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RDR – Ready?

16 May 2012

Agenda

- RDR objectives and overview
- Adviser charging
- Strategic issues for life companies
- Operational and compliance requirements for life companies
- Questions you may be asking

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RDR – Ready?

RDR objectives and overview

The RDR was set up to address long-standing business conduct problems in the advice market

PROBLEMS

- Consumers unclear about adviser status
- Low qualifications
- Conflicts of interest in remuneration
- Adviser firms lacking long term viability
- Consumer access to sources of help and advice

SIX RDR AIMS

1. Status clarity
2. More consumers to have needs addressed
3. Higher professional standards
4. Remuneration aligned with consumer interests
5. Improved adviser firm viability
6. Supportive regulatory framework

The scope of the RDR is advised sales of retail investment products

- Retail investment products includes, life and pensions, collective investments, structured products, investment trusts etc – broader than "packaged products"
- Advised sales means sales arising from a Personal Recommendation
- Does not apply to pure protection and non-advised sales
- Applies to advice given on pre-RDR business

Implementation date: 1 January 2013

The RDR introduces four main changes

- Commission ban on advised sales: replaced by adviser charging
- Higher minimum adviser qualifications
- Higher standards of status disclosure
- Higher threshold for “independent advice”

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RDR – Ready?

Adviser charging

Adviser charging is key to life company impacts and requirements

Features	Detail
Covers how adviser firms are paid (not individual RIs within firms)	• All advisory firms, including vertically-integrated firms • Ban on provider-determined remuneration
Advisers agree remuneration with customers	• Can be initial or ongoing, purchase-contingent or standalone, fixed fee or percentages, etc
Separation of advice and product charges	• No cross-subsidy between manufacture and advice • Separate disclosure of charges
Providers allowed to facilitate advice charge payments but not influence remuneration level or structure	• No factoring or rebating • Tighter limitations on indirect benefits • No allocation rates >100%
Advice charges to be product neutral	• No material differences for substitute products
Advice charges only where service is provided	• No ongoing advice charge unless ongoing service provided • Customer able to turn off ongoing charges

Adviser charging can be simplified to three basic principles

- Providers must not influence adviser remuneration
- Advisers to charge only where a service is provided
- No cross-subsidy between advice and manufacture in vertically-integrated firms

Adviser charging will apply to advice on business which is in-force at 31 December 2012 (PS12/3)

- Principle is that no commission is allowed on new advice – even where advice is on an existing product:
  - Advised top ups and increments must be remunerated by Adviser Charging, not commission, where there is a change to the product or the amount invested. (Pre-RDR trail flows unaffected)
  - Does not apply to non-advised/auto changes or to fund switches within a life product
  - Trail commission on the existing product can be rebated to offset the adviser charge
- Exception to all of the above is GPP business, where existing scheme increments can still pay commission

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Strategic issues for life companies

Changes in the adviser sector will drive strategic change for life companies

Future adviser sector features and issues
Service provider for customer
Provider selection on hard, technical factors
Desire for simplicity and transparency
Cost of delivering advice may exceed customer willingness to pay
Seek to maximise share of total charges
No cross-subsidy in vertically-integrated firms
Continued pressured economics

Five types of adviser capacity shift
From smaller to larger firms
From whole of market to more restricted panels
To more prescriptive business models
Exits
Vertical integration

→ Power shifts from life cos to advisers →

Life co consequences
Charge squeeze
Change in basis of competition
Narrowing of market access

→ Life cos need to adapt →

Possible responses
Qualitatively different propositions
Reduce costs: scale and efficiency
Focus on less-affected products
Control distribution
Get close to the customer
Rationalise product range
Exit

Source: Towers Watson

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Operational requirements

Issues arising for life insurers

Areas	Requirements/issues
Adviser charging design	Flexibility of payment options
	Rules compliance re third party payments
Facilitation of Adviser Charges – process	Ability to distinguish advised and non-advised business
	Process and validate customer instructions
	Ability to start, stop and vary advice charge deductions at individual product level
	Timely payment of facilitated advice charges
Product management	No allocation rates >100%
	Legacy products where advice is given on pre-2013 holding
Disclosure	Separation of charges
	Platforms and promotion
Indirect benefits compliance	Tighter restrictions on indirect benefits

There are additional considerations for vertically-integrated firms

- No material cross-subsidy between manufacture and distribution allowed
- Requires accurate allocation of expenses based on clear understanding of underlying activities
- Many will need to reduce cost of sale to ensure standalone viability of advice, at a time when consumers will be more sensitised to the cost of advice.

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Questions

RDR – questions you may be asking: Product providers

- Do we understand the impact of likely adviser market changes on our new business strategy – and do we have a robust response?
- In particular, how resilient is our business to downward price pressure and adviser capacity shifts?
- Can we trace all of the FSA's requirements into our systems, processes and controls?
- Do we have robust implementation plans?

