AEGON IFA Insights Survey
Research and Analysis

Report Five: December 2007

Introduction from Steven Cameron

Head of Business Regulation

We are approaching the end of the consultation period for the FSA's Retail Distribution Review discussion paper and FSA has already started to scrutinise responses. Early indications suggest it is being true to its word and is in listening mode. In particular it acknowledges the strength of feeling, as shown in the previous wave of IFA Insights research, that 'independence' should mean whole of market and not just free from provider influence over remuneration as the discussion paper suggests. I believe it also recognises the need for a clearer distinction between what is advice and what is really a sales process.

In this wave of research we have tried to move the debate to the next stage by digging a bit deeper into some of the main issues, and have also tested how IFA opinion has changed since we launched the initiative a year ago.

We asked IFAs to look ahead and tell us how they think the advisory market will develop in future, which products will be most suited to different types of advice and how Customer Agreed Remuneration could work in practice. W also asked advisers which aspects of the RDR discussion paper they felt it most important to make their views known on and how they planned to make their responses.

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.

Steven Cameron
Head of Business Regulation
AEGON UK
steven.cameron@aegon.co.uk

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Question 1

In response to the RDR discussion paper, please say whether you think it's very important, somewhat important, somewhat unimportant or very unimportant for IFAs to make their views known on...

	Important*	Unimportant**
Definition of the independent advice label	93%	7%
Level of professional qualification most suitable for each advice category	86%	13%
The use of Customer Agreed Remuneration	83%	14%
Ensuring primary advice is designed to complement existing advice propositions without the risk of widespread consumer detriment	81%	10%

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

Commentary

It is encouraging to find that more than eight out of ten IFAs believe it's important to make their views known on all the big issues covered in the RDR discussion paper. However the area of most interest remains the definition of independence, where much of the early RDR debate has focused. AEGON's previous IFA Insights survey indicated IFAs believe the most important element of independent financial advice for their clients is its whole of market offering, a factor not included in FSA's originally proposed definition of independence. Therefore it's perhaps no surprise that more than nine out of ten IFAs want to make their views known to arrive at a definition consistent with their clients' expectations.

AEGON Analysis

- Nearly three quarters (71%) thought it was very important for IFAs to make their views known on the definition of the independent advice label.
- For each of the answer options, more than four fifths of respondents thought that they were either quite important or very important.

Question 2

Which of the following statements most closely reflects your plans to respond to the RDR discussion paper?

I am relying on my professional body or trade association to respond in a way which reflects my views	52%
I will respond to certain key questions I believe to be important	17%
I do not plan to respond as I don't think the FSA will listen to alternative proposals	13%
I will submit a full response to all the questions outlined in the paper	9%
I will not have time to respond to the paper	7%

Commentary

With such a high percentage of IFAs recognising the importance of making their views known (Question One) it is perhaps concerning to see that by far the most popular way for IFAs to respond to the RDR discussion paper is to leave it to their professional body or trade association to submit a response that reflects their views. With this in mind, the measures AIFA is taking in encouraging IFAs to make their views known in a time efficient way, by responding to key questions in its member survey, is a welcome move. One in six IFAs intends to respond to certain key questions while less than one in ten says they will submit a full response to all the questions outlined in the discussion paper. Encouragingly, in terms of arriving at an industry-led solution, only just over one in eight IFAs says the reason they do not plan to respond is because they don’t think the FSA will listen to alternative proposals.

AEGON Analysis

- More than half (52%) of respondents will rely on their professional body or trade association to respond in a way which reflects their views.

