



Collective wisdom on the impact of the social,  
economic and legislative revolution.

## Investments

glacier  
by Sanlam

An update on the regulatory environment – addressing the challenges arising from the implementation of the UK Retail Distribution Review – a global perspective

Presented by David Burns, Partner, NMG Consulting

[www.nmg-group.com](http://www.nmg-group.com)

# Agenda

1. UK Retail Distribution Review
2. Advice Evolution
3. RDR Outcomes and Impacts
4. RDR South Africa



# UK context

- A long history of self-regulation / regulation dating back to 1986
- Market characterised by:
  - Quantity over quality
  - Product bias
  - Low persistency
  - Questionable economics
- Mis-selling scandals
  - Personal Pensions – GBP11.8bn
  - Mortgage Endowment – GBP2.7bn
  - PPI – GBP40bn+

*...we have at present a business model which is based on incentives which produce results which are unattractive to reputable providers, unattractive to their customers, and whose benefits to intermediaries are questionable. What are we going to do to change it?*

**Callum McCarthy**

**Chairman, Financial Services Authority**

**16<sup>th</sup> September 2006**

# RDR objectives

- To maintain an industry that engages with consumers in a way that delivers *more clarity* for them on *products and services*
- To enhance a market which allows *more consumers* to have their *needs and wants addressed*
- *Remuneration* arrangements that allow *competitive forces* to work in favour of consumers
- To maintain standards of *professionalism* that inspire consumer confidence and build trust
- An industry where *firms are sufficiently viable* to deliver on their longer-term commitments and where they treat their customers fairly
- To build regulatory framework that can support delivery of all of these aspirations and which *does not inhibit future innovation* where this benefits consumers

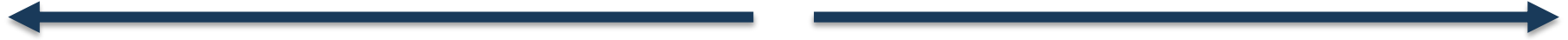
# UK RDR

Area	Scope
Product scope	Retail Investments and occupational Defined Contribution
Advice models	Independent <u>or</u> Restricted (broader definition of independence)
Adviser charging	Explicit charge – direct or facilitated through a product / LISP
Product charging	Fully unbundled – asset management / LISP / adviser
Professionalism	Raise standard to equivalent to 1 <sup>st</sup> year B.Comm Membership of Professional Body
Investment / Ownership of IFAs	Permitted
Approach to lower income / mass market	Same regulatory model; some encouragement for innovation; Project Innovate

# Advice Evolution



# Advice Evolution



1990s / early 2000s

- Rise of Independence as a brand
- Pre-platform focus on bonds and managed funds
- Post platform value add through fund selection and beating the market; era of the star fund managers
- Opaque charging, moving to disclosure

Emergence of fund supermarkets leading to a focus on widest fund choice

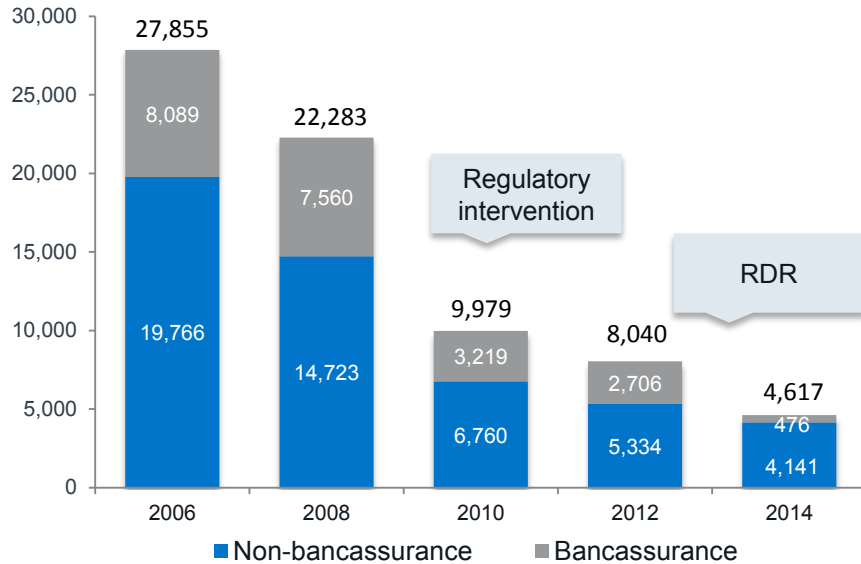
Late 2000s / 2010s

- Business model
- Investment process and outsourcing
- Financial planning
- Unconstrained not necessarily independent
- Explicit charging

