Whitepaper ::

Informed Decisions and the battle to engage the UK's mass affluent investors

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Informed Decisions and the battle to engage the UK's mass affluent investors

Can every side win the "land grab" battle in the brave new retail investment world?

The UK retail investment market is experiencing a period of significant change with new Financial Conduct Authority (FCA) regulations that are reshaping the way investors receive and pay for investment advice. This is creating both pain and opportunity on a number of fronts, and will transform the way investments are offered, acquired and serviced.

THREE SIDES TO THIS STORY

The new environment is most obviously affecting three groups: retail investors, intermediaries such as Independent Financial Advisors (IFAs), and investment product providers.

Each side faces new challenges and opportunities, and the key to success will be understanding needs, options and feasibility from a range of angles, but this is no easy task.

THE SOLUTION?

Informed Decisions believes it's possible to achieve a great outcome for all three parties – for investors to receive advice and services to match their needs and investment levels; for intermediaries to identify and engage profitably with suitable clients that will benefit from their service offerings; and for investment product providers to engage directly with appropriate investors to offer direct to consumer products and services.

This is a scenario based on transparency and a clear understanding of what each party needs, and what is commercially viable.

In this paper we'll focus mainly on the intermediaries' side of the situation – the main challenge and how to turn it into an opportunity.

Why the upheaval?

The FCA's Retail Distribution Review (RDR) programme came into force on 31st December 2012.

The RDR intended to restore and enhance consumer confidence in the retail investment market, by improving investor understanding and addressing the historical problems associated in part with commission-based investment product sales by intermediaries.

Ultimately the RDR aims to make sure investors get a fair deal by ensuring they understand the services being offered, are clear about the associated costs, and have the services delivered to a professional standard.

DISINTERMEDIATED INVESTORS ARE GETTING RESTLESS

Retail investors are becoming increasingly educated about their options. They're being encouraged to question whether they understand the services being offered, whether they're incurring unfair charges, and whether they're actually receiving the advice and services they're paying for.

Currently there are estimated to be around 5-6 million UK investors with between £35,000 – £75,000 to invest. Many of these individuals cannot be profitably serviced with advice by the intermediaries who originally signed them up to investment products, even though part of their annual product fee usually includes a service component for such advice.

Simply put, this group of investors has become disintermediated. They're paying for services they're not receiving, and they'll be looking around for better solutions. The FCA even has a web site section advising consumers on how to "tackle trail commission".

The RDR aims to see them getting fair deals that suit their circumstances, delivered transparently and professionally, and free from the potential bias related to intermediary commission payments.

IFAs FACE A VERY TOUGH CHALLENGE

Intermediaries like IFAs are caught in a tricky position of being unable to profitably serve and advise a large proportion of their clients. But if they continue as is, they will most likely lose these clients and the related ongoing commission.

In response, some IFAs are proactively terminating their relationships with these clients and accepting the financial loss. Others see an opportunity and are re-thinking the way they provide services to also cater for clients with a "light touch" or "non-face to face" service level. But before they offer these evolved services, they need to make informed decisions based on individual investor value and potential, the initial and long term profitability of providing services to clients with this level of wealth, and how those services will compare on price and value with old and new participants offering direct to consumer propositions.

INVESTMENT PRODUCT PROVIDERS HAVE AN OPPORTUNITY

In many instances, investment product providers have found themselves in a position of charging the investors for services that aren't actually being delivered by intermediaries as intended. Many are considering providing these services themselves and are exploring new ways to market and sell their products direct to investors. They face a tight regulatory framework and are keen to ensure they avoid the mistakes of the past, including having to deal with claims associated with the mis-selling of investments through their direct sales forces.

Some providers will aim to engage primarily with investors whose profiles don't represent a feasible option for their associated IFAs on the basis of profitability, in which case everybody wins. However there's nothing to stop providers from attempting to win clients that IFAs could quite easily serve with an evolved approach.

A deeper look at the challenge for IFAs

A TOUGH TIME FOR INTERMEDIARIES

From January 2013, commission payments on retail investment product sales were banned under the RDR, thus causing a major change in the way clients pay their IFAs.

This ban only applies to new sales, so any products that were already in place have continued to generate trail commission for intermediaries. But this trail commission may be extinguished immediately if there's an 'advised event' – in other words if new advice from the IFA is captured by the advised event rules in the new RDR regime. So understandably, many IFAs are reluctant to engage with these clients, even if the commission they receive was originally intended for providing an ongoing "service" – often implied to mean ongoing "advice".

So we might say IFAs are caught between a rock and a hard place… and another rock!

On the one hand, providing clients in the £35,000 – £75,000 investment range with one-on-one advice (as they do for clients with larger investments) is not commercially viable.

On the other hand, if IFAs do meet with these clients, the product provider may assume they are providing independent chargeable advice as a result of an "advised event" and cease paying the 'service' component of the ongoing commission.

And yet again, confirming to the provider that they are no longer providing an ongoing service regarding the client's plan is likely to see the product provider deem the ongoing commission payment as invalidated. These last two outcomes could represent a huge threat to an IFA's ongoing income stream built up over the years.

In summary, IFAs are in the tricky position of being unable to profitably deliver a promised service, and yet not wanting to put their trail commission income at risk by making client contact, or confirming to providers that they will not.

BUT IFAs CAN'T AFFORD TO SIMPLY DO NOTHING

Another crisis looms with the FCA's sunset clause which will ban legacy fund rebates to platforms (which are passed on to pay advisers ongoing commission) by April 2016…meaning the current trail commissions paid to advisers through the affected platforms and fund supermarkets will cease even if there is no 'advised event'.

