



The Retail Distribution Review

opens up opportunities for High Street Banks and online fund supermarkets

In June 2006 the FSA launched its Retail Distribution Review, hoping to reinvigorate “consumer trust and confidence in the products and services supplied” by IFAs. It has three core aims, the main one being the abolition of commission for advisors. Along with this, proposals include defining different types of advice offered and improving professional standards through new qualifications. The proposals will come into effect in 2012 and will apply to the distribution of all retail investment products.

The price of clarity

The rationale from the FSA is clear - commission distorts the advice given to the consumer. The withdrawal of provider-led commission incentives for advisers effectively means that they will be forced to overturn their remuneration models. This is an absolutely fundamental shift in the way the business is run. Advisers will also have



to make clear the level of advice they offer: ‘Independent’ advice will have to cover the whole of the investment market, whilst ‘Restricted’ advice will be anything short of this.

There is clearly a question over whether consumers will be willing to pay the explicit price of clarity. Swiss Re claims that 44 per cent of consumers will be unwilling to pay the £80-£250 hourly rate for independent advice. In corroboration, Capgemini has suggested that advice will be unaffordable for anyone earning less than twice the national average salary. Whether or not we take income, assets or size of planned investment as the indicator, it would certainly seem that the cost of advice will only really be worthwhile for those with larger amounts to invest. GfK’s work in this area suggests that currently it

is only ‘expert-seekers’, the most engaged and wealthiest consumers who seek out and pay for advice. But in 2009, almost two-thirds of IFA-arranged investments were taken out by consumers earning less than £50k. This segment also accounts for over half the value of all investments (Source: GfK Financial Research Survey, December 2009).

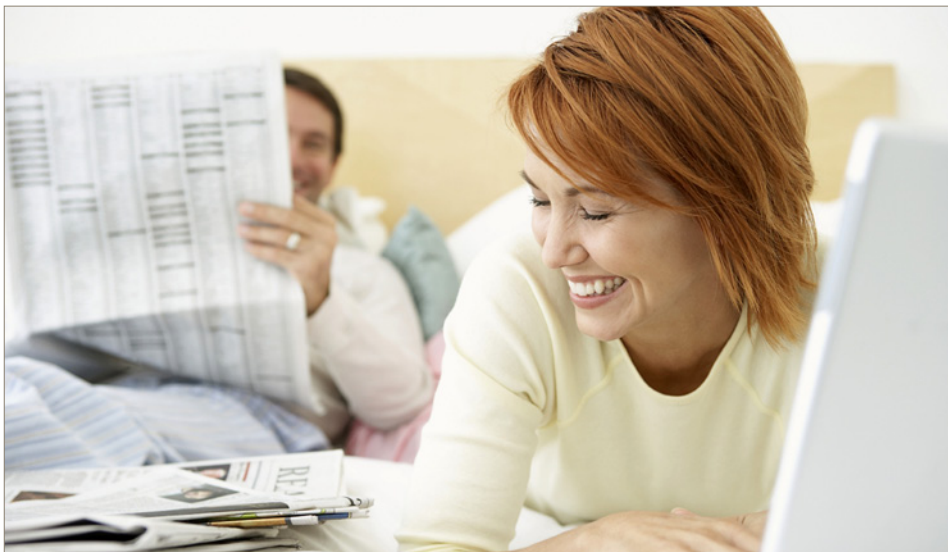
This suggests an increasingly fragmented market. Assuming that IFAs will find themselves increasingly focused on the top end of the market, how will the mass market – those earning under £50k – make their investment decisions? Understanding the sources of advice and channels of purchase they will use is key for providers looking to increase their market share.

Bricks and Clicks

For many consumers, tied or restricted advice could be 'good enough' particularly for those consumers who perceive financial products as a hassle (Source: GfK Financial Intermediaries Report). Certain investment providers are likely to establish their own networks of advisory businesses supplying restricted advice. However, the necessity for passing on costs to consumers, whether upfront or deducted from products, will remain. So what are the serious alternatives for those consumers who will not accept fees?

High Street Banks are likely to be beneficiaries, having an existing relationship with consumers, as well as the branch networks to make a face-to-face service feasible. In 2009, amongst High Street Bank current account customers, less than £1 in every £10 of investment value was held at their main current account brand. However, GfK FRS estimates that one in three investors earn under £50k and are less likely to use the internet, making them a key opportunity group for High Street providers. They are very much the demographic likely to be most affected by the Retail Distribution Review. In addition, we estimate that more than half of those who invested via an IFA could be more likely to arrange via their bank or building society in the future (Source: GfK FRS). The challenge for High Street providers will be to combat consumer perceptions of a lack of expertise and experience when compared to financial intermediaries (Source: GfK Financial Intermediaries Report, 2007).

Yet there is also a key innovation opportunity for online advice and fund supermarkets. While these services have been around for some time, there is an argument that with the growth of social media (which provides the space for



recommendation and peer-to-peer advice) and consumers increasingly comfortable researching and arranging financial products online, the online space is well-placed to be an unintended beneficiary of these reforms.

The demand for internet platforms exists: 19 per cent of consumers currently using intermediaries would prefer to use the internet to arrange their next investment (Source: GfK FRS). If people are willing to search out their own investment, as this suggests, then two types of website are poised to profit. Firstly, we could see growth in new advice websites for investors, along the lines of Martin Lewis' Money Saving Expert. Secondly, for actual purchase, we are likely to see increased opportunities for 'fund supermarkets' such as Hargreaves Lansdown and Fidelity. Whilst to date fund supermarkets have remained fairly niche, some are now starting to thrive, and it could be that, with a financial disincentive forcing people away from face-to-face advice, the time of the fund supermarket may finally have emerged.

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