Financial services in a changing regulatory environment: The UK experience
Agenda

• Background
• Fear v reality
• Before and after
Background

Retail Distribution Review (RDR)

- Commission ban
  - On investment advice (no grandfathering)
- Scope of advice
  - Independent and restricted
- Qualifications
  - Qualifications and Credit Framework (QCF) Level 3 to Level 4
  - Level 3 = Certificate or A levels (highest school qualification)
  - Level 4 = Diploma, equivalent to first year of degree
  - Level 6 = Full degree level (can apply to become Chartered Financial Planner)
Figure 5: Financial advisers – number of firms and staff who advise on retail investments

- 1 adviser: 2,466
- 2-5 advisers: 2,238
- 6-50 advisers: 539
- Over 50 advisers: 11,606

- Number of firms
- Number of staff advising on retail investment products
Commission ban

Fear
• Clients wouldn’t pay fees
• Revenue would reduce significantly
• Advisory firms would go bust
• Significant consolidation of advisory firms
• Advice gap

Reality
• Advice gap
• Adviser and firm numbers
• Revenues …
Average revenue earned per annum - Investment Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Per firm</th>
<th>Per adviser</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£317,371</td>
<td>£62,513</td>
</tr>
<tr>
<td>2010</td>
<td>£373,721</td>
<td>£73,085</td>
</tr>
<tr>
<td>2011</td>
<td>£419,045</td>
<td>£81,808</td>
</tr>
<tr>
<td>2012</td>
<td>£420,172</td>
<td>£90,197</td>
</tr>
<tr>
<td>2013</td>
<td>£437,310</td>
<td>£99,345</td>
</tr>
<tr>
<td>2014</td>
<td>£485,661</td>
<td>£107,116</td>
</tr>
<tr>
<td>2015</td>
<td>£522,758</td>
<td>£115,290</td>
</tr>
<tr>
<td>2016</td>
<td>£562,664</td>
<td>£121,481</td>
</tr>
</tbody>
</table>
Consolidated Regulated Business Revenue - Retail Investments

<table>
<thead>
<tr>
<th>Year</th>
<th>Net commission</th>
<th>Fees</th>
<th>Other income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£1,472m</td>
<td>£140m</td>
<td>£81m</td>
<td>£1,693m</td>
</tr>
<tr>
<td>2010</td>
<td>£1,656m</td>
<td>£161m</td>
<td>£83m</td>
<td>£1,900m</td>
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<tr>
<td>2011</td>
<td>£1,870m</td>
<td>£196m</td>
<td>£89m</td>
<td>£2,155m</td>
</tr>
<tr>
<td>2012</td>
<td>£1,812m</td>
<td>£228m</td>
<td>£113m</td>
<td>£2,153m</td>
</tr>
<tr>
<td>2013</td>
<td>£1,309m</td>
<td>£793m</td>
<td>£100m</td>
<td>£2,202m</td>
</tr>
<tr>
<td>2014</td>
<td>£972m</td>
<td>£1,475m</td>
<td>£85m</td>
<td>£2,532m</td>
</tr>
<tr>
<td>2015</td>
<td>£823m</td>
<td>£1,836m</td>
<td>£93m</td>
<td>£2,751m</td>
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<tr>
<td>2016</td>
<td>£765m</td>
<td>£2,195m</td>
<td>£48m</td>
<td>£3,008m</td>
</tr>
</tbody>
</table>

Values in millions of pounds.
Scope of advice

Fear
- Independence standard too difficult – firms would move to restricted
- Restricted firms wouldn’t be clear about status

Reality
- Independence: no material concerns raised
- Disclosure of restricted status:
  - Cycle 2: 81%
  - Cycle 3: 100%
- Split of firms …
Figure 9: Type of advice provided by number of firms

- **All firms**
  - Independent: 84%
  - Restricted: 14%
  - Both: 2%

- **Financial advisers**
  - Independent: 87%
  - Restricted: 11%
  - Both: 2%
Qualifications

Fear
• No grand-fathering
• Costs
• Reduction in adviser numbers

Reality
• Advisers have gone beyond minimum requirement
<table>
<thead>
<tr>
<th></th>
<th>One-off</th>
<th>Ongoing (pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-RDR</td>
<td>275 - 370</td>
<td>100 – 120</td>
</tr>
<tr>
<td>Post-RDR</td>
<td>109 - 152</td>
<td>71 - 81</td>
</tr>
</tbody>
</table>
Before

- Firms of individual advisers doing their own thing
- Poor risk management
- Muddled culture
- Muddled customer experience
- Inefficiencies due to multiple operating models
- Little impartiality in research and due diligence on products and services
- Focus on initial commissions/transactional advice
- Lack of embedded value
- Poor profitability
After

- Firms operate in coordinated manner
- Clearer culture and focus
- Coordinated customer journey/experience
- More time spent thinking on the business
- Centralised approach to research and due diligence
- Centralised investment propositions (CIP)
- Greater focus on ongoing servicing
- Lower initial charges, higher ongoing charges
- Greater security of income
- Higher embedded value
- 93% suitability
- Professionalism at an individual level; professionalism at a firm level