gap 51 per cent of IFAs say it would be attractive to offer more than one form of advice to their clients.

One proposal that will clearly be the subject of further debate is Customer Agreed Remuneration. IFAs are sceptical CAR will remove product bias and improve persistency or that more consumers will seek advice if they understand the cost of it. Despite this scepticism it's encouraging to see them moving past their initial concerns and starting to think about where, how and for whom CAR could work and where it might not. Over the next few months it will be important to test consumer understanding of and response to CAR to find out if consumers will understand it and, if so, if that will encourage them to seek advice.

The transition to a new advice regime inevitably means change and, encouragingly, IFAs tell us there are lots of ways in which providers can help, for example improving the clarity of product literature, disclosing advice costs in the point of sale material and providing more flexible commission options.

This underlines the fact that all industry players have a part to play in shaping the future of the retail distribution market. The FSA's proposals are one possible package of solutions and there may be alternatives that will better meet the objectives outlined. We will use future waves of the IFA Insights research to encourage ongoing debate and track changing IFA opinion as the consultation process progresses.

Methodology

Populus interviewed 100 Independent Financial Advisers specialising in retirement, long term savings and investment products by telephone between Tuesday 10th and Tuesday 17th July 2007.

For further information

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