Firm behaviour and incremental compliance costs

Research for the Financial Services Authority

Report completed 14 May 2009

This report has been prepared on the basis of the notice overleaf and subject to the limitations set out in the description of limitations on page 2 and in the Statement of Responsibility on page 71.

Audit . Tax . Consulting . Corporate Finance .

Important Notice

This report was prepared solely for the exclusive use of the Financial Services Authority (FSA) for the purpose of helping the FSA develop policy in the distribution of retail investments. This report is not to be used for any other purpose and we accept no duty, responsibility or liability to any party other than the FSA in connection with this report or this engagement.

Limitations in the report

LIMITATIONS
• Data relating to the population and contact details of retail investment intermediary and provider firms was provided to Deloitte by the FSA in January 2009. Deloitte has not verified the accuracy of this data in any way. • Deloitte has been provided with information from intermediary and provider firms completing an electronic questionnaire. Intermediaries and providers, as part of an e-survey conducted in February 2009, have been asked to estimate potential costs they may incur in the future to comply with the proposals within the Retail Distribution Review (FS08/6). As firms are being asked to anticipate costs in relation to an event some years in the future, and in relation to proposals where details of these requirements have yet to be confirmed in some areas, firms may have experienced difficulties providing accurate cost estimates. Deloitte has not verified the data provided, either by the FSA or by those firms participating in the e-survey, in any way. The analysis in this report is therefore subject to limitations in relation to the quality of information available, and is subject to limitations in relation to the quantity of information available, which is driven by the number of responses to the e-survey. • Certain assumptions and estimates have been made in arriving at the conclusions in this report. The assumptions are not definitive, so actual amounts may differ from the estimated values. Deloitte has discussed the assumptions and estimates with the FSA. The major assumptions are set out in the relevant sections of the report and the major assumptions used for modelling purposes are appended to this report. • The work undertaken is intended to provide conclusions at intermediary and provider firm level, and may only be used for drawing indicative conclusions at market level for either retail investment intermediaries or providers. • In some segments and cost categories, the sample size is small, meaning that the results can not be considered statistically significant. • The work has also been limited by the time frame made available to Deloitte to undertake this engagement. No follow-up or verification of cost estimates provided by respondents to the e-survey have been made. Due to these limitations and low response rates in certain categories the FSA will need to conduct more work to further explore the aggregate impact on the industry, including establishing costs for Appointed Representative intermediaries. • We have no responsibility to update our report for events occurring after the report date (14 May 2009) nor to monitor its continuing relevance or suitability for the FSA's purposes or otherwise. • The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information contained in our report or given to us by the FSA and respondents to the e-survey to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit.

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Definitions

• AC	Adviser Charging
• AR	Appointed Representative
• ABI	Association of British Insurers
• CPD	Continuing Professional Development
• Commission-based firms	Firms with less than 40% of their total revenue derived from fee-based arrangements
• DA	Directly Authorised
• DSF	Direct Sales Force
• ETF	Exchange Traded Fund
• Fee-based firms	Firms with at least 40% of their total revenues derived from fee-based arrangements
• Feedback Statement	FSA's Retail Distribution Review Feedback Statement, published in November 2008
• FGP	Factory Gate Pricing
• FSA	The Financial Services Authority
• IFA	Independent Financial Adviser
• IPSB	Independent Professional Standards Board
• IT	Information Technology
• IMA	Investment Management Association
• MiFID	Markets in Financial Instruments Directive
• QCA	Qualifications and Curriculum Authority
• RDR	The Retail Distribution Review
• RMAR	Retail Mediation Activities Return
• RI	Registered Individual (those who are permitted to undertake regulated activities in relation to giving financial advice; referred to as '*adviser*' in the text)
• WOM	Whole of Market

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1. Executive summary

Introduction

- The FSA's Retail Distribution Review was established in June 2006 to improve outcomes for consumers, intermediaries and product providers by conducting a comprehensive review of distribution within retail investment markets. The Feedback Statement (FS08/6), published in November 2008 (the Feedback Statement), proposes a range of market solutions in relation to the distribution of retail investment products.
- Following the Feedback Statement, the FSA wished to carry out research to analyse the expected impact of the proposed changes on the behaviour of both intermediary and provider firms participating in the retail investment market and to estimate the incremental compliance costs (defined as the additional cost that firms will incur as a result of complying with the regulations proposed in the Feedback Statement, if they retain their current business model) arising from the proposed changes.
- The objectives of the project were addressed through a programme of primary research, followed by modelling of data generated by the research. The primary research consisted of qualitative and quantitative research of retail investment intermediaries and providers. Thirteen in-depth interviews were carried out with intermediaries and providers as part of the qualitative research to support the development of an e-survey. The quantitative research was conducted online, as an e-survey. Responses were received from 620 intermediaries (600 Directly Authorised (DA) firms, 14 Appointed Representative (AR) firms and six which could not be identified) and 68 provider firms, 13 of whom indicated they have Direct Sales Forces (DSF). A programme of data analysis and modelling of the survey data has been carried out.

Limitations of work

- The data utilised in this report has been provided by the FSA and by respondents to the e-survey and has not been further validated or verified in any way. Detailed limitations in connection with the data are provided on page 2 of this report and within the Statement of Responsibility on page 71.

Retail investment providers

Provider response to the changes proposed by the RDR

- Retail investment providers have disparate expectations of the impact of the RDR on their firm, on a number of dimensions. Overall, over half of the providers who responded to the survey expect the RDR proposals to have more than a minimal impact on their distribution strategy.
- Some provider respondents to the survey expect the RDR to increase their share of retail investments distributed through non-independent channels and execution-only as a result of these proposals; the only channel identified by some providers to potentially receive a reduced share of their distribution was independent advice. A third of providers who responded to the survey expect the RDR to increase the share of their sales made through wraps and platforms as a result of the RDR – this is particularly the case among larger providers.
- The RDR has the potential to change how providers compete within the retail investment market and to change the nature of their propositions for intermediary firms and consumers. Adviser Charging requirements mean providers can offer services such as calculating and collecting adviser fees and factoring services. Only a minority of providers appear to have the appetite (or capability) to offer such services – and these firms are concentrated among the larger providers of retail investments. Providers are most likely to believe that the quality of their product propositions and features and the quality of their service and communications with intermediaries will give them a competitive advantage in a post-RDR world.

1. Executive summary

Retail investment providers (cont)

- Most provider firms expect the RDR proposals to have a neutral impact on their financial performance – or have not yet been able to formulate a view on its financial impact. Levels of profitability in relation to retail investments are expected to more likely decrease for the minority who expected a change in their financial performance. Levels of persistency, on the other hand, also among the minority of providers that expected change, are thought more likely to increase.
- The majority of providers surveyed do not expect the RDR proposals, when implemented, to change their firm's relative focus on retail investments. No providers expected this to decrease as a result of the proposals, and a small proportion, particularly firms with DSF capabilities, expected this focus to increase.

Provider views on incremental compliance costs

- Provider firms may need to re-price retail investment products as a result of the proposed requirement to price products excluding commission or the cost of advice. A quarter of the providers surveyed (in particular the larger providers) already offer Factory Gate Pricing (FGP), a pricing approach which prices the product without including any costs of commission or costs of advice provision.
- Many providers find it difficult to assess the technology and systems implications of this pricing requirement at this stage, and therefore feel unable to provide estimates of additional costs implied. Where cost estimates were provided for additional IT and systems costs, most of these estimated costs were under £0.5 million, although a small minority of providers estimated more significant costs over £5 million.

Direct Sales Forces – responses to the changes proposed by the RDR

- Thirteen of the providers surveyed indicated they had DSF (DSF is the label given to the sales forces of product manufacturers) capabilities within their organisations. Most of these providers indicated that the RDR proposals would not be likely to lead to a change in status for their DSF or a change in the way their DSF advisers are remunerated (although a minority expect to increase the share of total remuneration accounted for by fixed salary).
- Most providers with DSF advisory capabilities expect their focus on retail investments to either increase or remain the same as a result of the proposed changes. However, conversely, most expect profitability of advisory activities in relation to retail investments to fall.

Direct Sales Forces – views on incremental compliance costs

- Median costs per adviser are generally lower than for the DA firm community across cost categories. The major exceptions to this relate to systems costs, where both one-off and ongoing median costs per adviser are significantly higher than the comparable figures for DA firms. This may reflect some 'double counting' of these costs (i.e. across the provider and distribution parts of the business). Also, very few firms provided estimates for incremental DSF-related systems costs.

