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driving the pace of change

The FSA's retail distribution review discussion paper has raised many issues which will be debated throughout the rest of this year.

In this article, **Billy Mackay** addresses how one of the most fundamental issues in the paper, adviser remuneration, affects the service advisers deliver to the end customer.



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The regulator is concerned that the basis of adviser remuneration can lead to biased advice and, it could be suggested, inappropriate consumer outcomes. The result is a desire to move towards Customer Agreed Remuneration (CAR) for as much of the market as possible and for the term 'independent' to only be applicable to advisers that are remunerated solely via CAR.

The fact that the FSA has recognised the value of CAR options – where an adviser and client can have a healthy discussion around the nature of the advice and the cost – is a very welcome development. However, in our experience this is already being adopted by advisers and clients without the need for additional regulation. Figures relating to our latest pension range show that 69% of advisers that are remunerated by some form of commission are opting for our fee deduction agreement, rather than traditional commission.

Research* we have conducted recently with advisers reinforces this point. It showed that 90% of advisers questioned said a choice of remuneration options including fee deduction agreements will help them evolve their business model from

traditional structures and 84% said regulation is not required to facilitate this evolution. The FSA needs to consider this natural evolution when consulting on its retail distribution review and decide whether further regulatory intervention is really needed to force the pace of change.

adviser-driven evolution

It is encouraging that the FSA has recognised the fact that discussing the appropriateness of different models of remuneration for advice, and particularly commission, is not the most important factor. Above all, what is important is the quality of service and advice provided by financial advisers to their clients, and the clarity that exists in that relationship. Many advisers in today's market are focusing less on standalone product sales and more on long-term wealth management where advice is needed throughout the lifecycle of the investment.

The remuneration model is therefore increasingly reflecting the pattern of service and advice provided by the adviser and is similarly spread throughout the term. The market is evolving and financial advisers answering the demands from their

clients are driving the pace of this evolution. The statistics above demonstrate this is happening without the need for intervention and advisers must be provided with the tools to enable them to manage this evolution at their own pace.

So long as the client appreciates the value of the advice and understands the level of remuneration there is integrity in the model. Whether the client pays by fees or by commission is irrelevant.

flexible remuneration options

Skandia is committed to giving advisers choice from a range of investment solutions that incorporate flexible remuneration options to suit different client requirements.

These remuneration options are designed to provide the adviser and client with clarity and flexibility, so that the client understands what they are paying for and that the adviser is fairly remunerated for the work that they agree to undertake. This is the primary reason why fee deduction options are becoming increasingly popular with advisers, they can bridge the gap between traditional commission structures and full fee-based advice.

* Skandia Adviser Remuneration Survey, June 2007.



“ Many advisers are already embracing fee-based business models and they should be allowed to continue this evolution at their own pace ”

encouraging intelligent choice

It is clear that clients will embrace a wide range of ways to pay for financial advice and many consumers will not want to or will not be able to afford to pay an upfront fee. The most important issue is that advice is available to those that want it and it is up to the client to select the most suitable method of payment for their circumstances – whether by fee or commission – and it certainly does not have any impact on the independence of the adviser.

Many advisers are already embracing fee-based business models and they should be allowed to continue this evolution at their own pace so that it does not have a negative impact on their short-term revenues which, in turn, could impact the availability of advice for some clients. Skandia provides a range of remuneration options to financial advisers and will continue to do so in order to provide support to advisers running different business models.

We believe this will enable advisers to provide their clients with all the information they need to make an intelligent choice about how they should be paid. Importantly this will ensure clients retain access to quality advice. In doing this we need to avoid creating unnecessary confusion, as an industry we have more than enough of that already. ■

fee deduction options – offering clarity and affordability

The shift away from traditional product sales towards client-specific investment solutions means that advisers are undertaking specialist tasks such as risk analysis, asset allocation, fund selection and ongoing portfolio reviews. Fee deduction agreements provide a transparent framework for the client and adviser to decide an appropriate combination of fees for this specialist work and this agreement is clearly documented and signed by the client.

One suggestion regarding fee deduction agreements in the pension market has been that this is abuse of tax-relieved funds. Again this is looking at the subject from the wrong perspective. Fee deduction options are a clear and consumer-friendly charge to fund adviser remuneration. At Skandia, we will not pay a fee

deduction to an adviser unless the client signs and provides us with a clear instruction. The client along with the adviser is in control of what is deducted and paid from the policy, it is very clear what is taken from the plan to fund the cost of advice. It encourages a healthy discussion between adviser and client about the advice required and how to pay for it. This is completely aligned with the principles of customer agreed remuneration. A favourite saying of mine is you should never confuse popularity with abuse.

The primary driving force behind the desire to use fee deduction options is not about abusing tax relief – it is about clarity. They offer clarity and affordability to clients who do not want to pay an upfront fee to fund advice.

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