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RDR and Simplified Advice

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Article published in T-C News

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RDR and Simplified Advice

As the industry knows that by the end of 2012, unless you have completed a relevant RDR qualification, you will be unable to give advice as it stands in the current format.

It has been quoted that up to 30% of the current adviser population will not achieve this consequently making the decision early on that the new world of 2013 is just not for them and the new charging mechanism of fee only will not suit their business.

What we do know is that a number of the major corporates in the market have not decided how they will serve their customers going forward and are yet to model on how cost effective having an army of qualified advisers will be commercially viable going forward.

The FSA, has shown some interest in this arena, as they are aware that access to financial services may become more restricted to some consumers post RDR and have been open to suggestions as to how the process will look and feel for advisers, firms and customers alike.

The truth is there is already elements of simplified advice out there in the market place now. Basic Advice is there already, which delivers 'simple products' to consumers with 'straightforward needs'. It delivers a small suite of stakeholder products in a cost effective way. The regime is designed to deliver products and offer consumers good value, because of the charge cap and the flexibility in the product. However, while Basic Advice might look like a great option for the consumer, the industry has been quite reluctant to use this, possibly due to the low commercial value associated with these transactions.

Darren McGrath, Learning and Development Director of training provider General Physics (UK) Ltd comments *"In reality who does actually know what simplified advice is, there are lots of ideas and concerns being floated around by a number of parties."*

Some of the primary concerns include:

- How is the process going to be delivered?
- What is the right suite of products to be included?
- What protection will there be for consumers?
- What level of skills, qualifications and training is needed by an adviser?
- What regulatory issues might impact on the development of Simplified Advice?



In the last consultation paper the FSA invited firms to submit ideas and models of what 'simplified advice' would look like for them and consumers. In more recent times, proposals have been submitted and the FSA are currently reviewing these. In terms of qualifications, most firms believe that the individuals helping customers via simplified advice will not need to be qualified as no actual advice will be given. The FSA have concerns over this and have been quoted as saying *"We do not like any form of facilitator being involved as there is a risk they would give advice."*

In the new world of RDR, it has been said that many customers will neither want to pay or be able to afford to pay for independent advice and the question could also be asked do they need independent advice?

Take a typical client who just wants to use their ISA allowance for the tax year, with some firms estimating that a review meeting could cost as much as £500-£600, is this economical for anyone involved?

The good news is that the FSA will be giving further guidance on simplified advice by the end of the summer 2011, it is hoped that a regime can be agreed to coincide with the RDR deadline of December 2012, so consumers can have a clear choice on the type of service they require and whether or not they wish to pay for any advice they receive.

This is a critical issue as if this does not happen many customers will be left stranded as to which way to turn and self diagnose their financial needs, or probably even worse, do nothing at all.

Darren McGrath concludes *"It is the role of the regulator and firms alike to work together on the issue of simplified advice in order to achieve a useful outcome for the consumer. As with RDR, the simplified advice subject will develop as time goes on, but time is at a premium as December 2012 is not too far away and a huge void could be left for consumers if no action is taken."*