



AEGON IFA Insights Survey

Retail Distribution Review

Report Eight: [October 2009](#)





Introduction

It is now almost three years since the FSA launched its Retail Distribution Review. Its aims included improving trust and confidence in the financial services industry and widening access to professional financial advice. Following industry consultation and feedback the proposals for achieving these objectives have evolved. In this latest wave of IFA Insights research AEGON sought to gauge whether IFAs think the implementation proposals in the FSA's June consultation paper take the RDR closer to achieving the original aims.

The results show IFAs give the FSA a mixed report card. On the plus side the RDR has always looked as though it would enhance consumer confidence by improving professionalism in the advice sector. The FSA has shown it won't compromise on the need for a step change in qualifications. IFAs recognise this and, over the course of the review period, more have come to agree that the proposals will enhance their professional standing and reputation with the public. Indeed IFAs believe the improvement in professionalism will produce the greatest benefit for consumers.

Worryingly, however, IFAs believe the FSA has not made similar progress in achieving another of its original aims – that of widening consumer access to financial advice. IFAs were sceptical at the outset that enough was being done in this important area and our research indicates that, rather than falling, scepticism has risen slightly over time. More than nine out of ten IFAs now say they don't expect the RDR will help more people benefit from financial advice.

AEGON believes this is partly due to the likely drop in adviser numbers after 2012, changes to adviser business models and little appetite among IFAs for moving to other proposed advice models. In keeping with other recent surveys, our research found one in six says they intend to leave the industry altogether. The remaining IFAs remain wedded to their independent status, though don't expect to advise more clients. Almost none show an interest in becoming a restricted adviser or offering simplified advice.

The research suggests that advice could be driven further out of many people's reach by the FSA's proposed ban on provider factoring which, IFAs believe, could severely impact future clients. Eight out of ten say a ban would restrict consumer access to advice on regular savings, with three quarters confirming only a minority of clients will be able to afford to pay for up front advice costs separately by fee.

We have experienced two years of unprecedented economic upheaval and AEGON believes the need for trusted financial advice is greater than ever. This IFA feedback clearly shows the FSA and the industry must work together to find new ways to meet this growing need.

We have published the top line findings in this document in order to highlight the most important points. Should you have any comments or queries 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.

Methodology

Populus interviewed 100 IFAs specialising in retirement, long-term savings and investments products by telephone between 17 and 19 August 2009.

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Question 1

In June 2007 the FSA launched the Retail Distribution Review (RDR) to address the root causes of persistent problems in the retail investment market. The Discussion Paper outlined the RDR's aims, including improving trust and confidence in the industry and widening access to professional financial advice.

In June of this year the FSA published a Consultation Paper on the RDR, which sets out detailed proposals to achieve its aims. From what you know of the Consultation Paper, please say whether you agree or disagree that the proposals will...?

	August 2009		September 2007	
	Net: Agree*	Net: Disagree**	Net: Agree*	Net: Disagree**
Pose a threat to IFAs and their way of working	78%	19%	63%	36%
Enhance the professional status and reputation of IFAs	68%	28%	52%	47%
Improve consumer confidence and trust in the financial services industry	24%	69%	25%	69%
Widen consumer access to financial advice/products	7%	92%	10%	88%

*Those saying 'Agree' or 'Strongly agree'

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

Advisers give FSA a mixed report card for its progress towards fulfilling the original aims of the Review. Throughout the consultation process, one of the areas where there has been most cross-industry agreement is the importance of improving professionalism in the advice sector. While advisers were originally split on whether the RDR would achieve this aim, almost seven out of ten IFAs now believe it will do so. However the same number remains sceptical the RDR package as a whole will do anything to improve consumer confidence and trust. These figures remain unchanged from two years ago.

