

Jumping off point

RDR has created some serious issues for adviser firms looking to acquire a business and those looking to sell up for their retirement, says Almary Green's Carl Lamb

Despite the many changes and the gradual evolution of financial advice, the fact is that our industry largely remains a cottage industry. It consists of small- to mid-sized firms that have been largely built around the skills, expertise and reputation of the principals of the business.

Since the Retail Distribution Review (RDR) was announced and the prospect that all advisers would have to achieve a set level of qualification to continue to practice as IFAs, there has been a noticeable selling up of businesses and migration of older principals out of the industry.

This has presented IFA groups looking to expand their business with opportunities that may not have arisen for some time. Almary Green is one of those companies that is always on the look out for like-minded firms and advisers with whom we can merge or that we can acquire.

Criteria to think about

One of our criteria when we buy an adviser firm is that the principal remains and practices within the firm for the first six to 12 months in order for there to be full handover of clients from the old firm to ourselves conducted through client meetings.

We believe this is essential to ensure we get to fully understand the clients and the clients themselves feel comfortable with the change and can ask any questions they have of both the outgoing principal and our own team.

After all, in acquiring a business what you are effectively paying for is that firm's book of clients. What you don't

want therefore, is for any of the client base to walk out of the door the minute the acquisition goes through.

For us and, I would hazard a guess, for many other firms who follow a similar strategy to our own, the RDR will cause a potential hiatus in our acquisition plans. Come the December 2012 RDR deadline all practicing advisers will need to have reached QCF level 4 (the CII Level 4 Diploma in Financial Planning). Those exiting the industry because they do not wish to take the exams will therefore be unable to give advice from January 2013.

Given these circumstances, the obvious question is: Come 2011 why would anyone want to buy a business where the principal is set to leave? Not only will it affect any handover process but a lot of an IFA business is built on personal contact and a longstanding relationship with clients who trust and know the way the adviser works.

Potential issues

As a result, I think we will see one of two things. Either firms will not take on businesses in 2011 where the principal is leaving the industry or, and this is more likely I believe, the value of the business will drastically discounted on the basis that come 2103 a proportion of the goodwill that resides in an IFA business will have been eroded.

There is another element of the RDR process that could have a profound impact on business acquisition and transfer of assets post 2012. The FSA is currently considering imposing a rule that from 1 January 2013 trail commission cannot be transferred from one business to another but

rather, in the event that the client moves adviser or the IFA business is sold, the trail will revert to the client, not the new adviser.

Over the past few years large numbers of businesses have been actively moving clients towards more recurring payment mechanisms to build more sustainable, long-term client relationships which are less reliant on up front sales for income. For many adviser firms who have adopted this strategy, trail could account for 50% or more of their business revenues.

Consequently, this new rule will seriously impact the value of IFA businesses and post 2012, will see all potential acquisitions viewed in a very different light. It has certainly thrown many IFAs well laid retirement plans into disarray.

The rule is based on the FSA's view that trail commission relates to work already done and so should not be transferred. Clearly the implications of this rule need to be thoroughly thought through because the affect on a consolidating industry could be substantial.

It is to be hoped we will see the rule redrafted and certainly put to open consultation but until it is, those looking to sell their business might wish to start the process now or see the value of their firm diminish significantly in the next 18 months.

Carl Lamb is managing director of Almary Green