Question 3

Thinking about the responsibilities IFAs have to their clients, please say whether you strongly agree, agree, disagree or strongly disagree with each of the following statements:

	Agree*	Disagree**
Clients value ongoing help with their financial planning	95%	2%
IFAs have a professional responsibility to encourage their clients to make financial plans for the whole of their life	93%	6%
It would be a good idea to develop a financial plan for life but the administrative burden doesn't allow enough time to do so	56%	33%
Most clients just want me to advise on one or two issues and are not interested in developing a financial plan for life	49%	43%
Clients know what they need and ask for my advice when they want to. It isn't my role to develop a lifelong financial plan	18%	74%

*Those saying 'agree' or 'strongly agree'
** Those saying 'disagree' or 'strongly disagree'

Commentary

IFAs were almost unanimous in recognising the importance of forming long term relationships with their clients with 95% saying their clients value ongoing help with their financial planning. As such, it will be important, as the retail distribution review progresses, to ensure remuneration models allow IFAs to agree with clients what ongoing services will be provided and how they will be paid for. IFAs also strongly believe it is their professional responsibility to encourage their clients to make financial plans for the whole of their life to guide them through the full financial planning cycle. And, despite the wealth of personal finance information now available, three quarters of IFAs disagree that clients know what they need and only ask for advice when they want to. Instead they still believe it is their responsibility to promote the full range of ongoing advice.

AEGON Analysis

- Over half (57%) strongly agreed that clients value ongoing help with their financial planning with a further 38% agreeing. No one strongly disagreed with this statement.
- Only 2% strongly agreed with the statement, 'clients know what they need and ask for my advice when they want to. It isn't my role to develop a lifelong financial plan'. 33% strongly disagreed with it.

Question 4

Please say whether you strongly agree, agree, disagree or strongly disagree with each of the following statements:

	Agree*	Disagree**
The measures outlined in the RDR discussion paper will make it more attractive to become a financial adviser	22%	73%
The measures outlined in the RDR discussion paper will attract new people into the industry	22%	70%

**Those saying 'agree' or 'strongly agree'
** Those saying 'disagree' or 'strongly disagree'

Commentary

IFAs should now have had time to fully digest and reflect on the proposals outlined in the FSA's Retail Distribution Review discussion paper. However, despite this, only around two out of ten believe the measures outlined will attract new people into the industry or make it more attractive to become a financial adviser of any type.

AEGON Analysis

- The idea that the measures in the RDR discussion paper would encourage people to join the profession was not strongly supported with only 22% agreeing they would make it more attractive to become a financial adviser and attract new people into the industry. More than a quarter (27%) strongly disagreed that the measures outlined in the RDR discussion paper will attract new people into the industry.

Question 5

Looking ahead to 2010, and at the whole advisory market, please say what percentage of advisers you think will fall into each category, and then what percentage of API business each category will account for.

	Professional Financial Planner	General Financial Adviser	Primary Adviser
% of advisers you think will fall into each category	24%	50%	27%
% of API business each category will account for	33%	43%	25%

Commentary

Despite considerable market commentary to the contrary, IFAs see a significant market for General Financial Advisers with many believing they will be the largest advice category. In the previous IFA Insights survey we asked advisers what they intended to do in light of the RDR proposals and eight out of ten said they intended to seek Professional Financial Planner status in the new regime. This time we sought IFA opinion of how the advisory market was likely to develop, rather than what they personally intended to do, and the results show a clear role for both General Financial Advice and Primary Advice.

AEGON Analysis

- On average, respondents were likely to think that half of advisers would fall into the General Financial Advisor category (50%). This category was also the one that the IFAs expected to account for the largest percentage of API businesses (43%).
- Many IFAs were unsure, however, and over a third (37%) said that they did not know what percentage of API business each category would account for.

Question 6

Please say whether you strongly agree, agree, disagree or strongly disagree that it is worth exploring how customers might benefit from a more streamlined Primary Advice approach in the following areas...

