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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
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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

16th 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 st 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

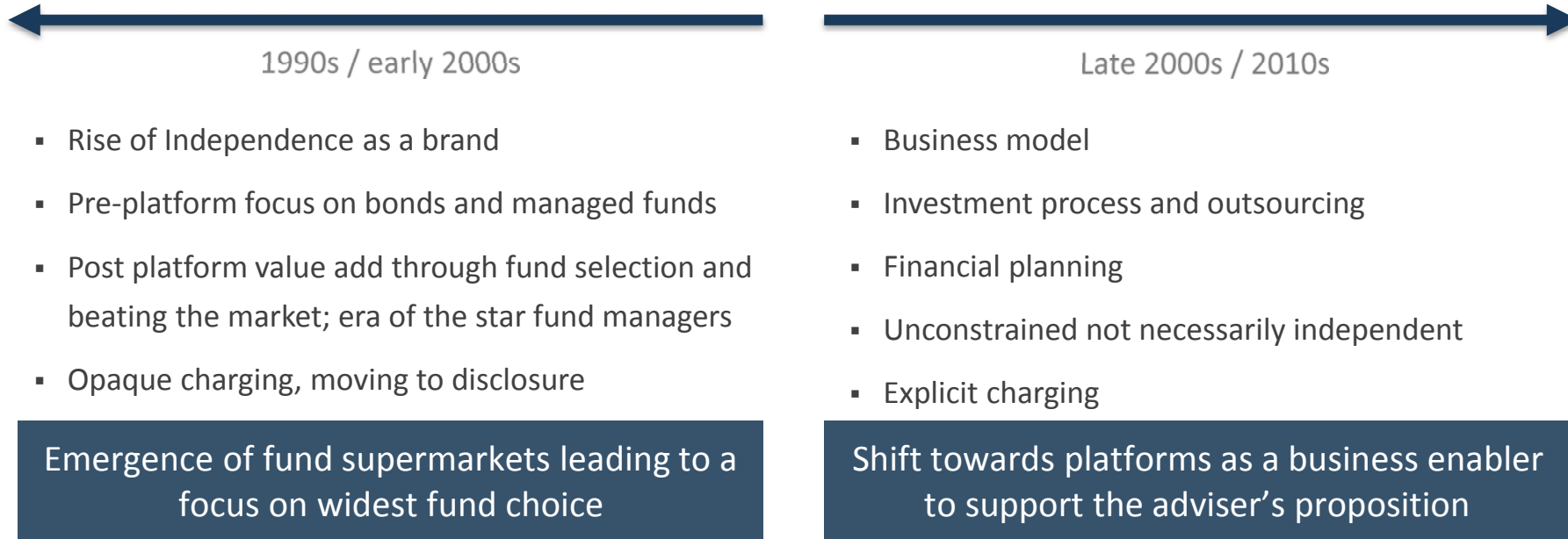
Advice Evolution



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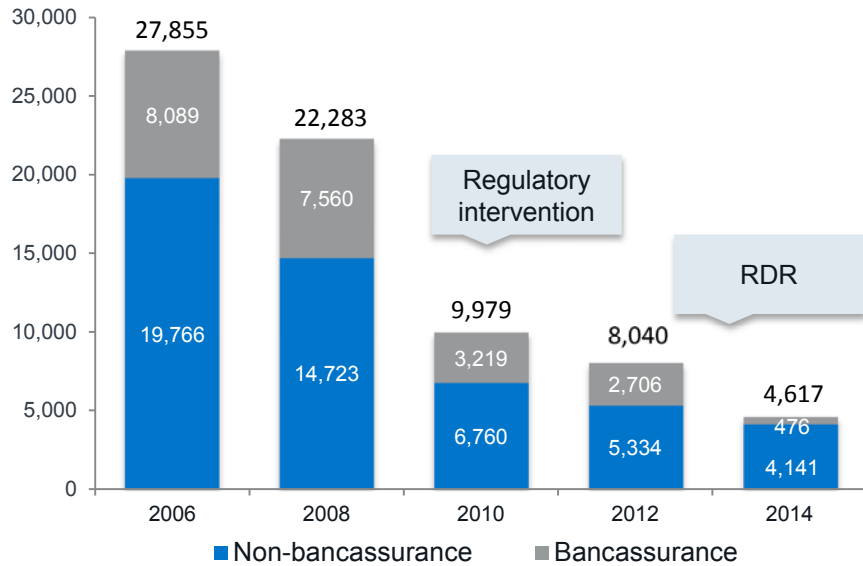


