

RETAIL DISTRIBUTION REVIEW

Act now before it's too late

The FSA's Retail Distribution Review (RDR) brings the most significant change to the UK's retail investment industry in modern times. With a regulator determined to see through its vision for the marketplace, and with time fast running out, all intermediaries and providers need to act now to ensure that competitive advantage is maintained, or risk losing out as the rest of the world moves on.

WHAT IS CHANGING?

Driven by identified poor outcomes for consumers, including those resulting from historical large scale miss-selling of products and services, the FSA has sought to modernise the retail investment industry with a view to:

- Improving clarity around products and services
- Putting consumer needs at the heart of the industry
- Neutralising the risk that remuneration arrangements promote unfair behaviour
- Increasing standards of professionalism
- Ensuring the long term viability of firms.

The RDR has promoted huge amounts of discussion and formal consultation and has ultimately resulted in major areas of regulatory change that firms must address. **This requires clever, strategic thinking**, rather than simple application of detailed rules to current business models.



SERVICE LABELS: WHAT'S IN A NAME?

All firms need to determine how their business model and service offering will fit into the new regulatory framework. Those that will provide advice will need to determine whether they will provide independent or restricted advice and will need to develop operational procedures to ensure that more demanding regulatory expectations are met. Firms also need to consider whether basic advice, simplified advice or non-advised sales will feature within their business models.

ADVISER CHARGING: DE-COMMISSIONING OF THE OLD REGIME

The abolition of payment by commission will impact right at the heart of firms' commercial models. Adviser (and consultancy) charges will need to be agreed with clients up-front, with firms needing to demonstrate the real value that their service delivers. With scope to develop bespoke approaches to charging structures, this needs to be carefully aligned to individual business models, and there is real opportunity for firms to devise unique propositions that maximise the value of their customer base.

PROFESSIONALISM: RAISING THE BAR

All advisers will need to meet higher qualification requirements by the end of 2012. This is likely to require significant time set aside to attain new qualifications and complete appropriate gap fill, with firms needing to support their advisers through this period and going forward through enhanced continuing professional development. In addition to adviser interaction with accredited bodies, which will control the issue of a Statement of Professional Standing for each adviser, the FSA will also require increased ongoing dialogue with firms regarding adviser performance.

CAPITAL REQUIREMENTS FOR PERSONAL INVESTMENT FIRMS

Personal investment firms will be subject to higher capital requirements from the end of 2013. The application of the requirements will vary on a firm by firm basis, with clarification in some areas still to be provided by the FSA. All intermediary firms need to consider the application of the new requirements to their business and plan accordingly so that balance sheets will remain appropriately capitalised.

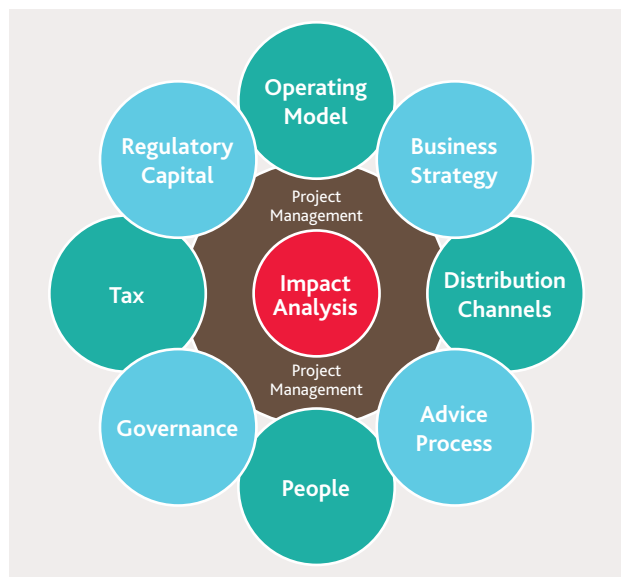
PLATFORM DEVELOPMENTS

The technological and commercial development of platforms has coincided with RDR implementation and is likely to touch all market participants in some way or another. Firms will need to embrace this change and will need to be clear how the increased use of platforms affects their business models and how such use can aid or hinder the meeting of regulatory requirements.

