

Retail Distribution Review

An update

Association of Financial Mutuals

Corporate Secretaries Network

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28 February 2012





Agenda

1. Adviser charging
2. BDO research results
3. Questions

Adviser Charging

- Principal RDR issue currently for most firms
- Important for providers and distributors alike
- Unique approaches for unique customer bases
- Has been difficult to get consensus as to where firms will pitch rates
- Critical from a commercial perspective
- How will customers react?
- BDO research surveyed more than 280 IFAs in December 2011
- A number of interesting themes to emerge

Adviser Charging

Key findings of BDO research

1. RDR may lead to higher costs for consumers seeking financial advice
2. Significant proportion of intermediaries will adopt structures where providers facilitate payment of adviser charges

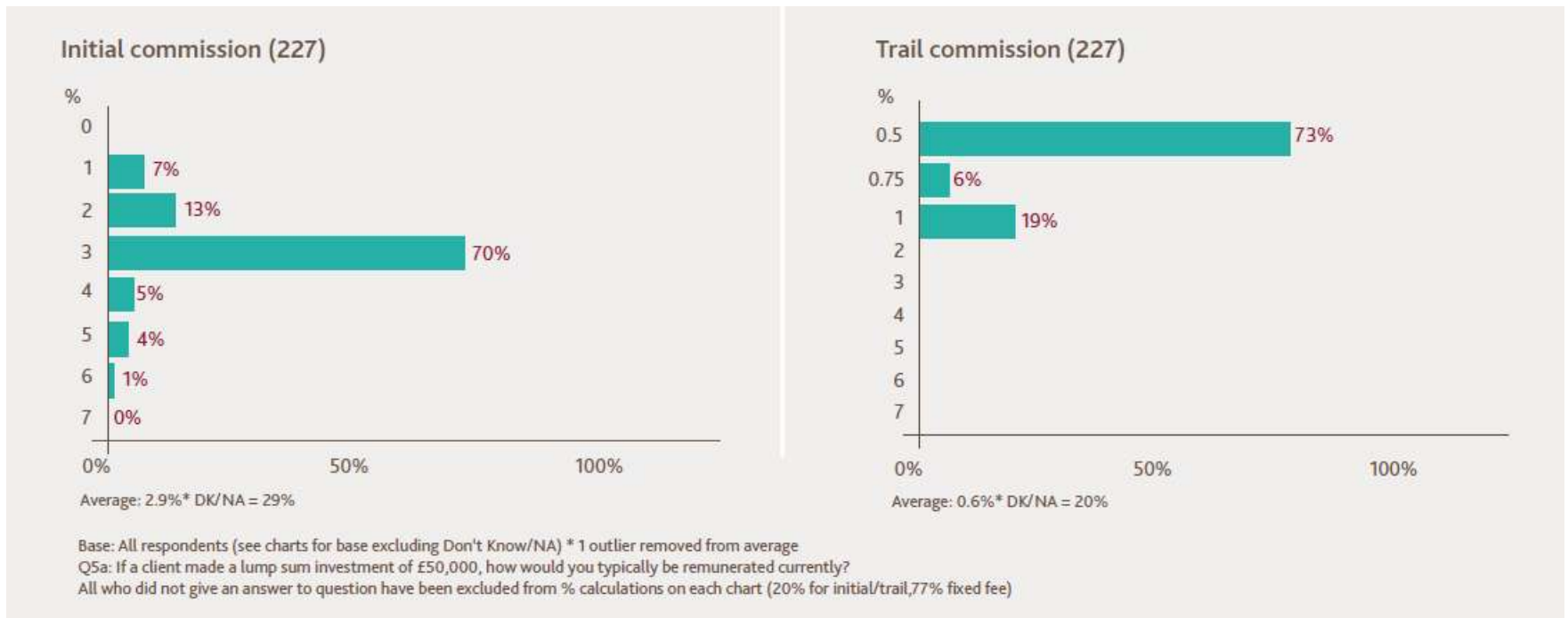
Results in concerns around:

- A widening ‘advice gap’
- No real change in customer experience if commission-like process remains under a different guise

Adviser Charging

Detailed findings: Pre-RDR remuneration

- On an investment of £50,000 the average initial commission was 2.9%
- Average trail commission of 0.6% p.a.