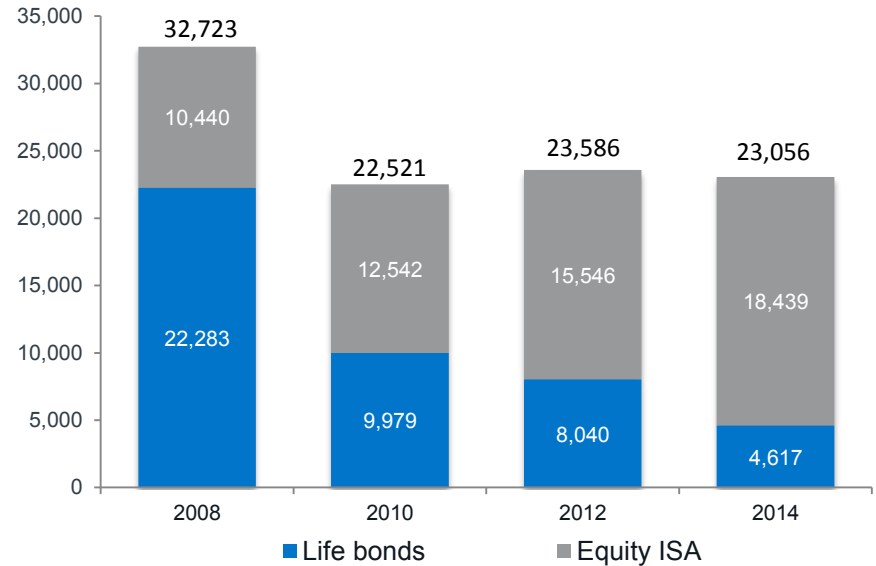
Shift towards platforms as a business enabler to support the adviser's proposition

# Investment new flows 2006 – 2014 (Life bonds and ISA only)

Life bonds 2006 – 2014 (ABI / HMRC)  
(£m)

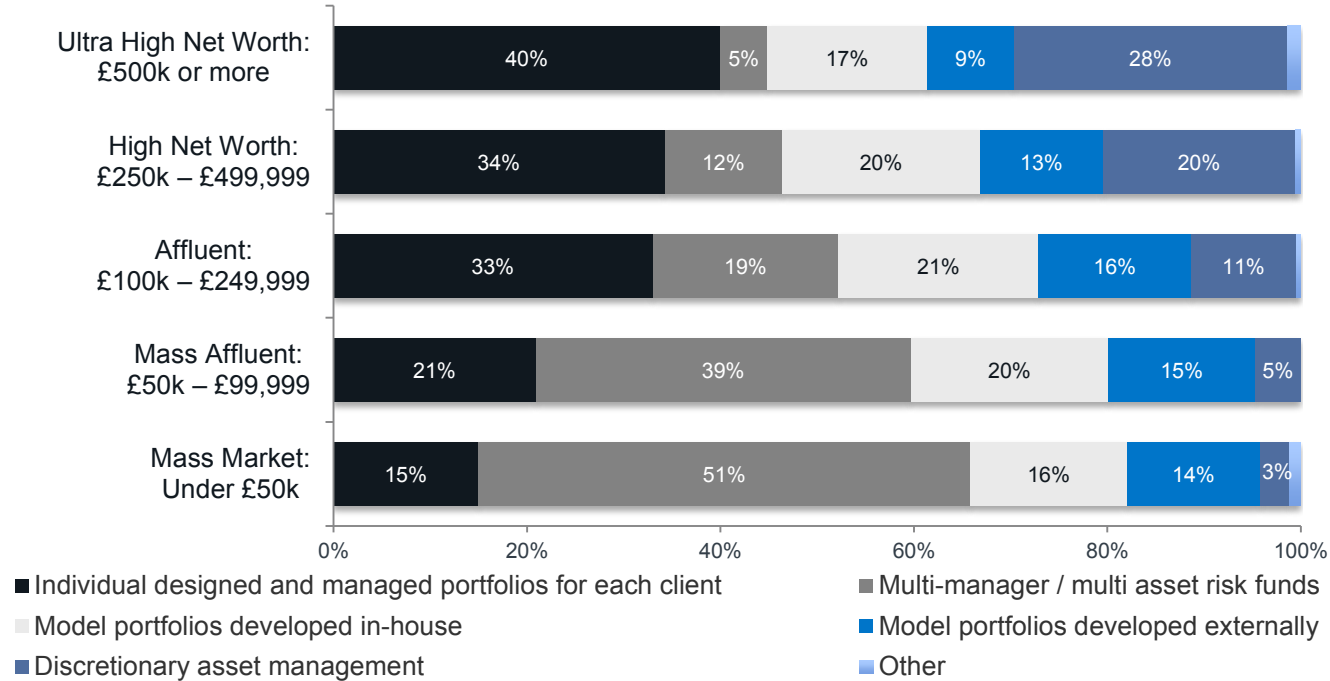


Life bonds v Equity ISAs 2008 – 2010 (ABI / HMRC)  
(£m)





