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January 2013 – A Brave New World for IFAs

The Retail Distribution Review – RDR – is bringing probably the most significant changes to the Financial Services industry ever. At last, real tangible moves are being made to make our industry fairer, more professional and more accountable – and they are long overdue.

Over the years, we have seen four different regulatory bodies try to improve standards in the industry, culminating in our current regulators, the FSA. Until now, the regulator of the day has never really had the tenacity to deliver change. Happily, despite pressure from some in the industry to dilute the new measures, the FSA has stuck to its guns and on 1 January 2013, the new world begins.

It seems that there are a significant number of firms and currently authorised individuals for whom the penny has finally dropped and for whom the only option left may be to leave the industry. This decision may be made as a result of a failure to reach the minimum qualification requirements for advising post-RDR, but could equally follow a realisation that a firm will fail financially once the ability to charge high initial commissions has been taken away.

There will no doubt be a final rush to sell businesses between now and the end of the year. Indeed, since the New Year I have had a steady stream of offers from brokers and firms looking to sell up. This is undoubtedly an opportunity for firms such as Almary Green to grow their business, but the sellers should be aware that the value of their business will inevitably suffer as the deadline approaches.

One factor that may have a serious impact on our ability to buy out firms leaving the industry is the FSA's proposed new rules on Capital Adequacy. These currently suggest that a firm's capital reserves should be the equivalent of three months' expenditure. Whilst I do believe that the existing requirement of just £10,000 in the bank is insufficient, the proposed new level would penalise professional firms with large numbers of support staff and would add a further cost implication to any prospective buy-out.

Improving the industry's charging framework is the one of the main aims of RDR and will have had serious consequences for any firm that is reliant on high initial commissions with little or no trail income. Once high initial commissions are outlawed, such firms may find their cash-flow seriously challenged. I have long believed that this type of charging is not in the client's best interest and our policy has always been to offer low initial commissions, discounted to the client, plus trail and/or fee-based advice, which means that our business enjoys the security of regular trail-based income and professional fees.

There is a clear danger that firms and individuals leaving the industry post-RDR may see the next eleven months as an opportunity to maximise their income from their clients, adopting a high initial commission strategy for any work done. It is possible, too, that unscrupulous advisers may suggest moving funds around on the flimsiest of grounds to generate additional commission income. I believe that the FSA should raise the profile of this issue and set controls in place to monitor and curb such activity.

For Almary Green, meeting the new adviser qualification standards hasn't been an issue. Our policy has always been to encourage and enable our advisers and back-office staff to pursue a programme of continuous training. The RDR's qualification requirement has

therefore simply reinforced this policy, rather than imposing new expectations on our advisers.

Planning ahead for RDR has been a critical factor in our ability to be compliant in time. We've all known about RDR for five years, so I have no sympathy with those who have buried their heads in the sand until now. For example, we have two advisers who will be aged 65 or over on 1 January 2013 and they opted not to go down the exam route at this stage, preferring to leave the industry once the RDR deadline is reached. The key to managing this situation has been transparency in our handling of the client/adviser relationship and integrity in our dealings with the advisers involved. We have been able to formulate exit strategies with the affected advisers that will benefit them, the firm and, importantly, the clients involved. Those clients will be aware of the situation well in advance of the deadline and will have been introduced to a new adviser with the full support and assistance of the person they have dealt with in the past.

Some firms have chosen to retain those advisers who will effectively be unauthorised after December 2012 in the role of introducers accompanying an authorised adviser to client meetings. However, I foresee problems in such a scenario. I believe it raises potentially serious compliance issues about who is providing the advice and poses unmanageable restraints on what the former adviser can contribute to a client meeting.

I believe that January 2013 will see a better Financial Services industry, leaner and cleaner as a result of the RDR requirements. Those IFAs left will have shown foresight and commitment in their preparation for RDR – essential qualities for IFAs in our brave new world.