The Actuarial Profession
making financial sense of the future

Our Changing Future
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Retail Distribution Review

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The FSA’s aims

A transparent and fair charging system for advice

Consumers are clear about the service they receive; and

Consumers receive advice from highly respected professionals

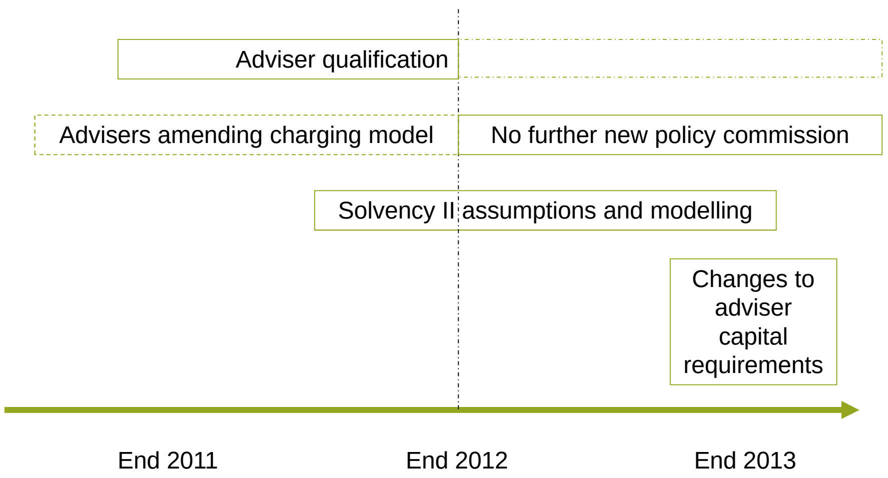
So:

Advisers to explicitly disclose and separately charge clients for their services

Advisers to clearly describe services as independent or restricted

Advisers to adhere to professional standards

Timelines



Impact on advisers
It's not all about commission

- Code of ethics
- Appropriate qualifications
- 35 hours of CPD per year (21 hours structured)
- Hold a statement of professional standing
- Decision on restricted v independent

And..

- Increases to capital requirements from end-2013

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Charging

For new contracts after 2012:

- No commission payments
- No factoring of commission
- 1:1 recovery and payment of charges
- Demonstration of value given for ongoing charges

For existing contracts at Dec 2012:

- Commission can continue for new members to pension schemes
- Continuation of commission on existing arrangements

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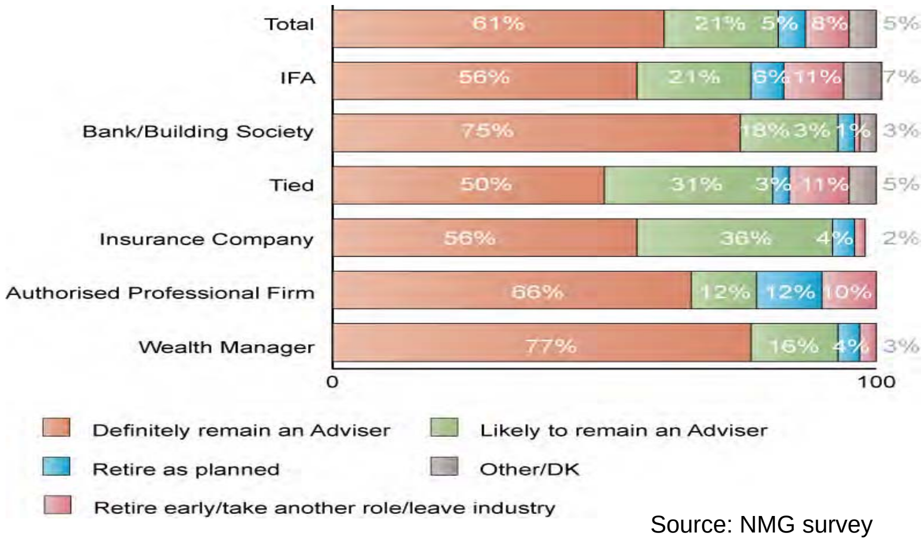
The adviser population



Source: NMG survey

The adviser population is shifting, but a step-change to come

Aviva survey:

65% of advisers plan to offer independent advice,

15% will use a multi-advice mode

6% intend to offer restricted advice

15% have not yet decided, or intend to leave the market.

Defaqto survey of 500 IFAs dealing in individual pensions:

78% are currently using a combined commission and fee-based approach

However, 64% of those remunerated with a fees/commission mix receive less than 25% of that income through fees and 11% receive more than half of their income via fees,

7% of IFAs work on a fee-only basis

New charging : what needs to be replaced?