The number of advisers saying the RDR poses a threat to IFAs and their way of working has increased significantly from 63 per cent to 78 per cent with almost half of IFAs saying they strongly agree. The FSA has revised many of its proposals since 2007, the two key changes being the definition of independence and the proposed ban on provider factoring. AEGON believes this may explain the strengthening of advisers' opinion here.

One of the most worrying findings is that IFAs believe the RDR is making no progress in the important area of widening consumer access to financial advice. The overwhelming majority of advisers (92%) still believe the RDR will fail in this objective, with more than six out of ten IFAs strongly disagreeing it will widen access. The last two years have seen enormous economic upheaval and AEGON believes the importance of widely available, trusted financial advice is more apparent than ever. AEGON believes industry and the FSA must work together to address this important issue.



Question 2

The FSA proposes that the ‘simplified advice process’, offering either independent or restricted advice, will require the same professional qualification and adviser charging requirements as ‘full advice’. However, these requirements won’t apply to the Basic Advice regime for selling charge-capped stakeholder savings and investment products. Please say whether you agree or disagree with the following statements.

	Net: Agree*	Net: Disagree**
The FSA should provide guidance to advisers who are considering operating under the simplified advice model	86%	11%
The same professional qualification standards should apply to the simplified advice process as independent/restricted advice	70%	29%
The Basic Advice regime is an opportunity for advisers who don’t meet the required standards to serve more clients or better serve existing clients	29%	67%

*Those saying ‘Agree’ or ‘Strongly agree’

** Those saying ‘Disagree’ or ‘Strongly disagree’

Throughout the RDR process the FSA has consulted on various new advice models. In the latest consultation paper it suggests retaining the little-used Basic Advice regime, first introduced in 2001 with stakeholder, charge-capped products. However IFAs are sceptical it will prove popular with over two thirds disagreeing it is an opportunity for advisers who don’t meet the required standards for remaining independent to serve more clients. The higher qualification and adviser charging requirements for independent (and restricted) advice may put professional financial advice out of the reach of many moderate savers. If the market generally rejects basic and simplified advice AEGON believes we will have a major consumer access issue.

The FSA is keen to explore how simplified advice processes can be developed within the current regulatory framework. A later question shows little interest amongst IFAs in moving to simplified advice. However this might not be an entrenched view as it’s encouraging that advisers overwhelmingly support (86 per cent) the FSA providing guidance to advisers considering operating under this model. Guiding principles could be useful to overcome potential problems such as uncertainty about how the FSA and Financial Ombudsman service might judge simplified advice processes and the associated risk of adviser liability.

Seven out of ten advisers say the qualification standards applicable for independent and restricted advisers should be extended to the simplified advice process. AEGON understands why IFAs favour a level playing field, but believes the qualifications standard should flow from the specific design of the simplified advice process. Where they are largely or entirely automated processes the QCA suggests Level 3 knowledge is adequate. Clearly the same standard should apply to a given type of simplified advice process regardless of the type of firm running it.

Question 3

The FSA is proposing that for both independent and restricted advice, advisers are remunerated through Adviser Charging rather than commission. In addition, the FSA is proposing a ban on provider factoring. Do you agree or disagree with the following statements?

	Net: Agree*	Net: Disagree**
Banning provider factoring will restrict consumer access to advice on regular savings	80%	18%
Adviser charging should be extended to the GPP market	65%	30%
A ban on provider factoring will damage the GPP market	60%	32%
Adviser charging should be extended to the protection market	39%	60%
Abolishing commission will improve public trust in advice	22%	78%

*Those saying 'Agree' or 'Strongly agree'

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

IFAs feel strongly that the proposed ban on provider factoring could damage the regular savings market. Four out of five advisers believe a factoring ban could have the consequence of restricting consumer access to advice on regular savings. A factoring ban is likely to mean modest, regular savers will be forced to pay an upfront fee in return for financial advice thus putting it out of reach of many people. AEGON believes a factoring ban poses a big threat to the RDR aim of widening access to advice and should be reconsidered.