Advice Evolution

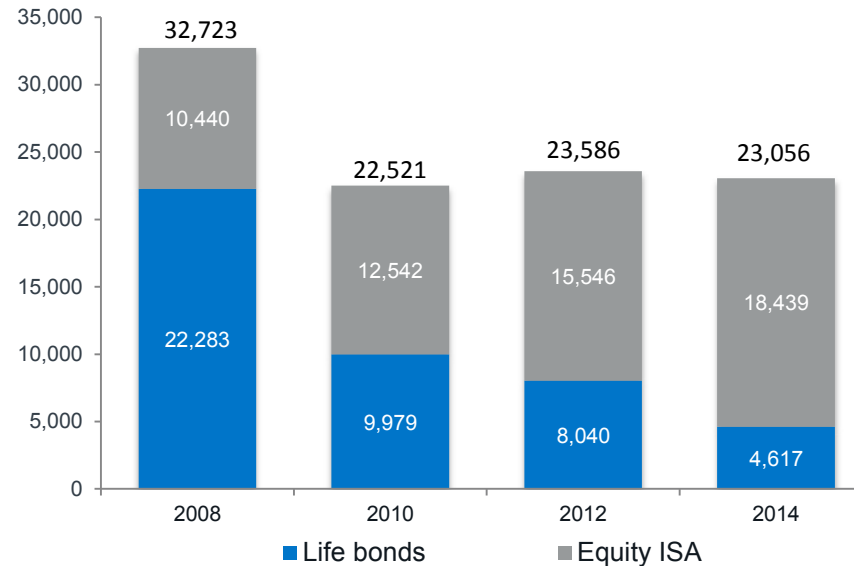


Investment new flows 2006 – 2014 (Life bonds and ISA only)

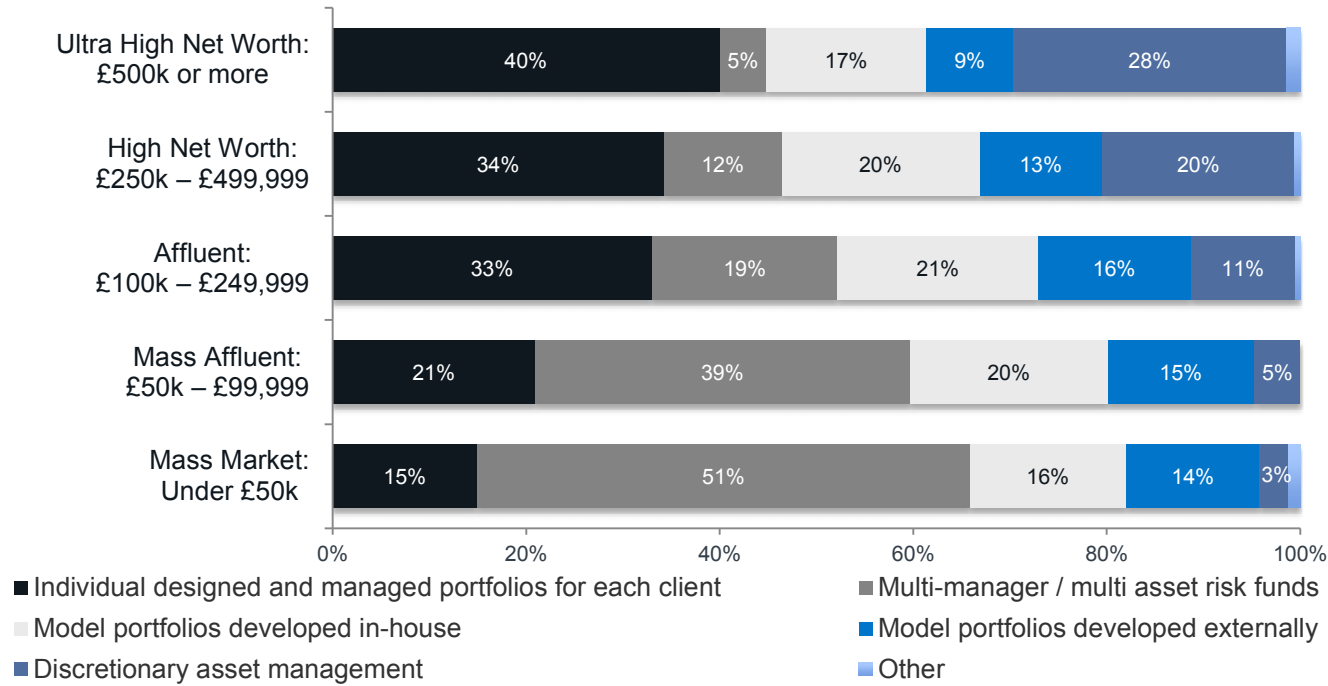
Life bonds 2006 – 2014 (ABI / HMRC)
(£m)



