

# The Retail Distribution Review

A Personal View

## Paper 1



## Introduction

In recent years, there has been a growing pressure on the financial services industry to 'get its house in order'. A number of different strategies have been instigated to achieve this, but the most far reaching ones have been Treating Customers Fairly (TCF) and the Retail Distribution Review (RDR).

The RDR seeks to address how retail products are delivered to the consumer and for those who have not read the paper, it is a highly recommended read. It can be found on the Financial Services Authority website.

The outcomes of the RDR are at the time of writing far from certain, but it is highly likely that we will see a multi tiered approach to the delivery of retail products. The RDR advocates different levels of adviser for different situations, with the top level designated as professional financial planners. Individuals and firms that fit into this category will be IFAs, probably with Chartered status, probably fee charging, but most definitely not product brokers.

The role of financial planner is not dependant upon the commission which is earned from a product sale. The financial planner is remunerated for the advice she/he gives which may or may not involve a transactional relationship. They are also remunerated for their skill in helping a client to achieve their life goals and this will involve detailed income and expenditure projections.

For existing advisers who rely on products sales to pay the bills, the new regime may not be at all to their liking. While many existing advisers will remain as product brokers, others will not wish to suffer the constraints that a product broker will experience under the RDR.

The new style professional planner will be remunerated for what they know (this may mean further examinations), how they can apply knowledge (this may mean further training in financial planning techniques), and for continuous reviews of the client's situation. It will involve less interaction at a transactional level and much more involvement with the client, almost knowing the client better than he/she does.

The future after RDR will mean that a new model will be needed for financial advisers/planners to follow. This positioning paper has been designed to highlight the new knowledge, skills and attitudes which will be needed to survive at the professional planner level.

## The Current Model

For the majority of advisers, the current model is based on the ability to sell products to a client<sup>1</sup>. This can lead to a number of problems.

- The adviser does not receive payment unless a product is sold even though the work has been carried out. In addition, because the reward system in the industry is commission or target driven, this can put pressure on advisers to 'close the deal', come what may. This cannot be good for advisers or clients.
- The client may not receive the best product for them because commission may be a driving factor within the advice (Compare investment bonds to OEICS). In addition, the commission must be taken from the product, thereby disadvantaging a client even further.
- The reward system is based on achieving target, usually on initial commission or products sold. This means that advisers must continually look for clients/prospects to whom they can sell and this often results in poor or non existent servicing for existing clients.

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<sup>1</sup> The author recognises that some advisers are remunerated for planning work and not on a transactional basis

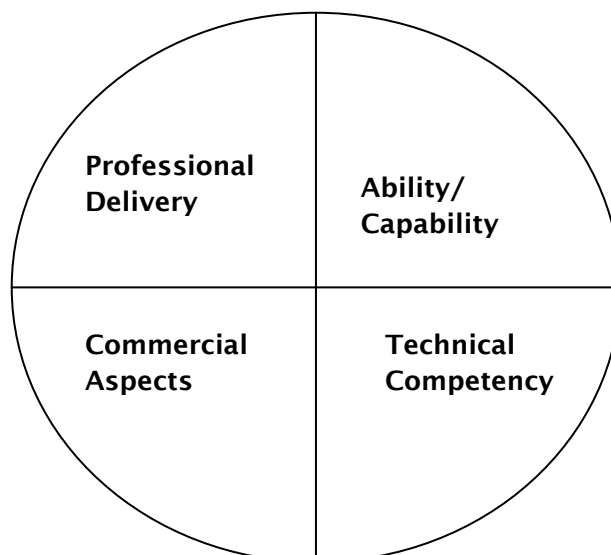
In the main, existing adviser training sessions are based upon those skills which will help them to achieve sales. These skills include closing techniques and objection handling (ugh!) which by definition are aimed at helping the **adviser** to achieve target and not helping the **client** to achieve their goals. (Please do not take offence here but think about the primary objective based on this skill model).

There are those who would say, quite rightly, that we must all sell if the commercial world is to work. While this is true, the issue revolves around that which is being sold. Financial services is a service industry (just like a solicitor and accountant) and it is the service which needs to be sold to a client. The sale of a product to achieve this end is not equitable on either client or adviser and is certainly not efficient as a means of remuneration.

The new model adviser will need a completely different skill set if they are to survive in the world post RDR. It will also involve a change of language (e.g. remunerated not paid) and a change of focus (e.g. being remunerated for constructing a financial plan not for selling a product). The next section deals with the new skills, talents and knowledge which will be needed.

### **The New Model**

Post RDR, the emphasis for many types of adviser will be placed upon good and effective advice and/or planning<sup>2</sup>. There will be a move away from benefit selling and closing techniques to an environment which rewards advisers for long term relationships with clients and their ability to coach and mentor the client. The key role of an adviser will be to educate the client to make their own decisions about their financial future. This will involve not only a different skill set but also a different approach to running a business. More emphasis will be placed upon segmentation of the client base (the 80/20 rule), standardised back office processes and managing a commercial enterprise. More importantly, there will be a greater need for a robust and dynamic business proposition (what is offered by the business) and a marketing strategy. In essence, the four key headings which advisers/planners must learn to master are:



### **Commercial Aspects**

Greater emphasis will need to be placed on the commercial realities of running a business rather than an extended direct sales operation. The adviser/business owner will need to develop existing knowledge and skills in order to make a profit from delivering a **service**. The various aspects which will need to be included, or at least addressed are:

- Establishing the positioning of the firm

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<sup>2</sup> Advice in this context means dealing with current issues, while planning involves future issues.

- Selling the service (Marketing)
- Constructing the *modus operandi*
- Understanding what service is being offered
- Establishing what service is offered with each client and agreeing fees with the client
- Establishing an investment process as a firm
- Determining one single back office process to reduce waste and duplication
- Using technology to suit the business

### **Professional Delivery**

The service offered must be capable of being replicated time after time. It will help to create a brand (useful for sale of your business) and ensure client confidence both with your delivery and referrals. The proposition needs to follow a tried and tested method, such as that used by the IFP. The various stages are as follows:

- Gather client data (hard and soft facts)
- Establish goals/objectives and aims
- Process the information and analyse it
- Recommend the effective course of action
- Implement the plan
- Review the plan at least annually

The whole proposition is based on the fact that it is a dynamic situation and is cyclical. These two aspects are crucial if the business is to move from a transactional basis to one of a service offering.

### **Ability/Capability**

For many advisers this may represent the most uncomfortable change to their method of working. In essence the change hands power to the client and relies on them to make the decision, rather than using techniques which close them down. The skills needed here are much more subtle and gentle and rely on close personal relationship where trust is the key driver. The abilities and capabilities which will be needed are:

- Attracting clients to the new model business
- Negotiation with the client in relation to the service offered and the fees payable
- Mentoring
- Coaching
- Teaching

While the above list is probably not exhaustive, the range of skills will not cover closing or objection handling.

### **Technical Competency**

The service that is being offered is dependent upon the knowledge in the advisers head, the way in which it can be applied and the degree to which it can be communicated to the client. It is also crucial that the adviser keeps their knowledge up to date. Technical competency will involve structured learning, higher costs (both in terms of outlay and down time) and examinations. The key underpinning theory behind RDR is that advisers who wish to aspire to professional status must be Chartered. This is a degree level qualification and will take anything up to five years to acquire.

### **Summary**

The future outlook for the industry looks bright. As more investors, clients and potential clients recognise the need for financial planning in its truest sense, professional planners will be in demand. However, the change to professionalism starts with us and we must prove to all interested parties that we are worthy of the challenge and serious about the delivery of a quality service at a realistic cost.