	Agree*	Disagree**
Basic protection products	63%	35%
Advice to members of group pension schemes	56%	41%
Simple pension products	53%	45%
ISAs	51%	48%
Annuities	38%	61%
Investment bonds	33%	66%

**Those saying 'agree' or 'strongly agree'
** Those saying 'disagree' or 'strongly disagree'

Commentary

There is clearly a lot of interest in looking at streamlined advice processes in at least some product areas. The most popular product area in which to explore applying such an approach was basic protection products where almost two thirds of IFAs agreed it might be beneficial to customers. Although protection products aren't in scope for the RDR, IFAs clearly believe there's merit in considering what can be done to improve that market. The least suitable products were annuities and the more complex area of investment bonds. Annuities may seem a surprising result as it is often seen as a simple product. However, for many IFAs, their clients' retirement advice needs can be complex, requiring detailed advice. Fully regulated advice is unusual in the group pensions arena. But there may be interest in providing some form of limited advice if a more streamlined approach is adopted with more than half the IFAs saying it was worth exploring the benefits to customers of applying it in this area. While there has been some cynicism of Primary Advice as outlined in the discussion paper, there is a clear appetite for exploring more streamlined advice processes. This could meet the FSA's expectations for Primary Advice in delivering access to new customers and we should ensure the FSA takes this on board.

AEGON Analysis

- Nearly two thirds (63%) agreed that it was worth exploring how customers might benefit from a more streamlined Primary Advice approach to basic protection products, while two thirds (66%) also disagreed that they would benefit from such an approach to investment bonds. Nearly half of these (29%) disagreed strongly.
- Nearly the same proportion (61%) also disagreed with the statement that it was worth exploring how customers might benefit from this approach to annuities and a quarter (24%) disagreed with this strongly.

Question 7

Protection products aren't currently covered by the RDR proposals. Please say whether you strongly agree, agree, disagree or strongly disagree with the following statements:

	Agree*	Disagree**
Consumers will be confused if protection continues to be regulated differently from other financial products	71%	27%
There should be equivalent commission disclosure on protection and investment products	84%	15%

**Those saying 'agree' or 'strongly agree'
** Those saying 'disagree' or 'strongly disagree'

Commentary

The adviser community clearly sees keeping protection separate from other market reforms as unhelpful and potentially confusing to clients. More than eight out of ten want protection products to be subject to the same commission disclosure as investment products and more than seven out of ten say maintaining a different regulatory regime for protection products will be confusing for clients. The vast majority of IFAs will advise at least some clients on protection and may find themselves giving both investment and protection advice to the same client. Therefore it seems sensible to look across the board and ensure the regulatory regime makes sense from the consumer perspective. The same solutions may not necessarily work in both investment and protection markets but it is important to look at both side by side to minimise unnecessary differences and to avoid customer confusion.

AEGON Analysis

- A third of IFAs strongly agreed with each of these statements – 33% agreed strongly that consumers will be confused if protection continues to be regulated differently from other financial products and 35% that there should be equivalent commission disclosure on protection and investment products. A further 38% and 49% agreed with the statements respectively.

Question 8

Please say whether you strongly agree, agree, disagree or strongly disagree that Customer Agreed Remuneration will operate effectively in the following circumstances.

	Agree*	Disagree**
High net worth clients seeking holistic financial planning	79%	17%
Modest earners seeking advice on starting saving	42%	53%
People with existing assets looking for portfolio planning	75%	20%
People approaching retirement and moving into the decumulation phase	69%	28%
Employers wanting advice on group pensions	62%	31%

**Those saying 'agree' or 'strongly agree'
** Those saying 'disagree' or 'strongly disagree'

Commentary

IFA responses indicate a lot of support for Customer Agreed Remuneration though they clearly believe it will work better for some clients than for others. IFAs see it being most appropriate for high net worth clients looking for holistic financial planning and least appropriate for modest earners new to the savings market who are more likely to be making regular contributions. They believe it will operate effectively with the more sophisticated client, such as those seeking advice on portfolio planning, or those with more complex advice needs such as those approaching retirement. It is encouraging to see that more than six out of ten IFAs see a role for CAR in the group pensions market. The employer role is central here and AEGON believes it is the employer, not individual employees, who should agree the remuneration.

AEGON Analysis

- More than half (53%) disagreed with the suggestion that Customer Agreed Renumeration would operate effectively for modest earners seeking advice on starting saving and 16% disagreed strongly.
- Over a third (35%) strongly agreed that it would operate effectively for high net worth clients seeking holistic financial planning.