Retail investment intermediaries

DA response to the changes proposed by the RDR

- The majority of intermediary data and analysis in this report relates to DA firms, as there was a low response rate from AR firms. DA firms appear in general to be highly engaged with the RDR programme – a clear majority of firms feel they know the subject matter at least reasonably well. The low response rate from AR firms may reflect their lack of direct engagement with the FSA and a sense within these firms that their network provider deals with issues such as the RDR.

1. Executive summary

Retail investment intermediaries (cont)

- The majority – seven out of ten – DA firms say they do not think it is likely that the changes proposed by the FSA will lead to a change of status for their firm. 16% of DA firms feel it is too early to comment on this. 9% of firms say it is likely they will move to the non-independent sector, and 4% consider it is likely they will exit the market altogether. The majority of firms indicating they may move to non-independent advice say that this is because they believe their firm's profitability would decrease if their status remained unchanged.
- Around half of the DA community either already operate Adviser Charging, the approach proposed by the RDR, or feel their firm would find it easy to adopt this. Many others – around a third – have yet to form a view on their firm's capabilities to adopt the approach. One in five DA firms think this approach would be difficult for their firm to adopt – either because they believe their customers would not pay the charges or that customers would not be willing to pay a high enough level of charges. Most firms expect to use value-based up-front and ongoing charges in response to the RDR proposals.
- The majority of DA firms expect the RDR proposals to have a negative impact on the contribution retail investments make to their business – with around seven out of ten firms expecting the RDR proposed changes to lead to a reduction in turnover and profitability in relation to retail investments. Smaller commission-based DA firms are most likely to expect profits and turnover to decrease.
- However, despite the above views on the likely impact of the RDR on turnover and profitability, most DA firms (seven out of ten) do not plan to change their firm's level of focus on retail investments, although one in ten do say they plan to decrease their relative focus on this market.

DA views on incremental compliance costs

- Many DA firms surveyed provided estimates of incremental costs of compliance implied by the proposed changes within the RDR. One-off and ongoing costs have been presented within the main body of the report for all DA firms and six key DA segments (using a segmentation based on revenue approach and firm size) on a number of key dimensions:
  - Consolidated costs for firms providing estimates
  - Mean and median costs per firm
  - Mean and median costs per adviser.
- The summary table overleaf demonstrates the total median one-off and ongoing costs per adviser, and the distribution of these total costs per cost category.

1. Executive summary

Table 1.1 Summary of one-off incremental costs of compliance per adviser

Cost category	Median one-off costs per adviser*1 £	% of total costs*2
Professional qualifications – external costs	2,100	46%
Professional qualifications – paid leave	523	11%
IT/systems costs	667	15%
Clarity of services – internal time	168	4%
Clarity of services – external costs	1,000	22%
Remuneration – devise new tariff	66	1%
Remuneration – revise existing tariff	43	1%

Table 1.2 Summary of annual ongoing incremental costs of compliance per adviser

Cost category	Median ongoing costs per adviser*1 £	% of total costs*2
IT/systems costs	500	15%
Process and disclosure – explanation status	448	13%
Remuneration – ongoing revisions	35	1%
Remuneration – explaining charging basis	303	9%
Professional body costs	35	1%
Independence – additional search costs	2,000	60%

Retail investment intermediaries (cont)

- One-off incremental costs are dominated by costs associated with achieving the qualifications required in the post-RDR regime. As the e-survey shows, a significant portion of DA firms already have all or some of their advisers holding qualifications required by the new regime – therefore, actual costs per adviser are likely to vary considerably within DA firms, depending on their current approach and status with regard to adviser qualifications.
- DA firm estimates indicate they expect ongoing costs of complying with new requirements will be led by costs of additional time required to search the market to meet the new conditions for independence. Feedback from the qualitative interviews carried out as part of this project indicated that some intermediaries had not yet reached a clear view of what response might be required from their firm, and what specific activities might be implied, by the new independence requirements. There was a wide range of estimates in relation to potential incremental search costs. Data outliers in all cost categories have generally been included at the FSA's request, although a small number of estimates that were considered to be clearly erroneous were removed. Some unusually high estimates of cost and time are therefore included. This report focuses on medians rather than the means when looking at average responses.

*1 Estimated medians are only for the firms that would incur the incremental cost; the proportion of firms expected to incur each cost is presented on page 66.
*2 Percentages based on a firm that incurs all the costs shown; most costs are incurred only by a subsection of the population, as shown in the table on page 66.

Source: Deloitte survey of retail investment intermediaries (February 2009)

1. Executive summary

Retail investment intermediaries (cont)

- This shows that the key one-off cost category per adviser is the cost of obtaining the professional qualifications required and the highest ongoing costs are the estimated ongoing whole of market research costs.
- More detailed analysis of costs within the report show that in a number of the cost categories economies of scale are experienced – with the incremental costs per adviser falling as the size of the firm, and the number of advisers within the firm, increases. Economies of scale are particularly relevant to one-off costs (with the exception of the cost of obtaining the professional qualifications required).

Appointed Representatives

- Insufficient AR firms responded to the survey to allow conclusions to be drawn, although the report does provide sample outputs for AR firms (compared with outputs for DA firms).

Conclusions

- The views of the provider community give a mixed picture in terms of how they perceive the RDR impacting on the market and in terms of how their organisation might respond to these changes. A significant group of providers does not expect the RDR to lead to much change to the financial contribution retail investment business makes to their firm or to how their organisation distributes these products. Other providers, and in particular larger firms, do anticipate changes – including greater shares of their investment products to be distributed via non-independent and execution-only channels and through wraps and platforms.
- There is much uncertainty among the provider community in relation to any incremental costs they may incur through the need to reprice products. A small number of providers expect significant costs related to technology and systems requirements.
- The majority of DA retail investment intermediaries do not at this stage believe they will change the status of their business as a result of the changes proposed within the RDR, although a small minority expect to move from the independent to the non-independent sector as they believe that customers will not be prepared to pay for advice as required within the independent sector. There is no evidence that the RDR proposals will lead to significant portions of the DA community shifting their focus away from retail investments.
- Within the DA community, smaller, largely commission-based firms are the most likely to believe the RDR will impact their firm’s retail investment business – mostly negatively – and to believe that they will experience difficulties making the changes required by the RDR, such as adopting Adviser Charging.
- DA firms expect to experience economies of scale in relation to their estimates of many of the incremental costs of compliance implied by the RDR proposals – making the proposals most cost-efficient for firms with larger numbers of advisers. However, the most significant area of potential incremental costs, the costs of obtaining the qualifications required, is driven by adviser numbers, where economies of scale cannot be realised.

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2. Introduction

Background and objectives of the project

Background

- As part of pursuing its statutory objectives of increasing consumer confidence and promoting public understanding in the financial system, the FSA is examining ways in which outcomes for consumers, providers and intermediaries can be improved by increasing the efficiency of the market. This led to Discussion Paper 07/01, ‘A Review of Retail Distribution’, in June 2007 and ‘Retail Distribution Review – Interim Report’, in April 2008. The FSA then published its ‘Retail Distribution Review Feedback Statement’ in November 2008 and it proposed a range of market solutions in relation to the distribution of retail investment products.

- The RDR has the specific aim of identifying and addressing the root causes of problems that continue to emerge in the retail investment market.

- Following the Feedback Statement, the FSA wished to carry out research to explore and analyse the expected impact of the changes proposed in the RDR on the behaviour of both intermediary and provider firms participating in the retail investment market and to estimate the incremental compliance costs arising from those changes.

Project objectives

- The objective of this project is to help the FSA to understand the potential impact of its proposed changes on the behaviour of intermediaries and providers, and to improve its understanding of the potential incremental cost of compliance that the proposals could impose on the industry.

- The FSA specifically wished to assess:
  - The potential for intermediary firms to move from their current segment – independent advice or non-independent advice – as a result of the RDR proposals.
  - The drivers that may encourage intermediary firms to move between the different segments.
  - The extent to which the RDR proposals may lead to provider and intermediary firms varying their current focus on markets outside of retail investment.

- The incremental cost of compliance is defined as the additional cost that firms will incur as a result of complying with the regulations proposed in the Feedback Statement, if they retain their current business model in all other aspects. The FSA wished to distinguish between one-off and ongoing incremental costs.

- Incremental costs were assessed in the following areas as part of this project (not all cost categories are applicable for all types of survey respondents):
  - clarity of services;
  - remuneration;
  - information technology/systems costs;
  - professionalism; and
  - independence.