# Portfolio construction approach by client wealth



# RDR Outcomes and Impacts



# RDR attitudinal segments

## **Enthusiastic Advocates**

Ahead of the curve, RDR is not the catalyst with many already focused on business transition

## **Willing Adapters**

See the need to transition but would not do so without the catalyst of RDR

## **Reluctant Accepters**

Reject the basic premise of the RDR but whilst resistant to change, many will transition through the lack of an alternative

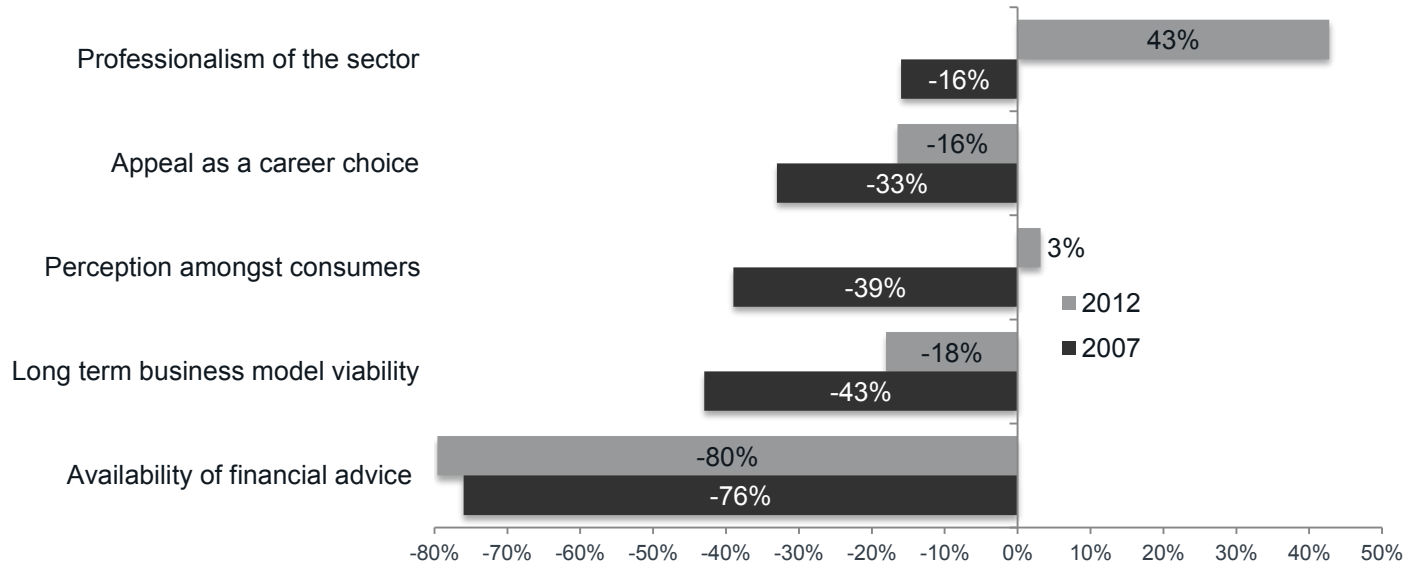
## **Steadfast Rejecters**

Attitudinally similar to Accepters but will not transition and with a significantly higher age profile many will retire as planned or advance their retirement date