RDR – questions you may be asking: Advisers and vertically-integrated firms

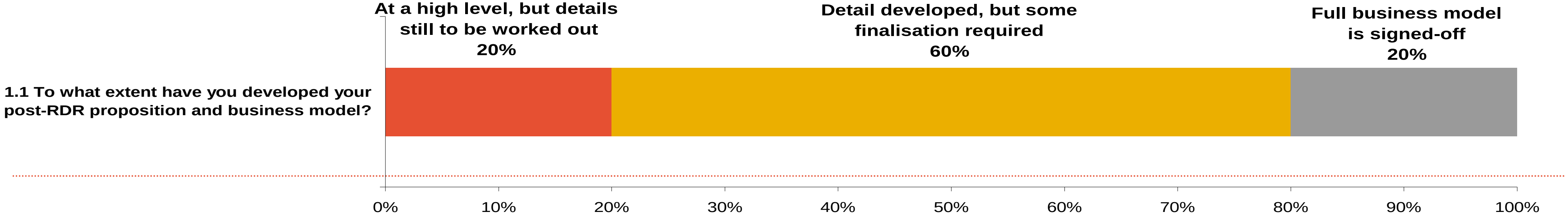
- As above, plus:
- What do sustainable customer propositions look like?
- (How) can we make money from advice?
- How can we reduce cost per sale?
- Is our expense allocation between manufacture and advice accurate and optimal?

How ready are advisers? Key findings from Towers Watson RDR readiness survey

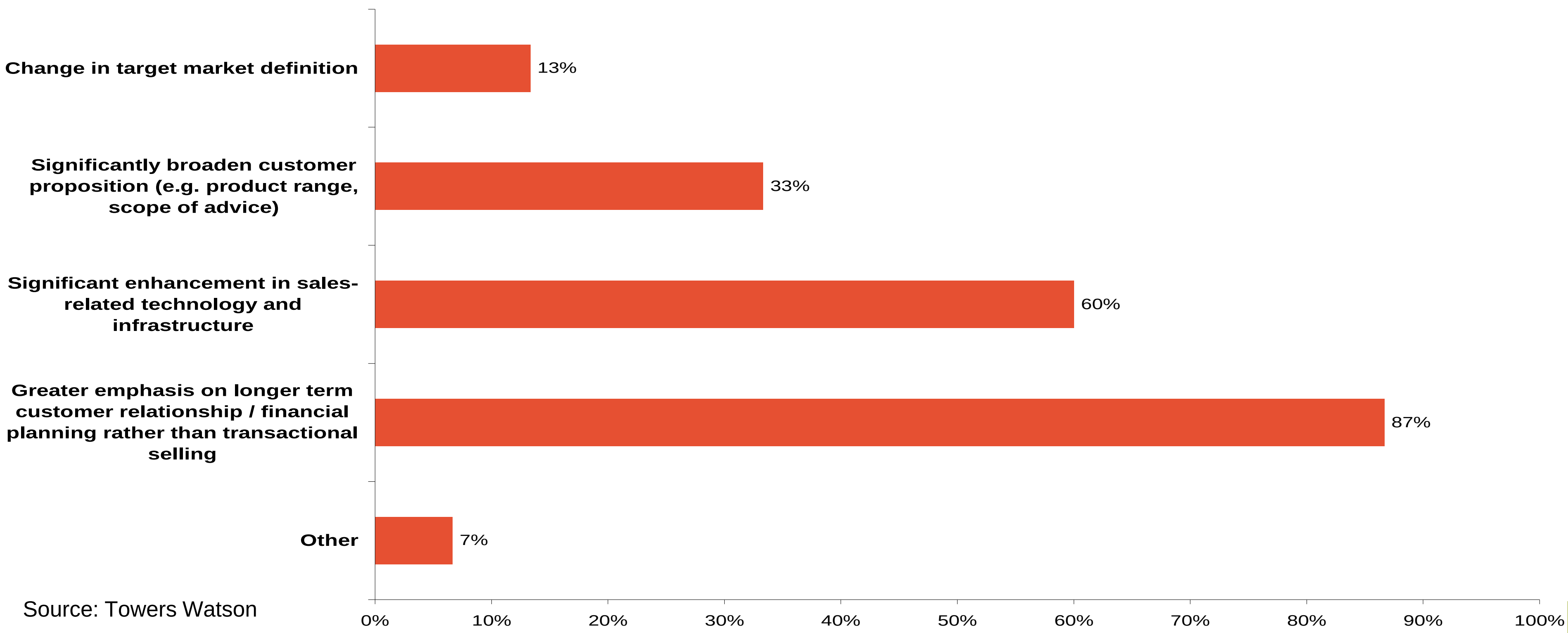
- 15 major companies providing financial advice, covering RDR as strategic opportunity as well as compliance task
- Most plan to place more emphasis on long term customer relationships, supported by better sales technology
  - Often using a similar proposition aimed at the same target market
- Planning and implementation work indicates much still to be done. As of March:
  - 80% lacked a full-signed off business model
  - Half indicated implementation only 25% complete
  - Most lacked a finalised implementation plan
  - 80% were confident of ability to deliver on time
- Key implementation risks around IT and people change

Clear the RDR is a process rather than an event:
Prospect of continuing change in 2013 and 2014

Advisers are seeking to do more for the customer – mainly through longer term relationships



1.2 Please describe the main features of the post-RDR proposition. (Tick all that apply)



Source: Towers Watson