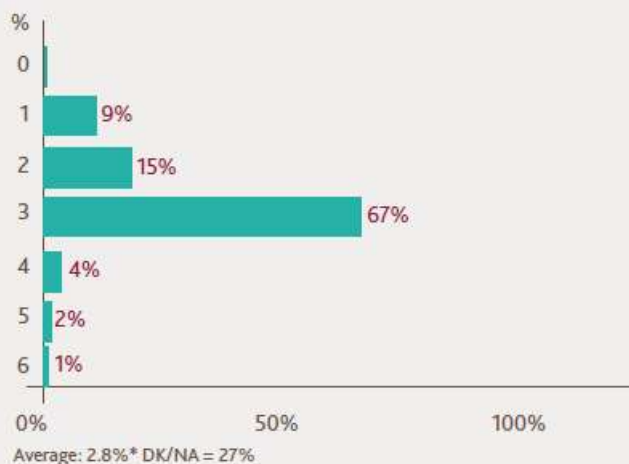


Adviser Charging

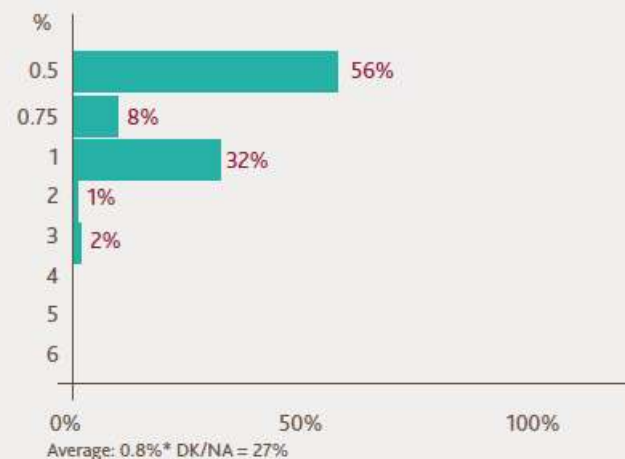
Detailed findings: Post-RDR remuneration

- On an investment of £50,000 the average initial adviser charge is 2.8%
- Ongoing adviser charge of 0.8% p.a. on value of investment

Adviser charge based on the investment amount (206)



Adviser charge based on the value of the fund (%) (207)



Base: All respondents (see charts for base excluding Don't Know)

Q5b. And now thinking post RDR, how would you expect to be remunerated if a client made a lump sum investment of £50,000?

All who could not answer have been excluded from % calculations on each chart (27% for investment / trail, 7.1% fixed fee)

Adviser Charging

Detailed findings: Comparison of pre and post RDR

- The initial charge for advice would fall by 0.1% based upon these results
- The ongoing charge would increase from 0.6% to 0.8% per annum
- The ongoing charge would be based upon value of investment as it changes over time
 - Example: 0.8% per annum on £55,000, if initial investment grew in value by £5,000
- Overall, results show that 90% of respondents expect IFA remuneration to be as it currently stands or higher following RDR

Adviser Charging

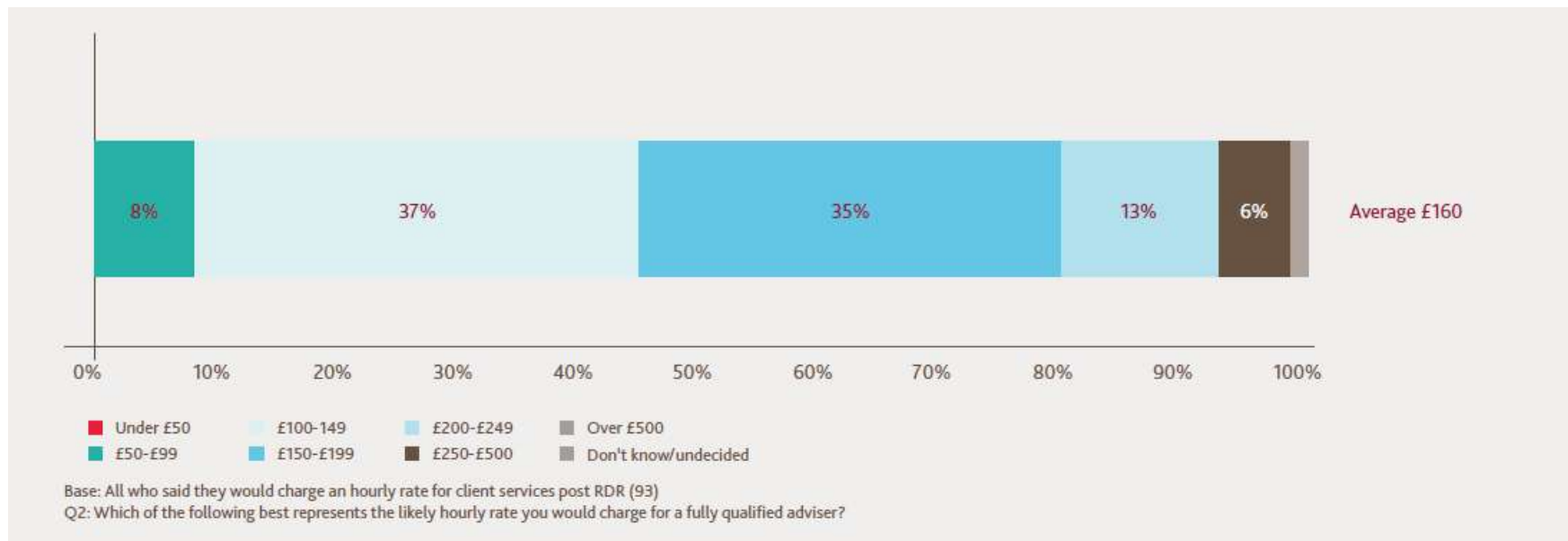
Detailed findings: Payment approach

- Despite a ban on payment by commission, facilitation arrangements with providers will look similar to customers
- **70% of IFAs expected the customer to make a single payment to the provider, with the provider then paying the charge for initial advice to the IFA**
- Will this be any more transparent to the customer than payment by commission?

Adviser Charging

Detailed findings: Cost of advice

- Average charge of £160 per hour, for those intending to charge on hourly rate basis
- Customer appetite may not extend this far: a widening ‘advice gap’?





Adviser Charging Summary

- Are intermediaries being realistic?
- Is there a risk of a widening ‘advice gap’?
- Are providers fully engaged with their distributors to understand the impact on sales of their products?
- Who is educating the customer in preparation for RDR?



Questions?

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