8. The distribution landscape

a. The Retail Distribution Review

The FSA's Retail Distribution Review has been well documented and commented on since its initiation in June 2006. At the time of going to print, we were awaiting the consultation paper and the next layer of information from the FSA. It may therefore be that some nuances have not been addressed in this paper. However, the fundamentals behind the review and the landscape outlined in FS8/06[xxxiv] are expected to remain constant.

According to the FSA:

> *"The Retail Distribution Review (RDR) is one of the core strands of our retail market strategy. It complements our aims to improve financial capability and further ensures firms deliver fair outcomes for consumers. It is essential for promoting a resilient, effective and attractive retail investment market. The RDR will modernise the industry, giving more consumers confidence and trust in the market at a time when they need more help and advice with their retirement and savings planning."*

1. Independent Advice

Generally, there is support across the industry for continuing to increase professional standards and for the need to separate the cost of advice from the cost of the product. However, there is concern that the suggested changes run the risk of reducing the overall number of advisers.

At the Watson Wyatt Debating Forum held in January 2009, the audience of product providers was asked about the possible effect on IFA numbers from implementing the RDR. Nearly half the audience said that numbers would decrease by up to 25% while a further 30% said numbers would decrease between 26% and 75%.

Therefore, at a time when there is clearly an increasing need for advice, there is a risk that the overall availability of advisers will decrease.

The Editorial Board is supportive of the FSA's RDR objectives. It believes that there is room for multiple options for an individual to engage with the financial services industry, whether generally or specifically in relation to the decumulation market.

Our support for the changes comes with some caveats. The threat to the overall capacity of the adviser market has already been mentioned. Other issues being:

- Whether the names assigned to the different channels are obvious to the consumer, making it clear what type of service it can offer and equally clear what it does not offer
- Whether the current proposals for professional standards and qualifications will enable those who wish to specialise in the decumulation market can do so alongside achieving QCA level 4 within the necessary timescales. From the research conducted with the large advisory firms, the clear message was the need to increase the numbers of advisers who were suitably qualified to advise holistically on decumulation products, including equity release and long-term care
- How the changes will or won't apply to the group pensions market. Many of those entering the decumulation market will have workplace pension schemes and, therefore, the way that guidance or advice can be provided within the workplace needs to be clarified.

b. The future role of independent advice

The value of advice has been extensively covered in a number of reports, including the AIFA paper "Financial Advice: Worth the Money?"[xxxv]. This paper concluded that advised consumers tended to improve their financial circumstances, their financial risk management and their longer-term financial situation. Benefits could be immediate, such as saving more and reducing expensive debt. In the longer term, risks were mitigated and consumers' principal concerns about income in retirement alleviated.

Advised consumers invested more and thus increased their chances of achieving an investment asset base to provide sufficient income in retirement and to cushion them against pre-retirement life risks.

The longer-term effect of this financial wellbeing was not only personal but also societal in terms of increased tax contributions, reduced need for benefit payments and the beneficial effects to the economy of wealth accumulation.

It has been shown as part of the AXA Avenue initiative that, if consumers in the low-to-medium income group were to receive advice, there would be clear benefits in terms of increased savings, better debt management, and higher provision for retirement.[xxxvi] There were other potential benefits in terms of a regulatory dividend for the industry, as more capable consumers required lighter-touch regulatory protection. The wider economy would also benefit as consumers became personally wealthier, increased their consumption and became more resilient to financial risk.

There are a number of factors that are expected to drive up the demand for advisory services:

- Increased number of individuals approaching retirement and in retirement
- Complexity of personal circumstances
- Assistance to achieve optimal income throughout retirement
- The role that housing has to play in meeting retirement needs
- Need to fund for care services
- Limited number of advisers currently qualified and licensed to provide such advice