There has been significant debate in recent months about whether the RDR proposals should be extended beyond retail investment products to other markets such as group pensions and protection. Advisers are generally in favour of extending the greater transparency of Adviser Charging to the GPP market, with around six out of ten IFAs agreeing it should apply here. However the same number sends a warning that the associated factoring ban would damage this market. There is much less support for extending Adviser Charging to the protection market. AEGON believes the key is to avoid a straight read across of RDR proposals to other markets and instead remember there are different factors at play and different solutions will therefore be needed.

Despite support for Adviser Charging in certain areas, advisers don't believe abolishing commission will have a positive impact on people's trust and confidence in the advice sector. Almost eight out of ten disagree abolishing commission will improve public trust in advice.

Question 4

Looking at the impact of the proposed provider factoring ban on the ability of your customer base **who pay regular premiums** to pay for advice, please say whether you agree or disagree with the following statements.

	Net: Agree*	Net: Disagree**
Without my influence many of my clients wouldn't save regularly	87%	12%
Only a minority of my clients will be able to afford up-front advice costs	73%	25%
This will have no effect on my more affluent clients	71%	26%

*Those saying 'Agree' or 'Strongly agree'

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

The responses in this question show IFAs are clear about both the value of advice in encouraging positive savings behaviours and the way in which their clients prefer to pay for financial advice. Almost nine out of ten (87 per cent) say their influence has a direct bearing on their clients' regular savings habits. And when it comes to paying for advice, seven out of ten IFAs (73 per cent) say only a minority of their regular saver clients will be able to afford up-front advice costs. AEGON believes this is because many regular savers are modest earners and are simply not prepared to pay upfront fees.

Perhaps not surprisingly a similar number (71 per cent) say the proposed factoring ban will have no effect on the ability of their more affluent clients to pay for advice. Once again it seems the better off will continue to be well served by the advice sector while many others who need and could benefit from financial advice may find it harder to access.

Question 5

Looking at the impact of the proposed ban on provider factoring on **regular premium business** in terms of your own business model, please say whether you agree or disagree with the following statements.

	Net: Agree*	Net: Disagree**
I will move to providing ongoing advice to build up an income stream from both existing and new clients	75%	18%
I will find it hard to maintain/expand my business without upfront provider finance	59%	38%
I expect to advise more clients	21%	74%
I will need to arrange finance for my clients to pay for my remuneration	20%	75%
This will have no effect on my business	19%	78%

*Those saying 'Agree' or 'Strongly agree'

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

Looking in more detail at the possible impact of a ban on provider factoring on regular premium business it's clear IFAs see wide ranging implications for their clients and their business. Almost eight out of ten advisers (78 per cent) say it will impact their business in some way while almost six out of ten (59 per cent) say a lack of upfront provider finance will affect their ability to maintain or expand their business.

To stabilise their cash flow and build up a steady income stream three quarters of IFAs say they will move to providing ongoing advice to both new and existing clients.

Once again the impact on clients is clear and signs are advice could be driven out of the reach of many people. Less than one in five advisers (19 per cent) say a factoring ban would have no effect on their business and almost three quarters (74 per cent) say they don't expect to be able to advise more clients.



Question 6

We have a list of proposals from the Retail Distribution Review. Please pick the **one** feature of the RDR proposals from the following list that you think will produce most benefit to consumers and also the **one** that you think will be most harmful to consumers:

Most Beneficial		Most Harmful	
Higher minimum qualification requirements	33%	Ban on provider factoring	31%
Greater clarity around different types of services	29%	Adviser charging	29%
Retention of the Basic Advice regime	9%	Simplified Advice Processes	15%
New independence standard	5%	Higher minimum qualification requirements	7%
Simplified Advice Processes	5%	Retention of the Basic Advice regime	6%
Adviser charging	2%	New independence standard	3%
Ban on provider factoring	1%	Greater clarity around different types of services	3%

*Those saying 'Agree' or 'Strongly agree'

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

As previously mentioned, the drive to improve professionalism in the advice sector has achieved growing support throughout the RDR consultation process. AEGON believes the RDR looks set to deliver on this original objective and it is no surprise to find IFAs voting it the proposal that would produce most benefit for consumers. A close second is the greater clarity advisers believe consumers will have of the different types of services they offer. At the other end of the spectrum the ban on provider factoring, and adviser charging, were voted the two most harmful features for consumers.

