

Subject: Retail Distribution Review (RDR)

Note of key matters:

Attendees:

Presenters	APPG	Others
Doug Taylor, Economic Campaign Manager, Which? Peter Tyler, Retail Policy Director, British Bankers' Association (BBA) Robert Sinclair, Director, Association of Independent Financial Advisers (AIFA)	John Greenway MP Sir John Butterfill MP Peter Bottomley MP Andy Love MP Baroness Turner Lord Clement-Jones Lord Brookman Lord Davis of Coity Baroness Hollis Lord Lipsey Baroness Noakes Mark Todd MP	David Worsfold David Morey (PwC) Researchers / advisers representing Mark Hoban MP and Vince Cable MP

Apologies received from: Lord Hunt of Wirral, Lord Gilbert, David Gauke MP, Baroness Hamwee, Lord Haskell, David Drew MP

Background

The FSA launched its Retail Distribution Review back in mid 2006 to look at 'how investments are distributed to retail consumers in the UK', and focussing on a number of 'long-running problems that impact on the quality of advice and consumer outcomes, as well as confidence and trust, in the UK investment market' (Source: FSA CP 09/18; June 2009). In June 2009, the FSA set out its proposals for 'Delivering the RDR' from the end of 2012.

1. Presentation by Doug Taylor (Which?)

- RDR, and Money Guidance, is certainly going in the right direction
- Work needs to be done on service labels in the RDR to make them clear to consumers
- Recent research through consumer focus groups had indicated that consumers see the investment market as complex, find it difficult to choose an adviser, view banks with suspicion and question the independence of IFAs
- Which? has recently published its 'The Money Maze' report, setting out its position on RDR, including:
 - Labels on advice must be unambiguous - consumers should instantly understand what service they are getting
 - Both banks and IFAs should implement proposals to separate the cost of advice from the cost of products
 - Money Guidance should be rolled out nationally
 - Plans to increase qualifications for advisers will increase consumer confidence in the service they provide
- RDR represents a huge opportunity to improve the quality of advice in the market, and increase consumer engagement
- The aim should be to create services which enable consumer to make better decisions knowing that they are adequately protected
- Clear service labels, the removal of commission bias, and the enhanced skill levels of advisers will improve overall trust and consumer's ability to buy safely and confidently

2. Presentation by Peter Tyler (BBA)

- Agrees that RDR is certainly going in the right direction
- The step change in professional standards and the removal of commission bias will deliver better quality advice and help to rebuild trust
- The new professional qualification standards represent a significant transition for the banking industry, although banks are already making progress on this
- On adviser charging the BBA is not convinced in the context of vertically integrated firms. In any event, work undertaken on bank adviser remuneration under the TCF initiative is already addressing bias where this exists in integrated channels, so BBA feel this can be managed
- BBA feels that clearer service labelling is needed. It believes the term 'restricted advice' is pejorative in that consumers may incorrectly conclude that the restriction relates the qualification of the adviser or the level of advice, rather than the range of product providers. It was pointed out that the FSA's own research raised issues regarding consumers understanding of this term. BBA would rather see terminology referring to 'advice from a selected range of providers, A and B'
- BBA concerned about a possible reduction in access to advice, with consumers deterred by the term restricted advice, advisers leaving the market and IFAs tending to target more wealth consumers
- BBA sees Simplified Advice as a potential mass market solution to the growing advice gap it expects under the FSA's current proposals.

3. Presentation by Robert Sinclair (AIFA)

- AIFA is keen that the FSA better define the outcomes it expects to see from the RDR
- Also concerned about the 2012 implementation date, given the need for adviser qualifications, system changes and increased capital for some investment firms
- Whilst agreeing with the desire for improved profession competence, AIFA believes that an over-emphasis on exams (as opposed to supervised on the job training) is unfortunate
- Noted that based upon the work in Brussels on Personal Retail Products (PRPs), it was expected that EU countries would probably retain remuneration by way of commission

4. Broader discussion points included:

- Use of the term 'restricted advice'
- Extent to which consumers can be expected to move to a fee-based payment approach
- Possibility of an advice gap arising
- Adviser remuneration in vertically integrated firms – the application of 'equivalent' adviser charge disclosures
- The EU position on PRPs and its timetable
- Extent of map across to insurance and mortgages

5. APPG's view

The APPG notes that there remain a number of unresolved matters regarding RDR implementation, and are concerned about the 2012 implementation date given the lack of clarity on the EU position (regarding PRPs and commission).

DL Morey
29 October 2009