Current options — **Advantages**

Initial commission → Matches timing of adviser effort

Fund-based → Adviser rewarded on performance

Percentage of premium → Ongoing income to cover reviews

Fee → As rationale on RDR

What does a typical adviser relationship look like?

Annual review and/or "on-demand" advice

"Free" advice

Disclosure of commission is clear but may not seem relevant

New charging : options

- Fee – no provider involvement
- Fee – collected by provider
- Percentage of premium (time limited?) – collected by provider
- Fund based – collected by provider

Advisers may also move into new areas of the value chain and charge accordingly

Design proposition	Investigate customer's needs and advise on type of product	Advise between competing similar products	Design and manage funds	Administer product

New charging : Pension scheme advice

Consultancy charge(s)*	Adviser charge(s)**	Charge type/ description	Charge activity e.g.
Set at: Scheme level or Sub-scheme (section) level Applied/ deducted at: Plan level	Set at: Plan level Applied/ deducted at: Plan level	Initial	Scheme selection/set up Joining processes
		On-going	Investment review Scheme governance
		Ad-hoc	Support on legislative change Employer re-structure

Impact on consumers

How much are consumers willing to pay? 50% say zero.*

How valuable is the advice? 30% say less than half of current typical cost.*

Consumer spectrum

50%

Wants full advice and prepared to pay upfront

Wants full advice, prepared to pay if charges from premium

Wants basic advice, prepared to pay small amount

Needs basic advice but unable/unwilling to pay

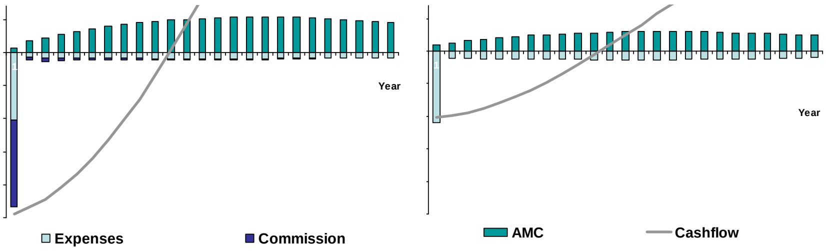
Current industry action will meet needs post RDR. 43% of advisers believe service will improve (mainly due to qualifications).+

Government/regulator/ charitable education and support, but can the industry design smart solutions too?

*Source: ABI Survey 2011 + Skandia survey 2011

Impact on provider: capital and margin

For providers currently in initial commission market, less capital but lower margins



With different competitive pressures and risk returns required, it's not obvious that payback period is shorter.

Impact on provider : persistency

- Reduction in concentration risk, as each policy has lower capital
- Removal of obvious commission incentive to move
- But need for advisers to demonstrate value of reviews if taking an ongoing charge
- Possibility of upheaval in adviser market, leading to more client reviews
- How long will it take to settle down and appear consistently in experience review?
- How will it combine with Solvency II assumption setting, and use in pricing?

Impact on provider : developments

Advisers and clients need:

So providers need to:

Affordability for client

Ease of administration

Provide collection functionality that is flexible

Predictable income stream for adviser

Demonstrable value for money by adviser

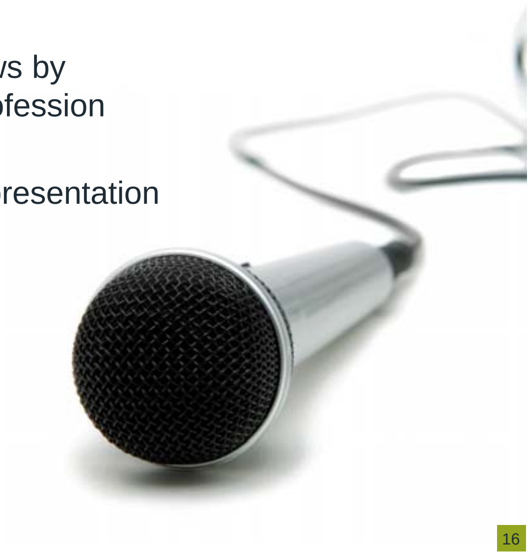
Link into new adviser models

Adapt to changes in value chain

Summary

- Expectation of better quality advice to consumers who can afford advice
- There is a gap for those who can't, though many will not be served well by current system either
- With relatively low numbers of advisers working purely on a fee basis, difficult to predict consumer willingness to pay
- Persistency may be better long term but likely to be unsettled in the short to medium term
- Margins (expressed as % volume) will reduce for providers

Questions or comments?



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