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2. Introduction
Project approach

Project approach

- The project consisted of two key activities: primary market research and modelling and analysis.

Primary market research

Qualitative research

- A preliminary programme of qualitative interviews was carried out, primarily to facilitate the design of the subsequent quantitative questionnaire. Thirteen interviews were carried out in total; seven with providers of retail investment (including a mix in terms of providers of MiFID and non-MiFID products) and six with retail investment intermediaries (including a mix in terms of intermediary size and revenue model). Interviews were either carried out face-to-face or by telephone.

Quantitative research

- A programme of quantitative research followed the qualitative research. Questionnaires were designed by Deloitte and agreed with the FSA. The questionnaire included an introduction covering some of the key proposals within the RDR Feedback Statement. Questionnaires (one each for both retail investment intermediaries and providers) are shown in Appendices 1 and 2.

- The questionnaire was sent to all retail investment intermediaries directly authorised by the FSA and to over 400 AR intermediary firms for whom the FSA provided contact details. A separate questionnaire was also sent to all providers of retail investment products in the UK for whom the FSA provided contact details. Data was collected through an e-survey, i.e. with online completion of questionnaires, using Deloitte's DEX survey software. Questionnaires were issued electronically by Deloitte, with firms being invited to contact Deloitte for clarification if necessary.

Modelling and analysis

- Responses were received from:
  - 600 Directly Authorised intermediary firms, including wealth managers;
  - 14 Appointed Representative intermediary firms; and
  - 68 firms providing retail investment products, including insurers and fund managers, of whom 13 indicated they had DSFs.

- *Weighting* – responses received for DA firms were weighted in relation to the profile of the total population of DA firms as provided by the FSA, using two criteria:
  - Revenue basis of firm (fees or commission):
    - 'Fee' = At least 40% of total revenues of the firm are derived from fee-based arrangements
    - 'Commission' = Under 40% of total revenues of the firm are derived from fee-based arrangements.
  - Number of advisers:
    - 'Small' = 1-3 advisers within the firm
    - 'Medium' = 4-9 advisers within the firm
    - 'Large' = 10 or more advisers within the firm.

- Further detail on the method used for weighting is given in Appendix 3. Responses for AR intermediary firms and for provider firms are un-weighted.

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2. Introduction
Project approach

Modelling and analysis (cont)

- *Analysis* – survey generated data was analysed by a number of variables to identify trends among varying segments of providers and intermediaries.

- *Modelling* – respondent firms' views on the incremental costs of compliance have been calculated using a model. The principal inputs to the model have been provided by data from the e-surveys. Data outliers in all cost categories have generally been included at the FSA's request, although a small number of estimates that were considered to be clearly erroneous were removed. Some unusually high estimates of cost and time are therefore included. There are a number of other key input assumptions to the model – these are stated at Appendix 3.

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3. Retail investment providers
Section summary

- This section assesses providers of retail investments, covering their views on how their firm might respond to the changes proposed in the RDR, together with their estimates of incremental compliance costs implied by the proposals. A wide range of providers' views are represented in this section. Respondents included seven firms in the ABI's top ten providers. These firms accounted for over 60% of the life and pensions market in terms of new business. Respondents also accounted for 15% of total UK retail funds under management.
- Retail investment providers view the RDR from a range of perspectives, but a significant portion of providers – over half – expect the RDR's impact on their distribution strategy to be more than minimal. Overall, increased focus is expected on non-independent advice and in some cases on the execution-only channel. Balancing this expectation of increased focus, some firms expect distribution of their products through independent channels to decrease in focus. Many firms, particularly those distributing larger volumes of investments, see wraps and platforms playing an increasing role as a result of the changes proposed by the RDR.
- Industry commentators have suggested that providers have used levels of commissions to create competitive advantage in the past. The RDR, with the introduction of Adviser Charging, will potentially change competitive dynamics within the investment market. Firms see their products and the quality of their service to intermediaries as being the most important parts of their overall proposition in a post-RDR world. Pricing was seen as the fourth most important proposition element of the ten suggested in the survey. Responses from larger firms indicates they may consider offering services to adviser firms such as collecting charges and factoring in the future.
- Whilst many investment providers anticipate the RDR may lead them to make strategic changes in relation to their distribution choices, they do not anticipate these proposals will lead to any significant impact on their firm in financial terms. Most firms intend to retain the same level of commitment to the investment market, and a few (especially firms with DSF capabilities) see the RDR as bringing additional opportunities, and therefore expect to increase their organisation's focus on investment products.
- Although some – mostly larger – investment providers already offer Factory Gate Pricing in some areas, others do not, and may need to reprice retail investment products as a result of the proposed requirement to price products excluding commission or the cost of advice. Many providers find it difficult to assess the technology and systems implications of this repricing requirement at this stage, and therefore were unable to provide estimates of additional costs implied. Where cost estimates were provided, these covered a very wide range and include some significant costs estimates of over £5 million. Providers with DSFs also tended to anticipate relatively high systems costs.
- Overall, the majority of providers think persistency will be unaffected by the RDR; of those who expect persistency to be affected, most see the RDR having a positive impact. Nearly half think the RDR will have no impact on their profitability; of those that expect the RDR to affect their profitability, most expect it to have a negative impact.

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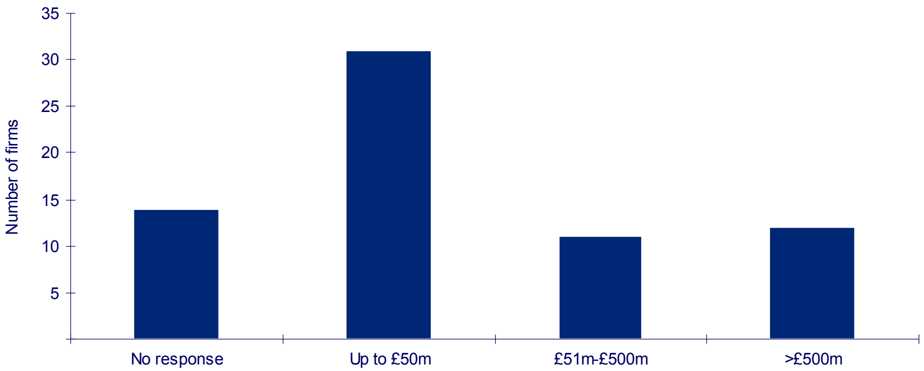
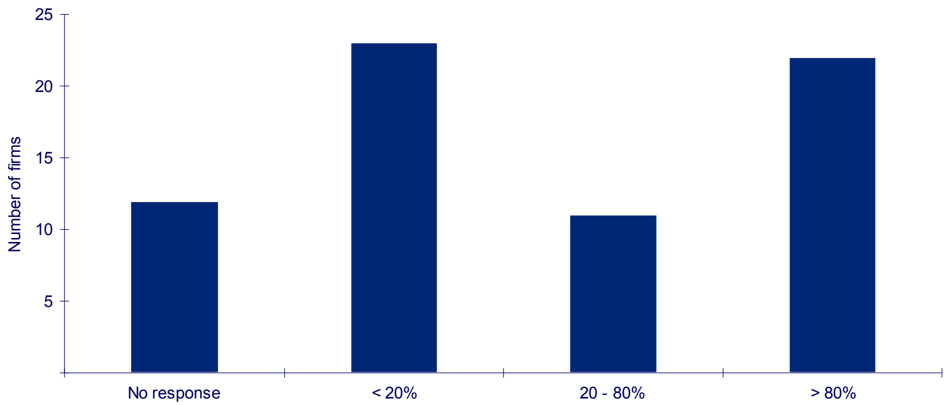
3. Retail investment providers
Profile of respondents

This section focuses on providers of retail investments, covering their views on how their firm might respond to the changes proposed in the RDR, together with their estimates of incremental compliance costs implied by these proposals. The section begins with a profile of the providers responding to the e-survey.