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



Portfolio construction approach by client wealth



RDR Outcomes and Impacts



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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

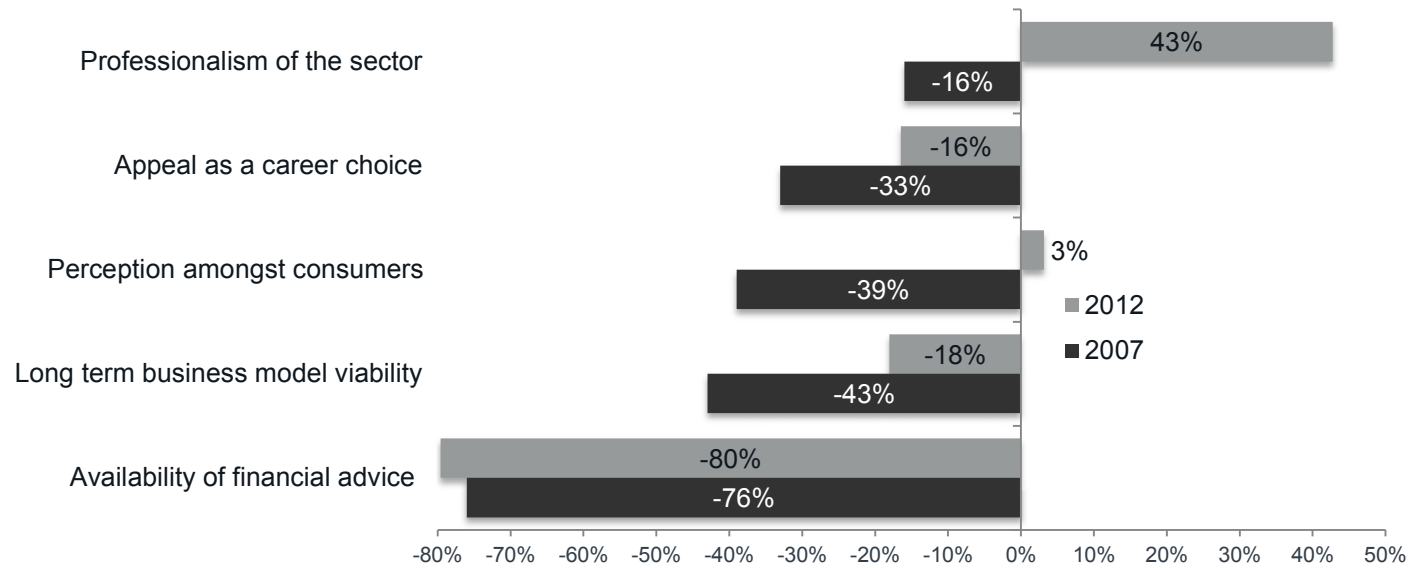
Steadfast Rejecters

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

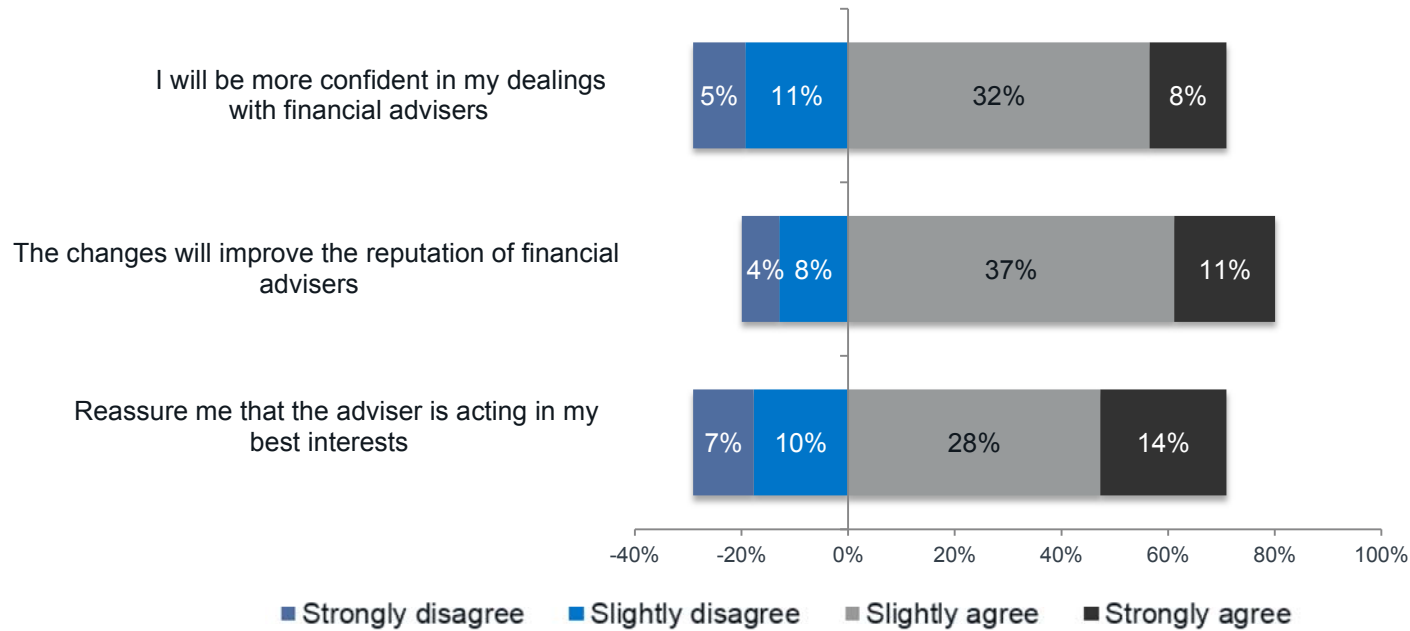
IFA response to RDR – 2007 vs 2012

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