AEGON is surprised adviser charging came out so high on the harmful list and believes this could be due to the associated factoring ban, reflecting the impact it will have on people's ability to pay for advice. While the FSA believes a factoring ban is necessary to eliminate bias and improve consumer trust and confidence in the industry, AEGON shares IFAs' concerns about the impact on consumers.

AEGON hopes the FSA will reconsider its decision for an outright provider factoring ban and work with the industry to come up with a practical solution so advice isn't driven out of the reach of modest, regular savers.

Question 7

The FSA is proposing an oral examination as an alternative to the QCF Level 4 written examination. The oral exam will test the same technical knowledge as the written papers and may take up to a full day to complete, and cost up to £1000. Please say whether you agree or disagree with the following statements.

	Net: Agree*	Net: Disagree**
The oral option is a worthwhile alternative for those concerned with sitting written exams	58%	38%
An oral exam is more daunting than written exams	39%	51%
The oral exam will be seen as watering down the Level 4 standard	39%	50%
I would be interested in taking the oral exam	19%	77%

*Those saying 'Agree' or 'Strongly agree'

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

When the FSA first proposed an alternative to written examinations some critics suggested advisers would be dismissive of any alternative, despite other forms of assessment being readily accepted and regularly used in other fields. AEGON therefore finds it encouraging IFAs seem to be generally in favour of the FSA's proposals for an oral examination as an alternative to the QCF Level 4 written exam for advisers who wish to continue advising after 2012.

Almost six out of ten IFAs (58 per cent) believe an oral examination is a worthwhile alternative for advisers who may be concerned with sitting written exams, however less than two in ten (19 per cent) say they would be interested in sitting an oral exam themselves. AEGON believes choice should be available because different advisers will have different preferences. The key is to ensure the examinations – whether written or oral – set an equivalent benchmark and appropriately assesses adviser competencies.

Opinion is split as to whether an oral examination is more daunting than written examinations or whether it will be seen as watering down the Level 4 standard, with half of advisers disagreeing with these statements and almost four out of ten (39 per cent) agreeing.

AEGON hopes the FSA will be encouraged by the generally positive response to alternative assessments and consider widening them beyond oral examinations.



Question 8

Please say which of the following statements best represent your intentions following the introduction of the proposals in the Retail Distribution Review:

I intend to remain an independent adviser	62%
I intend to exit the industry	17%
I intend to become a restricted adviser	2%
I intend to offer 'simplified advice'	2%
I intend to become a para planner	1%
I don't know yet	16%

IFAs seem committed to retaining their independence following implementation of the RDR proposals. Six out of ten (62 per cent) IFAs say they intend to retain their independent status with only 1 in 50 planning to become a restricted adviser. There is equally little support for offering simplified advice, although the call for FSA guidance might imply some might reconsider. In keeping with other industry surveys, one in six (17 per cent) say they intend to leave the industry altogether.

To remain independent, IFAs will have to achieve the higher minimum qualifications, move to Adviser Charging and advise across not just packaged products, but a wider range of 'retail investment products'. AEGON believes these requirements support the general consensus that in future, IFAs will increasingly focus on higher net worth individuals and leaves a question mark over how the mass market will be able to access trusted advice.

One in six advisers (16 per cent) has still to decide on post RDR status, perhaps awaiting publication of the final rules. With the clock ticking towards the 2012 implementation date AEGON urges those advisers who remain undecided to move quickly after the final rules emerge to work out what they need to do to achieve their chosen status.