3.1 Levels of retail investment sales in the last financial year, £m



3.2 Percentage of profits from retail investment sales



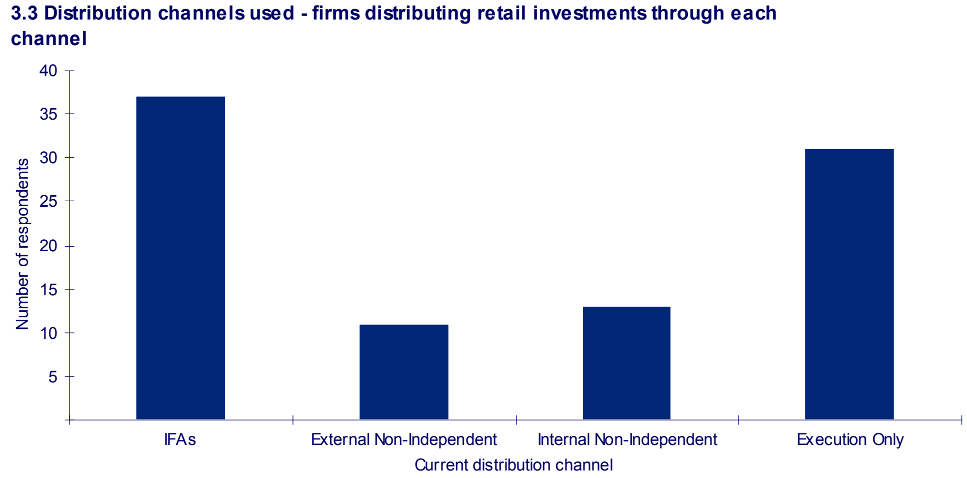
Source: Deloitte survey of retail investment providers (February 2009)

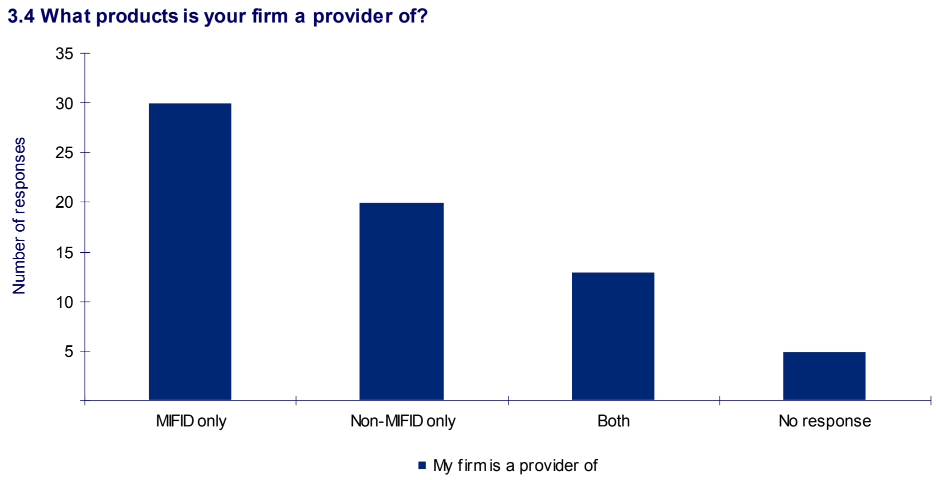
Key observations

- There were 68 providers of retail investment products who responded to the e-survey *(please note the provider data is unweighted and therefore may not be representative of the whole market).*
- Data on the characteristics of providers' in the retail investment market was collected to allow analysis across survey responses by these characteristics. For example, the profile of provider firms who responded to the survey according to the value of last year's sales of MiFID and non-MiFID products is shown opposite. For 12 providers this was over £500m, for 11 between £50-500m, for 31 under £50m and 14 did not provide these sales figures.

- Retail investment business is of varying degrees of importance to the provider respondent firms – the 68 providers reported a range in terms of the relative contribution of retail investment business to the overall profits of their firms.
- Twenty two providers' businesses were heavily focused on retail investments (with retail investments contributing over 80% of profits).
- Eleven providers said the comparable figure was between 20-80%, with 23 providers saying retail investments contributed less than 20% of profits (the remaining 12 providers did not estimate the profit contribution of retail investments).

3. Retail investment providers
Profile of respondents





Source: Deloitte survey of retail investment providers (February 2009)

Key observations

- Respondents included seven firms in the ABI's top ten providers, accounting for over 60% of the life and pensions market in terms of new business. Respondents also accounted for 15% of total UK retail funds under management as per the IMA's company ranking.

- Providers responding to the questionnaire distribute their retail investment products through a range of distribution channels *(note: some firms are multi-channel, therefore may be represented in more than one bar in 3.3 opposite)*:
  – 37 providers distribute through independent advisers (IFAs);
  – 31 providers distribute using the execution-only channel;
  – 13 providers distribute through non-independent advisers within their firm (DSF distribution – (Internal non-independent)); and
  – 11 providers distribute through non-independent advisers who are outside of their firm (External non-independent).

- Providers also represent a spread in terms of whether or not the retail investment products they provide are MiFID:
  – 30 firms provide MiFID retail investment products only;
  – 20 firms provide non-MiFID investment products only;
  – 13 firms provide a mix of MiFID and non-MiFID products; and
  – 5 firms did not respond to the questions on new business and therefore could not be categorised.

3. Retail investment providers
Information on RDR proposals given to provider survey respondents

The information set out below and on the following page was provided at the beginning of the e-survey for investment providers. It was considered important to give providers relevant information on some of the changes proposed within the RDR prior to their responding to the survey questions.

Professional standards

The FSA wants to achieve consistent and higher standards of professionalism among advisers, to inspire consumer confidence and build trust. The FSA proposes to consult on the creation of an overarching Independent Professional Standards Board (IPSB) to function initially as a sub-committee of the FSA Board. In time, it may be launched as a separate body with statutory footing. The IPSB would provide a common framework for professional standards across all advice channels, and work with the Financial Services Skills Council to raise the benchmark qualification for advisers in the independent and non-independent advice sectors to QCA Level 4 (Scottish equivalent SCQF level 8). The IPSB would also be responsible for setting, reviewing and dealing with breaches to codes of ethics for advisers, and would set consistent minimum standards for Continuing Professional Development (CPD).

Remuneration

The FSA aims to reduce the potential for commission bias by removing product provider influence over adviser remuneration. The FSA will establish the standards that it expects of adviser firms in setting their own charges, and in disclosing these to consumers. For example, there is an expectation that adviser charges should not vary by product provider (and to some extent by product type).

Conditions for Independence

The FSA wants to change the criteria that adviser firms must meet to describe their services as ‘independent’, to make sure their services are truly independent. This would involve demonstrating that the ‘independent’ firm provided unbiased, unrestricted advice based on a comprehensive and fair analysis of their relevant market. The FSA no longer intends to restrict its independence standards to firms advising on packaged products but applying the standards across all forms of investment products. Further consideration needs to be given to the finer detail but the FSA would expect some firms to conduct a more thorough review of the market and be able to demonstrate why a product was chosen over others. The FSA would expect to see firms increase their product knowledge in areas where they may not have recommended before e.g. tracker funds/Exchange Traded Funds (ETF).

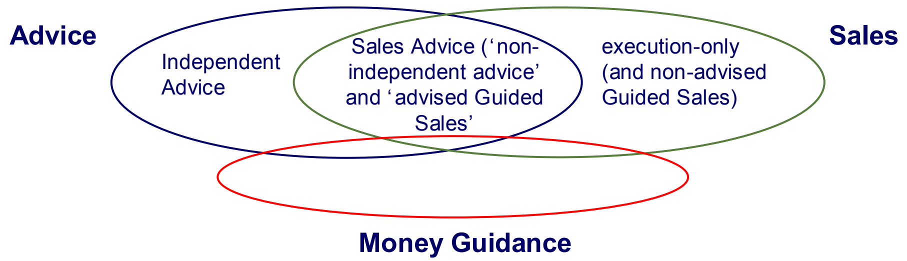
Source: Deloitte survey of retail investment providers (February 2009)

3. Retail investment providers
Information on RDR proposals given to provider survey respondents

Information provided to provider respondents (cont)

Landscape (Labels)

The FSA wants to improve clarity for consumers about the services on offer, including making it clearer for consumers whether or not investment advice they receive will be independent. Consequently whichever part of the advice landscape the firm is operating under (independent advice vs. non-independent (or sales) advice), the firm will have to make clear to clients whether it is providing independent or non-independent advice, for example through some form of 'labelling', before providing the service. The proposed landscape is shown below.



Prudential requirements

The FSA wants to improve the capital holding of personal investment firms by making requirements consistent for all these types of firms. This would involve mandating a sliding scale of additional capital firms should hold as provision against potential liability for any activities excluded by their professional indemnity insurance policies, with a minimum of £5,000. It would also look to raise the overall minimum capital requirement to £20,000 for these firms.

