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THE LONG AND WINDING ROAD

B&Q and financial planning

By Alan Dick CFP

Financial services regulation is about to undergo a major shakeup that will change the face of financial advice for good. The changes will drive forward the transition from an industry distributing financial products to a genuine financial planning profession; we are about to enter a brave new world for financial advice.

From midnight on the 31st of December 2012 the outcome of the Financial Services Authority (FSA) Retail Distribution Review (RDR) will come into force. The four main changes from RDR are:

1. all advisers will need to raise their level of qualifications from Ofqual Level 3 (roughly 5th year of high school level) to Ofqual Level 4 (Diploma). Any adviser who doesn't reach the required level of qualification will no longer be able to provide financial advice to clients.
2. all advisers will require to be a member of an approved professional body, which will issue an annual practice certificate called a Statement of Professional Standing (SPS). These statements will need to be renewed annually and professional bodies such as the Institute of Financial Planning (IFP) and the Chartered Insurance Institute (CII) will be able to withdraw the practice certificate, and report this to the regulator, from advisers who no longer meet the required professional standards.
3. commission will be banned and all financial advisers will require to start charging transparent customer agreed remuneration (that's fees to you and me) for the service they provide.
4. from January, advisers will either provide Independent Financial Advice or Restricted Advice, bringing to an end the current complex and confusing independent, tied or multi-tied fiasco.

We are now little more than a week away from the new post-RDR regime, so how will this affect us at Forty Two?

We have been fully compliant with the new rules for over 10 years so it's pretty much business as usual here. In fact, I have been Level 6 qualified (Degree level – CERTIFIED FINANCIAL PLANNER[cm] and Chartered Financial Planner since 2004 and 2005 respectively). Our paraplanner, Donald Macaulay, is already adviser level qualified under the new rules as he holds the Level 4 Diploma in Financial Planning and is working toward the globally recognised Level 6 CERTIFIED FINANCIAL PLANNER[cm] qualification which he should achieve during 2013. We have worked on a fee only basis since 2002 and remain fully independent.

There have been lots of press reports recently about the expected impact of the FSA changes on financial services, and the future of financial advice in the UK. Both the consumer press and the trade press have been littered with headlines such as "DIY investing set to rocket", "Commission ban could increase DIY investing" and "Millions of investors ditch financial advisers post-RDR". Many stories are proclaiming the end of financial advice, a massive cull in adviser numbers and an explosion in the number of DIY investors who shun advice completely as they will refuse to pay fees for something which they previously thought was free. At Forty Two, we remain much more positive about the changes. We believe similar changes should have been implemented a decade ago when the FSA made similar proposals in the wake of a July 2002 HM Treasury report, *Medium and Long-Term Retail Savings in the UK*, better known as *The Sandler Review*. At that time, the banks and insurance companies had enough power to lobby for a greatly watered down set of rules which completely failed to help consumers and created a complex and confusing advice market, which hindered the development of true professionalism in financial services.

Much of the basis for recent stories comes from research conducted by Ernst & Young, KPMG and Deloitte. Ernst & Young suggest in their report, *One Step Beyond*, that the total number of financial advisers in the UK will fall from current levels (around 37,000) to just 20,000 by the end of 2015. A separate study by Standard Life also suggests a fall to just 20,000 advisers by the end of 2013. While I have no way of calculating the number of advisers who will leave the industry in the coming months and years, the Ernst & Young figures seem believable. In fact, there may be even fewer advisers remaining than such reports suggest.

Having read all three reports (and several others) in detail on more than one occasion I remain convinced that the changes will improve the standard of advice for consumers. Good financial planners have nothing to fear from the new rules. In fact, the new rules will actually be very good for quality financial planners who offer their clients a valuable service for a reasonable fee.

I believe much of the fear among financial advisers comes from the fact that very few IFAs actually provide a financial planning service; they simply sell financial products. The best analogy I can think of to explain why I remain upbeat about the future of our profession is B&Q and quality tradesmen.

The rise of DIY supermarkets such as B&Q killed off the small high street hardware shops, which were unable to compete in terms of either range of products or cost. However, B&Q didn't put tradesmen such as joiners, electricians or plumbers out of business. And B&Q certainly never put professional architects or quantity surveyors out of business. In fact, quite the opposite happened; quality tradesmen who are rarer than hen's teeth, remained in high demand. In many cases they are so busy they can't take on all the work available and are able to pick and choose the work they take on. However, consumers are often uncertain which tradesman are reliable and produce high quality results, so they rely on referrals and recommendations from family and friends who have experienced the workmanship first hand.