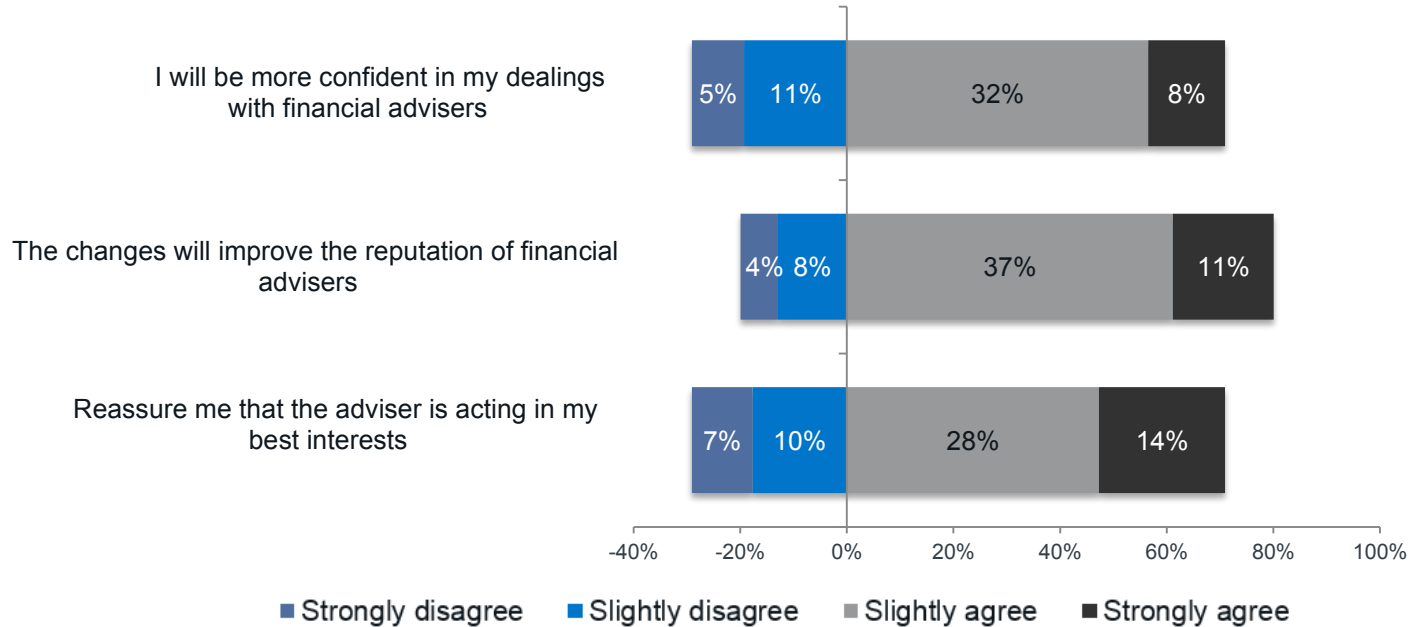
# IFA response to RDR – 2007 vs 2012

The RDR will lead to an improvement in...

Net score: Agree minus disagree



# Perception of the reputation of the advice market – consumer



# Non-advised consumers – behaviour varies by type

- The three types can be ‘plotted’ along gradients of experience, attitude to risk and complexity of financial portfolios

Confident self-starters



Eager learners



Hesitant hopefuls



# Servicing the mass market



nutmeg



BESTINVEST



Retiready



CLEAR ONLINE RETIREMENT ADVICE

CORA



Investments



..and the affluent market



BREWIN  
DOLPHIN



# RDR South Africa



# UK v South Africa Retail Distribution Review

Area	UK	South Africa
Product scope	<ul style="list-style-type: none"> <li>• Retail Investments</li> <li>• Occupational Defined Contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Individual investment, life risk &amp; short term</li> </ul>
Advice models	<ul style="list-style-type: none"> <li>• Independent <u>or</u> Restricted</li> <li>• (Broader definition of independence)</li> </ul>	<ul style="list-style-type: none"> <li>• Three tier model</li> <li>• Independent / multi-tied / tied</li> </ul>
Adviser charging	<ul style="list-style-type: none"> <li>• Explicit charge – direct or facilitated through a product / LISP</li> </ul>	<ul style="list-style-type: none"> <li>• Fee based for Independent &amp; Multi-tied tiers</li> </ul>
Product charging	<ul style="list-style-type: none"> <li>• Fully unbundled</li> <li>• Asset management / LISP / adviser</li> </ul>	<ul style="list-style-type: none"> <li>• Fully unbundled</li> <li>• Asset management / LISP / adviser</li> </ul>
Professionalism	<ul style="list-style-type: none"> <li>• Standard to equivalent to 1<sup>st</sup> year B.Comm</li> <li>• Membership of Professional Body</li> </ul>	<ul style="list-style-type: none"> <li>• Previously implemented outside of RDR</li> </ul>
Provider Investment / Ownership of IFAs	<ul style="list-style-type: none"> <li>• Permitted</li> </ul>	<ul style="list-style-type: none"> <li>• Not permitted</li> </ul>
Approach to lower income / mass market	<ul style="list-style-type: none"> <li>• Same regulatory model; some encouragement of innovation / Simplified Advice</li> </ul>	<ul style="list-style-type: none"> <li>• Allow commission, prescriptive on products</li> </ul>