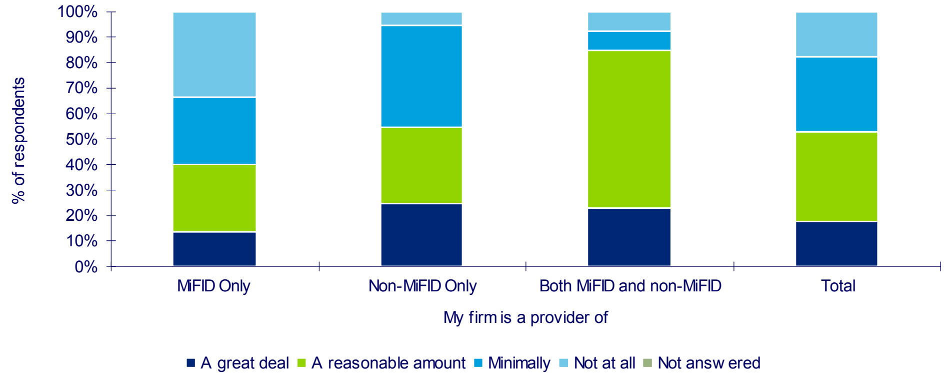
Source: Deloitte survey of retail investment providers (February 2009)

3. Retail investment providers
Response to the RDR proposals: engagement with the RDR

The following slides present an analysis of the provider responses as to how the respondents believe their business may be impacted by the changes proposed in the RDR

3.5 Extent to which RDR has been discussed within the organisation: firm size

3.6 Extent to which RDR has been discussed within the organisation: MiFID / Non-MiFID



Source: Deloitte survey of retail investment providers (February 2009)

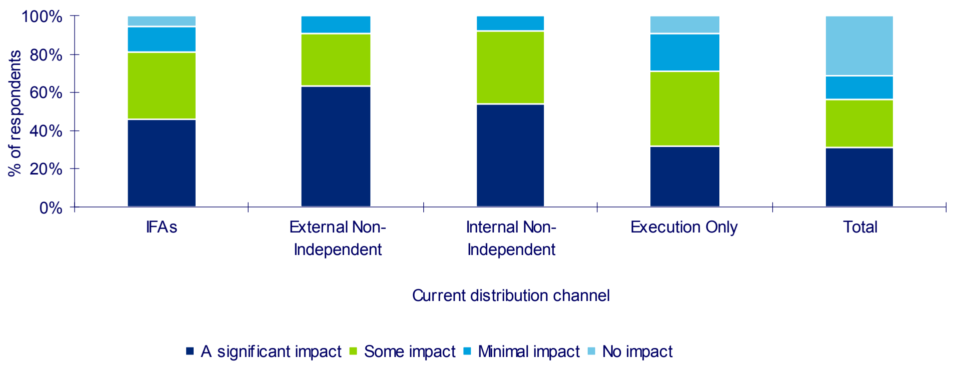
Key observations

- More than half (53%) of all providers responding to the e-survey said that the RDR had been discussed 'a great deal or a reasonable amount within their organisation'.
- The RDR proposals relate to the retail investment markets only. It is therefore not surprising that the extent to which a firm may have discussed the RDR proposals is correlated to the level of total retail investment revenues the firm receives in the market, as shown in Chart 3.5:
  - where these revenues were over £500m, all firms had discussed the proposals at least 'a reasonable amount'; and
  - only around one-quarter of firms with retail investment revenues under £50m had discussed these proposals at least 'a reasonable amount'.
- Firms providing MiFID products only (many investment managers fall in this category) are least likely to have engaged in at least 'a reasonable amount' of internal discussions on the RDR proposals.

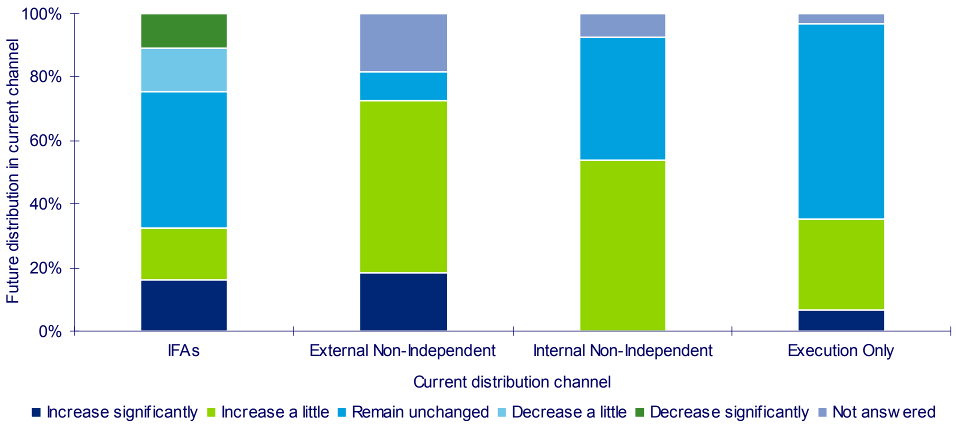
3. Retail investment providers

Response to the RDR proposals: expected impact of the RDR

3.7 Expected level of impact of RDR proposals on firms' distribution strategy for retail investments



3.8 How RDR proposals are likely to impact the share of firms' retail investments distributed through specific channels



Source: Deloitte survey of retail investment providers (February 2009)

Key observations

Distribution

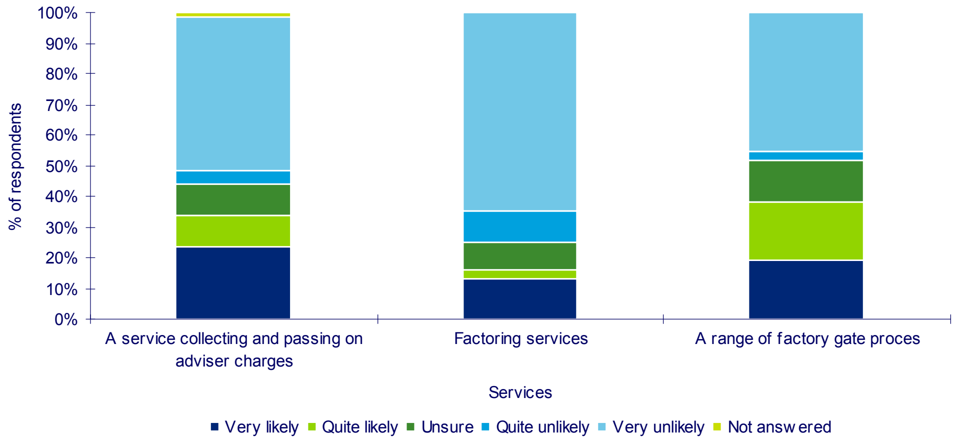
- Over half of all providers surveyed expect the RDR proposals to have at least 'some impact' on their firm's distribution strategy – with around 30% expecting this impact to be 'significant'.
- Firms distributing through non-independent channels were most likely to think the impact would be 'significant'. Over 60% of firms distributing through non-independent channels external to their firm considered the impact would be 'significant'. (Note: providers who did not say which channels they distribute through - and are therefore not captured in the four 'channel' bars on the left of Chart 3.7 - are still included in the total bar on the right).

Channel choice

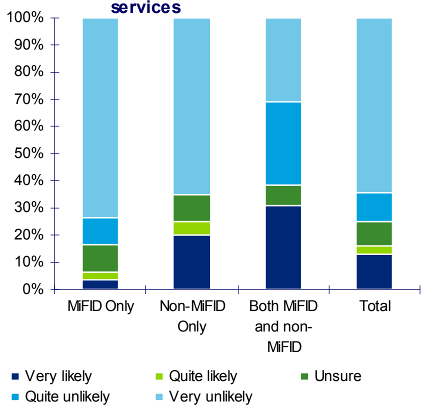
- Providers were asked whether the proposals within the RDR would impact the choice of channels they sought to distribute retail investments through.
- The channels providers most commonly (around 20% of providers) say they expect to distribute a greater share of investments through are execution-only and 'external' non-independent advice.
- Although 16% said the share going through independent advice would decrease, more providers (18%) expect the share will increase through this channel.