MARKET CHANGES: ANTICIPATE AND ADAPT

All of the above changes will have a major impact on the market. The number of IFA firms is likely to reduce, with consolidation in this space already on the increase. Product providers need to act now to ensure that access to their end customers remains viable. The effect on sales volumes in the transitional period is difficult to predict, though it is clear that the regulator is concerned about over-selling of products on a commission basis in the short term. Gaining the early buy-in of customers to the new charging regime is likely to be one of the biggest challenges as firms seek to secure their existing customer base. Providers and distributors need to anticipate these changes and adapt now, before it is too late.

HOW BDO CAN HELP YOU MAKE THE MOST OF THE RDR



What we can do

We can offer a fully managed solution to addressing the changes under RDR or can help to identify the key areas that you need to address and provide expert assistance where this is needed.

A multidisciplinary approach

BDO's Financial Services Practice brings together experts in strategy, regulation, risk, tax, finance, internal audit, corporate finance and technology to deliver major regulatory change projects across a wide range of financial services firms.

Focus on the key areas

Our intelligent, proportionate and pragmatic approach is ideally suited to helping firms develop and implement their own unique response to the RDR.

Help for all market participants

Our experience extends to all market participants involved in the retail investment supply chain, including IFAs, Product Providers, Banking Groups, Wealth Managers and Stockbrokers. Each firm will face different challenges and we can provide assistance that addresses your specific needs.

Impact Analysis	As every business is different, an initial impact analysis is central to understanding how the RDR will affect you. We can highlight the risk areas and plan and prioritise required workstreams or provide external assurance on established change programmes.
Operating Model	RDR will drive operational change. We can help you identify required back office, IT and finance systems changes and help you ensure that developments in the world of platforms are factored into your model.
Business Strategy	Business strategies need to be re-assessed in light of the regulatory changes. We can help you to plan for the future, assess the business risks whilst identifying and maximising key revenue streams. With consolidation of the intermediary market on the increase, our corporate finance experts can also assist.
Distribution Channels	Distributors need to carefully consider what services they will provide to clients. Providers need to determine how their products will be sold in the market place. We can provide valuable objective insight from our market experience as you make these decisions.
Advice Process	Firms that provide advice post-RDR will need to ensure that advice processes and procedures are developed that continue to meet revised FSA conduct of business rules. We can design bespoke processes that align your approach to client service with regulatory requirements.
People	Firms and their staff need to fully understand the increased expectations of the regulator with respect to individual advisers as increased professional standards are embedded. We can review and develop bespoke recruitment, training and reporting processes in order to ensure that your firm meets its obligations.
Governance	As firms manage the change to the post-RDR world, appropriate governance arrangements need to be maintained, particularly where there is significant change in business models. Our governance experts can work with you to implement robust yet proportionate arrangements.
Tax	Firms need to fully consider any tax implications of changes to their business models, in particular those that result from changes to the manner in which they are remunerated. Our tax team is able to work through the impact of changes to your tax position.
Regulatory Capital	Changes to regulatory capital requirements will impact Personal Investment Firms. We can work with you to model the changes that will impact your financial position and help you to ensure that you remain adequately capitalised going forward.

WHY BDO

- BDO is the world's fifth largest accountancy and professional services firm. We have deep experience in financial services and a multidisciplinary approach combining strategy, regulation, risk, tax, corporate finance and IT specialists.
- We provide services to clients in 119 countries and have teams in all the major financial services centres.
- Our clients range from domestic financial services firms to complex global financial services groups. We therefore bring a unique view to the issues faced by firms across the whole distribution chain in responding to RDR challenges.

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