If we compare this to financial services, the new non-commission market place will probably put financial advisers who simply sell products out of business. Consumers won't be prepared to pay a fee for a job they don't value and can do themselves online with very little effort. This service is the local hardware store which can't compete with the B&Q's of this world. There will undoubtedly be an increase in the number of DIY investors who enjoy tinkering and have the time to carry out their own research and implementation. However, most consumers will continue to want advice and help that makes their life easier and lets them sleep at night. Financial planners who follow the full financial planning process and help clients define their objectives, assess the cost of meeting them and put in place suitable strategies to help achieve their goals and aspirations (including regular progress checks—maintenance) are quality tradesmen delivering a service that clients can, and will, continue to pay for: as long as they continue to receive good value for money. Not only will clients continue to use professional financial planners, they will increasingly refer their disillusioned friends who are still being sold products but are paying the same or more than they might pay for proper financial planning.

Let's take a look at some of the other things Ernst & Young, KPMG and Deloitte said in their reports.

The Deloitte study, *Bridging the advice gap*, found that "87% of customers who purchased a savings or investment product via a bank adviser in the past three years assumed the advice process was free." Deloitte go on to say "many customers are unlikely to accept adviser charges for the services currently on offer." This is probably why the banks fought so hard to stop the previous increased professionalism and transparent fee proposals in 2002.

Ernst & Young said, "many players are focusing more on getting over the line and less on what they'll do once they've crossed it. And I remain concerned that some will discover their value propositions are not well-aligned to the realities of the new environment." This is totally in keeping with what I have been hearing talking to other advisers recently. For many, the task of getting all their advisers qualified to Level 4 has been such a major project that they haven't even started to think about what their service offering will be next month.

Ernst & Young also said, "Many advisers are creating fee-based propositions that look as much like the existing commission system as possible and seem to be hoping that clients will not notice the difference."

The report goes on to say, "Models run by successful advisers will recognise that the most valuable part of the service they provide is the provision of advice, not submitting the application form to the product provider."

KPMG makes some interesting observations about the future of advice in its report, *UK Wealth Management At The Tipping Point?,* "Firms must do more than pay lip-service towards achieving client centricity and truly re-shape value propositions around the evolving needs of clients." The KMPG report suggests that traditional wealth managers such as stock brokers and private banks are at serious risk of losing clients next year, "this approach will open the door to new competitors in the affluent segment with portfolios between £250,000 and £5m", "New competitors using relationship-led models threaten to take share from incumbent product-led firms by providing holistic financial planning advice as a gateway to orchestrating other wealth management services." By new competitors they mean forward thinking IFAs and Financial Planners.

Another part of the Ernst & Young report suggests that, "throughout the year, there will be a real opportunity to take the lead in shaping the new landscape." At Forty Two we have been taking the lead in this respect since 2000 so we see 2013 as a year of massive potential and are really looking forward to it.

Deloitte state "many customers are unlikely to accept adviser charges for the services currently on offer." This seems to be borne out by the increase in new client enquiries we have experienced in the last month or so. We recently received one call from someone with a Standard Life portfolio who has used the same adviser for over 20 years. He explained that Standard Life have written to him direct requesting he sign a form authorising them to continue paying his adviser from January onwards. He was surprised by the level of adviser charges but said that he didn't mind the amount it was just that he "couldn't see what the adviser does for it". The Ernst & young report states, "advice has a great future – provided advisers can learn to present it, and provided customers can learn to understand its value. That's going to take time. The irony is that the vast majority of customers are already paying serious money to get access to investment products and it is not always clear whether they are getting value for money." If our experience is anything to by, it seems Ernst & Young are spot on.

We believe that next year will see thousands of clients of banks, private banks, stockbrokers, wealth managers and supposedly high net worth IFAs voting with their feet when asked to pay fees for a service but being offered the same old product sales proposition. However, the vast majority of these people will still need help and advice. We believe that most will be happy to pay for a true financial planning service but they won't pay a fee to be sold a product which they can buy themselves online or for the same service they previously thought was free.

Forty Two have devoted a great deal of effort in recent years to improving our client service and making sure the right staff team is in place with clear roles and responsibilities. We have also invested time and money improving our technology and business processes. As a result we are well placed to handle life in the brave new world and expect to take on new clients who are disillusioned with their current advisers.

RDR may well put lots of product salesmen out of business in the same way as B&Q closed many local hardware shops but the future for financial planning as a true profession has never been brighter. The recent increase in enquiries we have experienced suggests that 2013 is going to be a very good year for Forty Two.

For further information, or to discuss any matters regarding this article please con-

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