3. Retail investment providers
Response to the RDR proposals: expected impact of the RDR

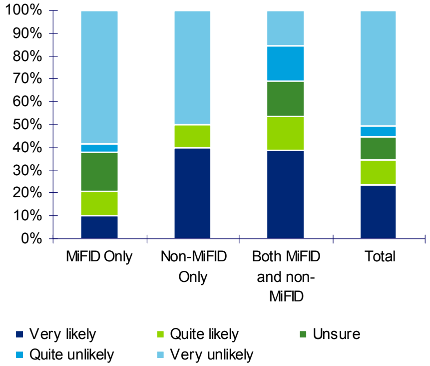
3.9 Likelihood of offering the following to advisers



3.10 Likelihood of offering factoring services



3.11 Likelihood of offering a service collecting and passing on charges



Source: Deloitte survey of retail investment providers (February 2009)

Key observations

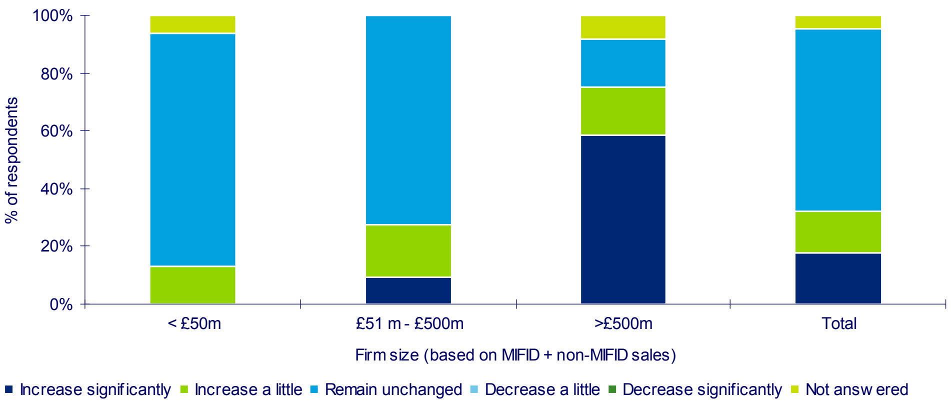
Provision of propositions / services to adviser firms

- Provider firms were asked how likely they would be to offer a range of propositions or services – namely, facilitation of Adviser Charging, factoring services and factory gate pricing – to retail investment intermediaries. Most providers said they did not think it likely that their firm would offer the specific propositions or services to advisers.
- Around a third of providers expect to offer either '*a range of factory gate prices, rather than a single price'* (26 firms) or '*a service passing on and collecting adviser charges'* (23 firms).
- Eleven providers thought it likely that they would offer '*factoring services'* (advancing the fees that advisers charge customers to the advisers, in advance of the customer paying these charges) '*while these were permitted*'.
- For all three services, firms distributing through non-independent channels external to their organisation said they were more likely to offer these propositions or services, compared to providers distributing through other services. Providers with higher levels of retail investment revenues were also more likely to say they would offer these services.
- Providers of non-MiFID products (including those offering both MiFID and non-MiFID) were more likely to say they would offer services to advisers in relation to processing charges and factoring.

3. Retail investment providers

Response to the RDR proposals: expected impact of the RDR

3.12 How RDR proposals are likely to impact firms' retail investments distributed through wraps and platforms



Key observations

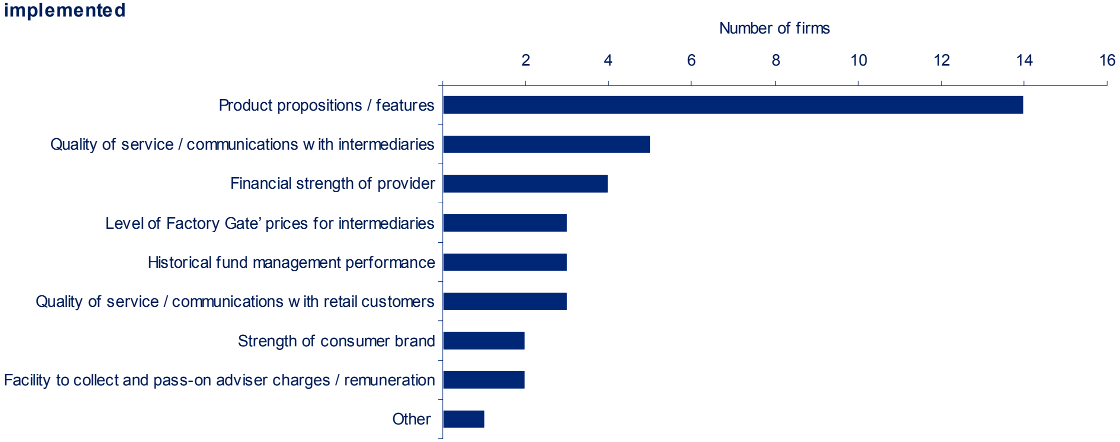
Use of wraps and platforms

- Wraps and platforms may have a role, when the RDR proposals are implemented, of collecting charges for advisers. Thirty-two percent of provider respondents said they expected the share of their firm's new investment business distributed through wraps and platforms to increase as a result of the changes proposed by the RDR. The proportion of firms expecting this share to increase varied by levels of retail investment sales:
  - 75% of providers with retail investment sales over £500m expected the share to increase.
  - 13% of providers with retail investment sales under £50m, expected the share going through wraps to increase a little.

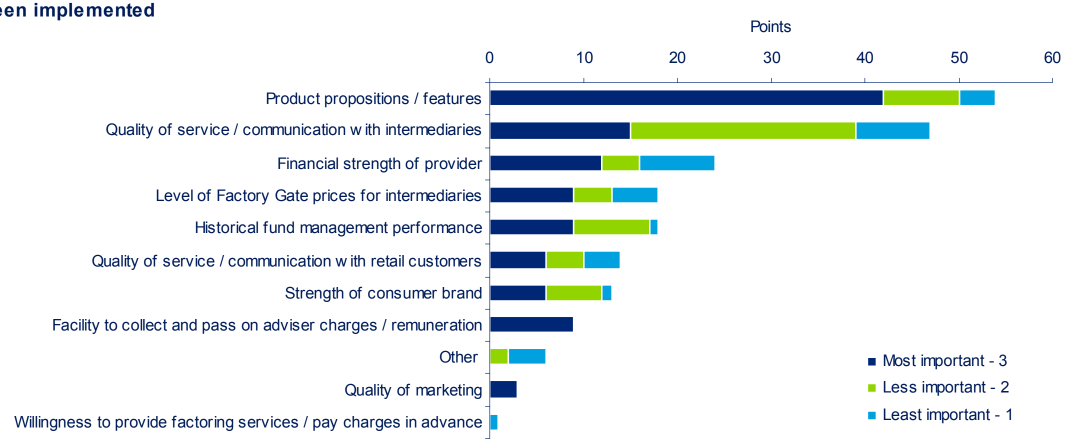
Source: Deloitte survey of retail investment providers (February 2009)

3. Retail investment providers
Response to the RDR proposals: expected impact of the RDR

3.13 The most important element of our firm's proposition once the RDR proposals have been implemented



3.14 The three most important elements of our firm's proposition once the RDR proposals have been implemented



Where most important = 3 points, second most important =2 points and third most importance = 1 point

Source: Deloitte survey of retail investment providers (February 2009)

Key observations

Basis for competition

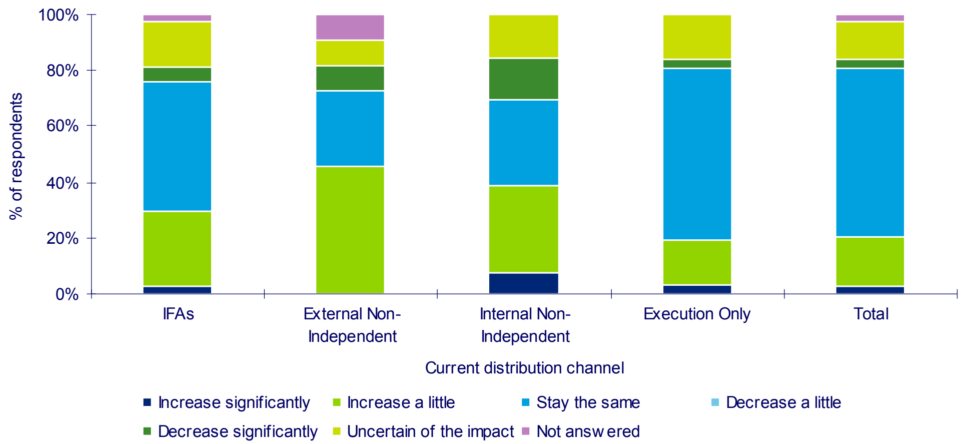
- Providers were asked to consider what the three most important elements of their firm's proposition in the independent advice sector would be once the RDR proposals were implemented.
- A clear, consensus did not emerge on what the single most important answer would be. Providers gave a range of answers, with the most popular being 'product propositions and features' which was chosen by around 20% (14 firms).