Question 9

How important do you think the following would be in encouraging more retirement saving?

	Important*	Unimportant**
Increasing the annuitisation age to 80	70%	28%
Increasing the flexibility of death benefits by allowing value protection after age 75	84%	16%
Greater flexibility in annuity design such as annuities that can increase and decrease in value according to income needs	83%	15%
Measures to allow greater product innovation such as third way pension products	74%	19%
The development of products that combine equity release with traditional pension saving	59%	36%

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

Commentary

IFAs send a strong message that more product flexibility and innovation could be key to boosting retirement saving. The most popular way to increase flexibility is to improve death benefits by allowing value protection after age 75. This is closely followed by designing annuities that can increase and decrease in value to more closely match income needs. However both these measures would require changes in legislation and have been the subject of persistent industry lobbying in recent years. Therefore we hope the government will take note that more than eight out of ten IFAs think these changes would be important in encouraging more retirement saving. The government also had the opportunity to change legislation to permit product innovation in third way pension products, but announced in the pre-budget report that it would not do so. Three quarters of IFAs said measures to allow greater product innovation, such as third way annuities, could boost retirement saving. AEGON believes these products could provide the guarantees and security to meet the changing needs of the middle market of pensioners. However current tax legislation may limit the flexibility these products can provide and therefore the opportunities providers have for true innovation.

AEGON Analysis

- More than two fifths of IFAs strongly agreed with the two most important factors rated as encouraging retirement saving - increasing the flexibility of death benefits by allowing value protection after the age of 75 and greater flexibility in annuity design such as annuities that can increase and decrease in value according to income needs (41% and 46% respectively).

Conclusion

We have come a long way in the six months since the RDR discussion paper was published and IFAs are now considering the reform proposals in detail.

One of the key aims of the review is to make advice accessible to more people and the FSA's suggestion for doing so in the post-RDR world is to have three distinct categories of adviser. Previous IFA Insights research highlighted a potential widening of the advice gap as IFAs initially said they would personally move to the top Professional Financial Planner tier, even if it meant they couldn't serve all their existing clients. But a different picture emerged when we asked IFAs to look ahead to 2010 and tell us how they thought the advisory market in general was likely to develop. The results showed a clear role for both General Financial Advisers and Primary Advisers going forward. This would suggest it is dangerous to dispense with any one category at this stage, though there will no doubt be further debate to arrive at labels that are intuitive for consumers. And let's not forget that supply side reform alone won't be enough and all proposals must be designed for a world where generic financial advice and more confident and capable customers exist.

IFAs are beginning to see how a more streamlined advice process could be useful, particularly with basic protection products and in the group pension market. IFAs' appetite to explore this further could meet FSA's aims of reaching new customers and implies we shouldn't concern ourselves too much with the current definition of Primary Advice and risk dismissing it out of hand.

If reform is to rebuild consumer trust and widen access to advice it must be taken forward with consumer needs firmly in mind. And it seems sensible to look across the board and make sure the regulatory regime makes sense from the consumer perspective. As such, it is encouraging to see that IFAs recognise that keeping the regulation of protection products ring-fenced from the RDR could confuse customers. But, as with the group pension market, some of the RDR proposals may need to be adapted to take account of the particular workings of this market.

There has been a move, since previous IFA Insights research, towards a greater acceptance of Customer Agreed Remuneration and how it might work. IFAs see it being more useful for some clients than for others, highlighting the importance of having a range of different advice propositions to meet the needs of different types of customer.

These results show that IFAs are moving beyond some of their initial concerns around aspects of the reform proposals and beginning to look at the bigger picture of how it could be made to work. For the benefit of current and future customers it's important all industry players do the same, keeping the end goals firmly in mind.

Methodology

Populus interviewed 100 Independent Financial Advisers specializing in retirement, long term savings and investment products by telephone between Monday 8th and Monday 15th October 2007.

For further information

Margaret Robertson
PR Manager
AEGON UK

margaret.robertson@aegon.co.uk
0131 549 6798 / 07740 897527