And in the meantime, thanks to the RDR, many disintermediated investors now understand their position and are considering "DIY" investing, demanding the services they are paying for, or reclaiming part of their commission fees from the providers if they don't get it. And if they're not happy with their current situation, they'll be open to new offerings.

Those who can profitably and fairly serve these investors will rush to engage with them, and there will be a battle to acquire their attention and investment.

So things can't simply continue as they are. If IFAs want to retain any kind of revenue from their £35,000 – £75,000 clients in the longer term, they need to take proactive steps.

Many investment product providers are aiming to develop direct relationships with these investors, returning to a direct sales channel just as they had before the intermediary sales model (using IFAs for sales and distribution) became popular. Others are looking to provide a slick, online direct to consumer offering to attract the growing DIY investor market using the pull of their big brands, whilst new, "fresh" online providers are seeking to appeal to those who are disaffected with the old guard providers and adviser services.

Many IFAs will also want to approach these clients themselves, to offer evolved solutions that suit both parties – for example cost effective service models for delivering investment or product advice via the internet or telephone, rather than face to face.

But for many IFAs this seems like an insurmountable task with no clear start point.

The solution for intermediaries

WHAT SHOULD IFAs DO?

The challenge is to identify, understand and engage with appropriate investors as soon as possible, to offer fair, clear and compelling services that are profitable and also meet the key requirements of the RDR:

- Service offerings that are easy to identify and understand, with transparent and fair charging systems that clarify the cost and nature of advice
- Advice focussed solely on the investor's needs
- No commission bias or product provider influence
- Delivery by qualified and respected professionals governed by a code of ethics

Evolved offerings need to be client-focussed and balance individual levels of investment with the required attention and cost to serve. Easier said than done!

START AT THE BEGINNING

Success will be possible with a thorough understanding of investor assets, requirements and potential long term value that can be provided to them, weighed against the commercial value for the IFA.

Analysing and segmenting investor data to determine which individuals to target requires experience with the issues and opportunities associated with client and asset data.

This is daunting for IFAs, to the point where many are taking no action at all, or even actively disengaging with disintermediated clients. This 'washing of hands' approach guarantees loss of income and isn't necessary. IFAs can turn the challenge into a profitable opportunity by getting professional help to target and engage disintermediated investors.

The Informed Decisions solution

Informed Decisions can help IFAs to succeed in the UK's refreshed retail investment market.

Our services are geared to help IFAs protect and increase their recurring income, and the typical Return on Investment period can be as short as 3 months.

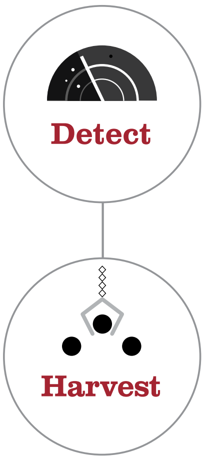
In a nutshell, we help advisory businesses to manage and understand investor asset information so they can make informed decisions. This lays the foundations for offering clear, fair, client-focussed wealth management services to appropriate investors, so that everybody wins.

We're already helping IFAs to identify, analyse and engage with both advised and non-advised clients, so they can manage migration to new advice terms and services that are appropriate for investors, commercially sound, and meet RDR requirements.

HOW DO WE DO IT?

We enable the identification and compliant review of existing client assets recorded in back office systems and various other electronic sources.

We do this through our logical data quality and management services:



- We analyse all available data to identify, sort and segment clients who may be suitable for a product, service or fund upgrade. If current back office systems or data sets are not in the best of order, with values, policy numbers, client details and the like not immediately available, this service still provides the segmentation process referred to as 'Good Practice' by the FCA in its Replacement Business guidance.

- We collate plan data to provide the basis for decision-making. This service enables the appropriate technical analysis of each plan, annotating and recording the information on a secure portal to give advisers and support staff the ability to review the audit trail any time.

Compare

Our online cost comparison tool uses data such as valuation, ongoing costs and charges, projected fund value and reduction in yield (RIY), all collected from the product providers.

This service provides direct access to the RIY+ Calculator for projected values and RIY for existing and new products for most plan types. We include complex adjustments and complicated scenarios, like variable multi-fund growth rates and the effects of 'life styling'.

It provides cost effective and reliable outputs for each plan comparison for every client, and enables like-for-like comparison with new investment solutions which can be automatically embedded into printed documentation.

Analysis

We provide analysis services to help advisers deliver the FCA's 'Good Practice' processes for compliant asset reviews, with components including Benefit, Tax and Fund analysis.

Report

This service delivers pre-advice analysis and review documents that can be updated as post-advice appendices and Suitability Reports if required. We use an automated process that avoids the re-use of templates, which are fraught with the dangers of multiple version control and pulling across previous clients' circumstances and plans.

Onboard

Our on-boarding service helps advisers to engage with large numbers of clients with lower asset values that together can represent a significant proportion of overall revenue. This service can include the administration involved in moving client assets to a new destination.

How we helped a national organisation to review and transfer investor assets

This UK-based organisation needed to review the suitability of a large number of existing clients for upgrade to a new platform-based service that would offer a wider range of investment managers and fully unbundled charging, as well as many time saving features.

A total of 252 member firms were engaged, and more than 6,000 plans held by over 2,500 clients were reviewed.

Over a two-year period, Informed Decisions provided auditable data gathering and analysis services, with pre and post-advice reports to enable the most suitable course of action for each client.

We worked with the organisation's internal compliance team to design and populate robust, compliant Suitability Reports to support recommendations of asset migration for selected clients, and very importantly to highlight cases where it was not suitable to transfer assets.

CONTACT

Knowledge is power.

Our expert team is here to help you to make the most informed decisions. To protect your existing income, maximise profitability, reduce risk and ensure the best outcome for all of your client segments, call now.

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