- When all of the three most important elements chosen by providers were analysed, views on which elements of the 'competitive proposition' are important are still disparate across the provider firm respondents.
- 'Product proposition and features' achieves the highest score, whilst 'quality service and communications to intermediaries' achieves a clear second, and is the element most likely to be ranked 'second' by providers.
- The 'financial strength of the provider' and 'level of FGPs' are also seen to be important, and come third and fourth respectively.

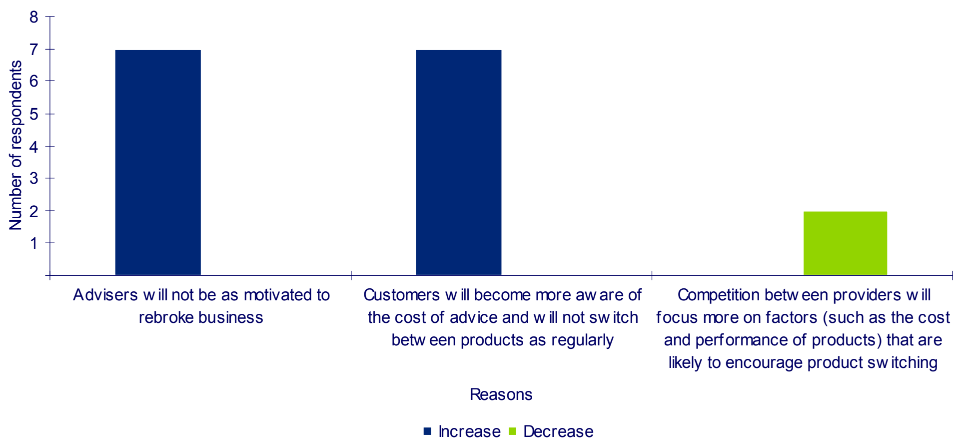
3. Retail investment providers

Response to the RDR proposals: expected impact of the RDR

3.15 Impact of proposals on the persistency of retail investments



3.16 Reasons for increase / decrease in persistency



Base: all providers saying increase/decrease in persistency at figure 3.13

Source: Deloitte survey of retail investment providers (February 2009)

Key observations

Financial impact – persistency

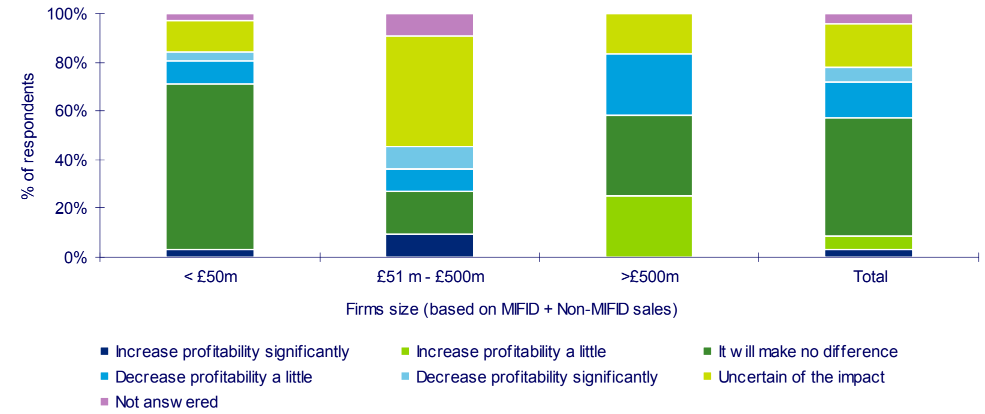
- Overall, most provider respondents (60%) believe that levels of persistency will remain unchanged as a result of the proposed changes. 21% of providers expect persistency to increase, and 3% to decrease.
- Firms distributing through the execution-only channel (where there is no intermediation) were least likely to expect any changes in levels of persistency; excluding execution-only, 39% of firms expected no change in persistency, with 34% expecting an increase and 23% a decrease. Firms distributing through non-independent channels, particularly where these are external to their firm, were most likely to believe levels of persistency would increase.

- Provider firms believing that persistency levels would change as a result of the changes proposed by the RDR were asked to give the single most important reason why they believed this would happen.
- Firms believing persistency would increase were evenly divided between those believing the primary reason would be adviser-led (‘advisers would not be as motivated to re-broke business’) and those believing the primary reason would be customer-led, with customer awareness of the cost of advice deterring customers from switching products as regularly.

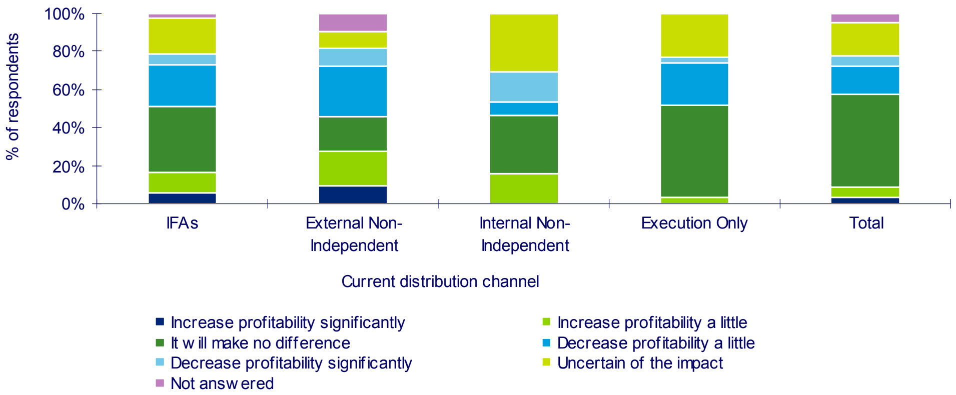
3. Retail investment providers

Response to the RDR proposals: expected impact

3.17 Extent to which RDR proposals may impact on profitability of current business model as a provider of retail investments, by size



3.18 Extent to which RDR proposals may impact on profitability of current business model as a provider of retail investments, by current distribution channel



Source: Deloitte survey of retail investment providers (February 2009)

Key observations

Profitability

- Around half (49%) of firms believe the changes proposed by the RDR will not impact on the profitability of their retail investment business. A further 18% of firms are uncertain of the impact the proposals may have on profitability.
- 21% of providers thought the proposals may reduce the profitability of retail investment business and a further 9% expected the changes to lead to an increase in profitability (with firms with higher levels of retail investment sales being more likely to expect increases in profitability).
- Expectations of impact of the RDR proposals on profitability varied depending on the distribution channels being used for retail investment business:
  - Providers using execution-only channels were least likely to anticipate increases in profitability.
  - The views of providers distributing through non-independent, external, channels were polarised. These firms were both most likely to anticipate an increase in profitability and a decrease in profitability.

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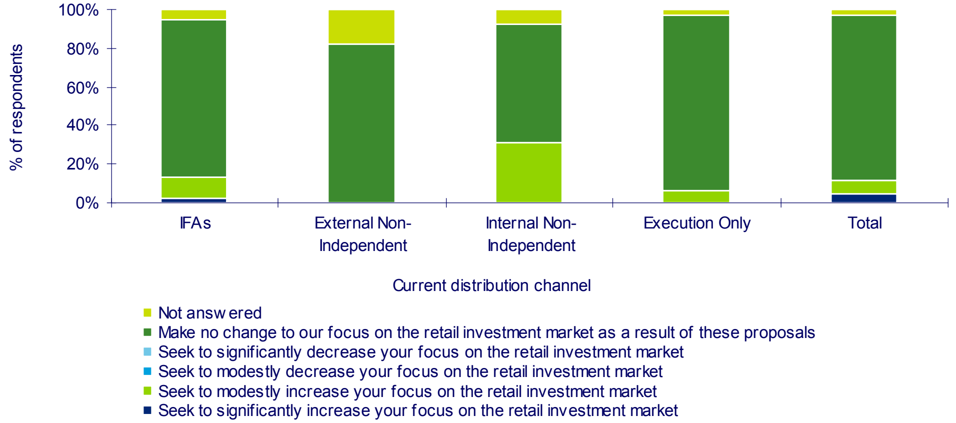
3. Retail investment providers
Response to the RDR proposals: expected impact

3.19 Extent to which RDR proposals may increase / decrease focus on the retail investment market



3.20 Strategic changes firms might consider if RDR proposals are implemented

Source: Deloitte survey of retail investment providers (February 2009)

Key observations

Product and market focus

- Most provider firms (85%) do not expect the RDR proposals to change their firm's level of focus on retail investments.
- Where change is anticipated – 12% expect their firm's focus on retail investments to increase – with firms with DSF capabilities being most likely to say this. No firms said they expected to reduce their focus on this market as a result of the proposals.

