Briefing

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FCA Thematic Review on Retail Investment Advice

This briefing looks at the thematic review of retail investment advice published by the Financial Conduct Authority (FCA) in December 2014. The review was part of the FCA's ongoing study of the impact of the Retail Distribution Review (RDR) on adviser charging and services for retail investments.

Focus

This is the third and final cycle of review by the FCA into the implementation of the RDR across firms and had two main aims:

- to assess how firms are charging for advice and how they are providing information about charges to consumers; and
- to look at the wider impact of RDR on firms' business models, in particular around the provision of ongoing services.

In this briefing, we also look at some of the findings and the implications of another recent report commissioned by the FCA relating to adviser charging.

Findings

Adviser charges

At the second stage of its ongoing post-RDR thematic review, the FCA was highly critical of the failure by firms to comply with the new adviser charging rules. At that stage, some conduct was found to be *"unacceptable"* (see the link to the TR 14/6 report in the table at the foot of this briefing). However, the stage 3 report published in December 2014 has a more positive tone.

The FCA reported improvements in the information being provided to consumers about charges and highlighted the increased number of firms using 'cash terms' to provide clarity about their charging structures.

However, other work commissioned by the FCA indicates that there remains a good deal of confusion amongst some consumers about charges: see the link to the NMG Consulting report below. For example, 29% of consumer purchasers of regulated advice said that *"the organisation they purchased through received commission"*. A further 20% *"did not believe they had paid a fee, nor that the organisation they purchased through received commission."*

The report goes on to state: *"Assuming firms are compliant, neither of these statements can be accurate, if the consumers in question did in fact receive regulated advice. It is possible either that they did not receive regulated financial advice but believe that they did, or that they received advice but did not appreciate that they were directly paying for this advice."*

Either way, there remains scope for improvement. The FCA acknowledges these difficulties and continues to emphasise the need for clarity of communication around charges.

Impact on business models

Greater transparency of charges post-RDR continues to pose challenges for firms' business models.

The FCA's overall findings are that, since the implementation of the RDR, the provision of ongoing services by advisers has become an important and valued part of their advisory role.

Whilst valuing the ongoing support, consumers were often unclear on the costs involved. The report encourages firms to be clearer about their charges for such support.

The overall message from the report is that consumers appear to value the ongoing support and advice of a trusted professional and are happy to pay for that service so firms should feel confident in charging fees and in communicating those costs to consumers.

The FCA review encourages firms to be more confident in setting out their fees for advice and valuing their services.

From a regulatory perspective, the way in which firms might charge for this advice and ensuring that consumers still get value for money will be the continuing focus for the FCA.

The review is critical of firms where the provision of ongoing services is:

- not linked to the profile of the client or the nature of their investment;
- inclusive of services which are not of use to the client; or
- charged as a percentage of the investment which does not reflect the work involved or an analysis of the wider resources and infrastructure required to offer that service.

continued overleaf

What should firms look out for?

The FCA is continuing to take a proactive approach to ensuring RDR is being implemented correctly. As evidence of this approach, it referred one firm to their Enforcement and Financial Crime team for failings uncovered in the process of the thematic review.

In the light of this report, firms giving retail investment advice should consider:

- whether the basis of any charges is communicated clearly and fairly to customers
- whether there are any charges not described in 'cash terms' in the information they provide to clients, particularly with regard to any ongoing services
- how they calculate charges for ongoing services and whether this represents value for money to the consumer as well as being part of a sustainable business model for the firm.

Looking forward

The review emphasises that although the preliminary 3 stage review post RDR is complete, the FCA will continue to supervise firms and use their regulatory powers to ensure that consumers have access to clear and transparent information about their investments.

Reports referred to above	Link
FCA: TR 14/6 Supervising retail investment forms: being clear about adviser chares and services	http://www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-06
NMG Consulting: Impact of the Retail Distribution Review on Consumer Interaction with the retail investments market	http://www.fca.org.uk/static/documents/research/impact-of-rdr-consumer-interaction-retail-investments-market.pdf)

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