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..and the affluent market



BREWIN
DOLPHIN



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RDR South Africa



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UK v South Africa Retail Distribution Review

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

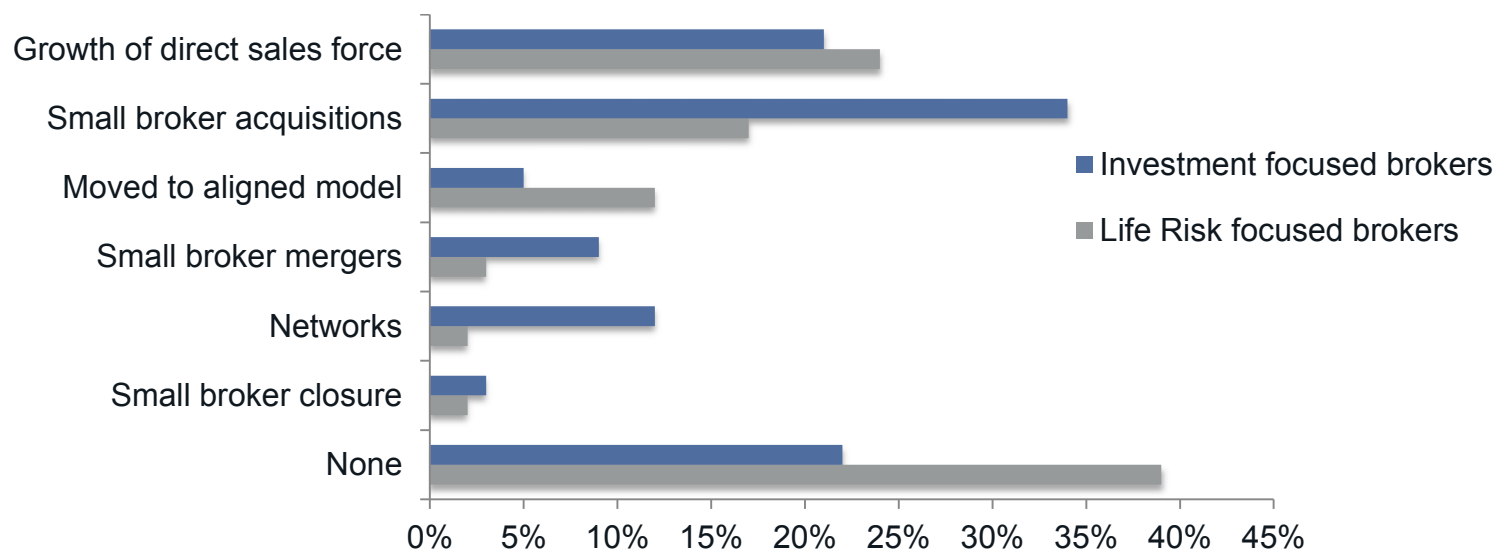
Observations on SA RDR

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



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