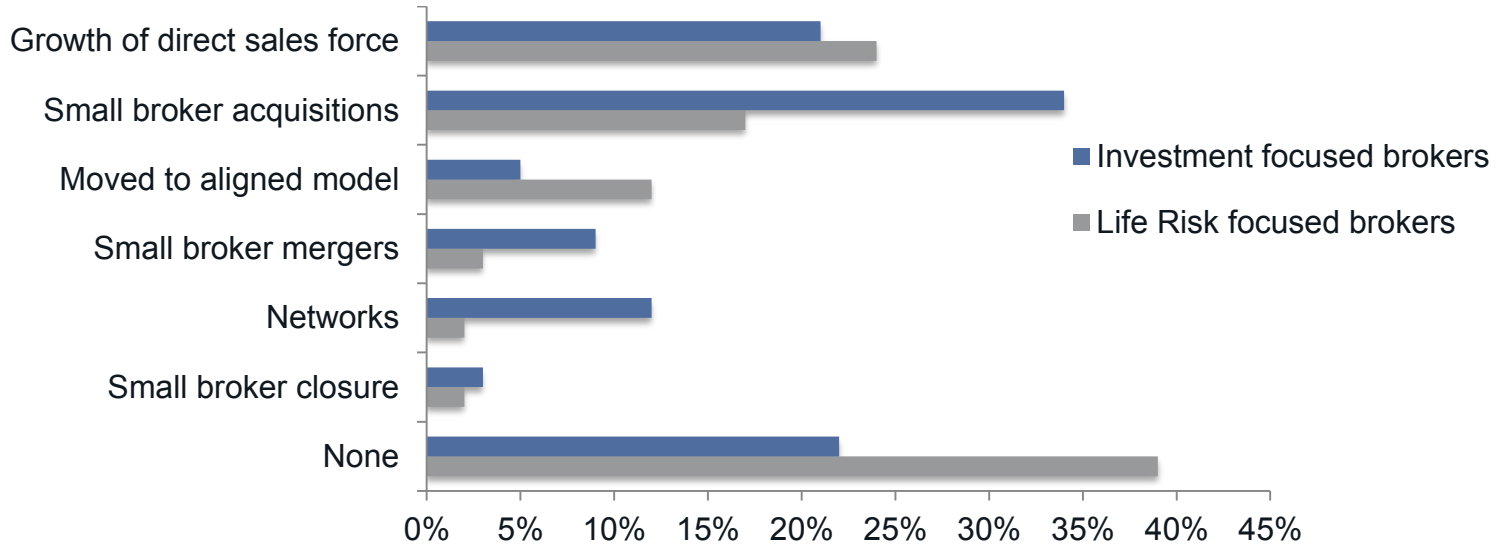
# Observations on SA RDR

## Compared to the UK SA RDR is more...

Comprehensive	covers life risk and short term
Prescriptive	sets out requirements in great detail; 55 proposals
Interventionist	places lots of requirements on industry players to monitor & take responsibility
Discrete	professionalism already applied, TCF handled as separate legislation
Uncertain	while proposals under discussion

# SA adviser response to RDR

## Advisers views on most likely consolidation trends in the market



Source: NMG BQM Retail Wealth Survey 2014, NMG BQM Life Risk Study 2015

# SA RDR – potential impacts

## Product Providers

- Consumer and distributor-led pressure on provider pricing through unbundling
- Challenge to provider economics due to reduced incentives on ‘sold’ product
- Distributor platform consolidation likely through preferred partners (driven by admin burden)

## Asset Managers

- Likely pricing pressure on active equity management through substitutions
- Need to demonstrate how they are adding value
- Distributors move into manufacturing to pick up additional margin

# SA RDR – potential impacts

## Distributors

- Economic & compliance pressures increase appeal of larger broker networks
- Direct agency incentives become more challenging in an explicit charging model
- Focus on life-time customer value propositions to support ongoing charging
- Demonstrate value in ways other than fund selection

## Clients

- Explicit fee-for-advice raises question of value for clients
- Potential “advice gap” as distributors focus on high net worth clients
- Increasing financial awareness and technology adoption drives “self-service” and greater expectations from advisers



# INVESTMENT INTEL

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