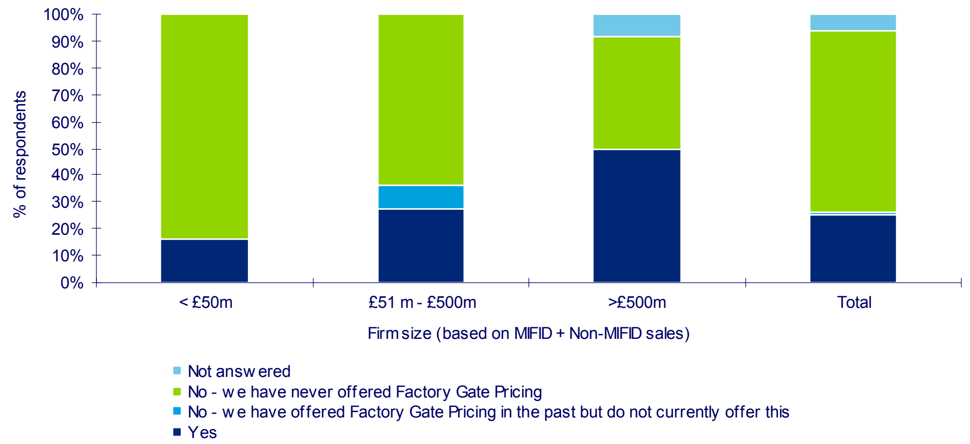
Strategic changes

- Providers were asked to consider a range of strategic changes they could make to their firm's distribution post RDR implementation.
- Of the potential strategic responses, the one most of the providers say they would consider is establishing further distribution partnerships with financial institutions.
- Eight providers indicated they would consider increasing their focus on investment markets outside of the UK as a result of these proposals.

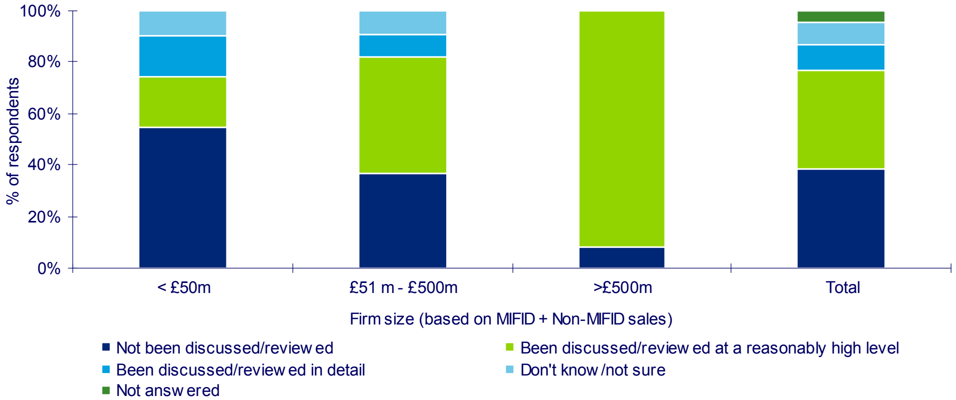
3. Retail investment providers
Perceived incremental costs

The following slides present an analysis of provider estimates of incremental costs relating to pricing of products and systems and technology.

3.21 Does firm offer 'Factory Gate Pricing' to adviser firms?



3.22 Extent to which implications of proposals for systems and technology have been discussed



Source: Deloitte survey of retail investment providers (February 2009)

Key observations

- The proposed changes in the RDR in relation to how advisers earn their revenue have potential implications for how some product providers will need to price their products (as they will be required to remove commission from the price).
- 'Factory Gate Pricing' (FGP) is a label given to the practice of pricing products without any such payment for advisers. Twenty-five percent of providers say they currently offer FGP to adviser firms (and one further firm has offered FGP previously, but does not currently). The likelihood of offering FGP appears to be correlated to size – with providers with higher levels of retail investment sales being more likely to offer FGP.
- The potential impact on a firm's IT/systems with regards to potential need to price products to not include the cost of advice/commission has been discussed, at a high level at least, by just under half of the providers surveyed. Firms with lower revenues in retail investments were less likely to have discussed the implications of providing FGP.
- Interviews in the qualitative stage indicated that most major providers expect the costs related to installing and modifying IT systems to be one of the highest costs for themselves arising from the RDR, particularly if the changes result in them having to re-price legacy business and offer multiple new share classes to satisfy varying price tariffs agreed between consumers and intermediaries

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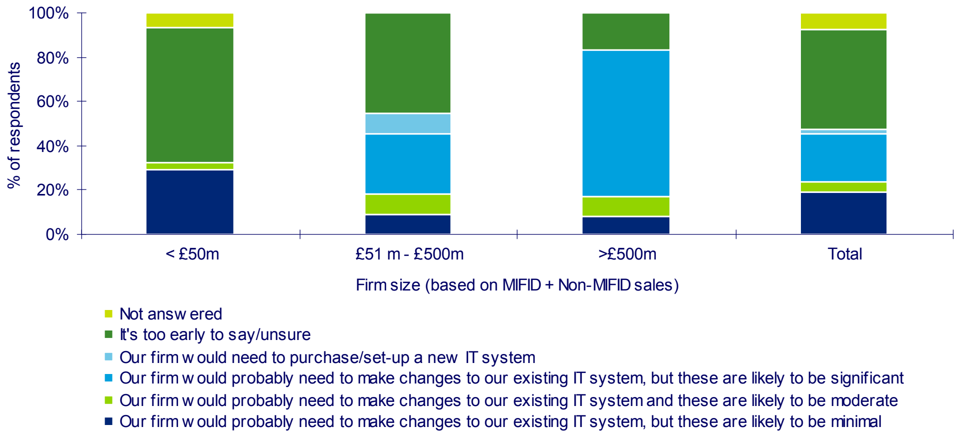
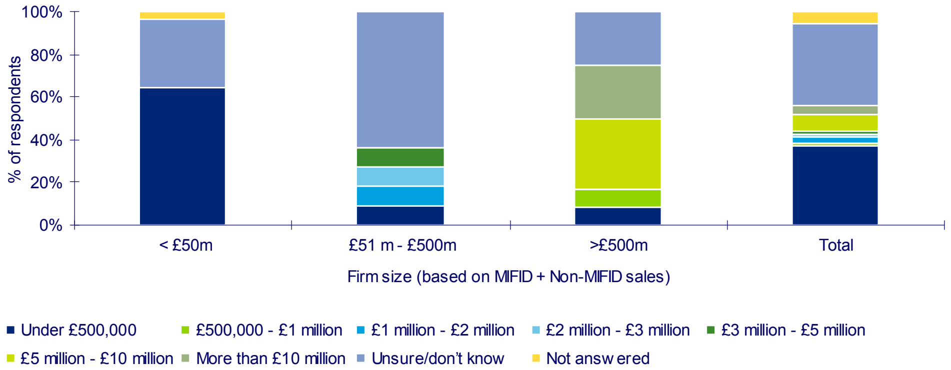
3. Retail investment providers
Perceived incremental costs

3.23 Changes that might be required in your firm in relation to systems and IT



3.24 Estimated costs for your firms as a result of the need to reprice products



Source: Deloitte survey of retail investment providers (February 2009)

Key observations

- Providers were asked what types of changes to their firm's IT/systems might be needed as a result of the proposed changes. Many providers (almost half) felt that it was 'too early to say'. Around the same proportion felt that changes to existing systems would be required (ranging from minimal to moderate changes).
- Larger firms, in terms of levels of retail investment sales, are more likely to believe the changes required to their existing systems will need to be significant.
- A significant portion of providers (44%) feel unable to estimate the total IT/systems costs that their firm may need to bear in order to reprice products.
- Where providers did give an estimate of these costs, the majority of these estimates (from 37%) were for costs of less than £500,000. A smaller proportion of providers (12%) estimated signification costs of over £5 million.
- Providers who gave an estimate of the IT/systems cost implications accounted for over one third of the market in terms of ABI new business and approximately 13% of UK retail funds under management as per the IMA's company ranking. An analysis of cost estimates by firm size is set out below.

Average estimated IT/systems costs by firm size category

MiFID and non-MiFID sales	No. of respondents	Mean	Median
<£50m	20	£250,000	£250,000
£50m-£500m	4	£2,062,500	£2,000,000
>£500m	8	£12,312,500	£7,500,000

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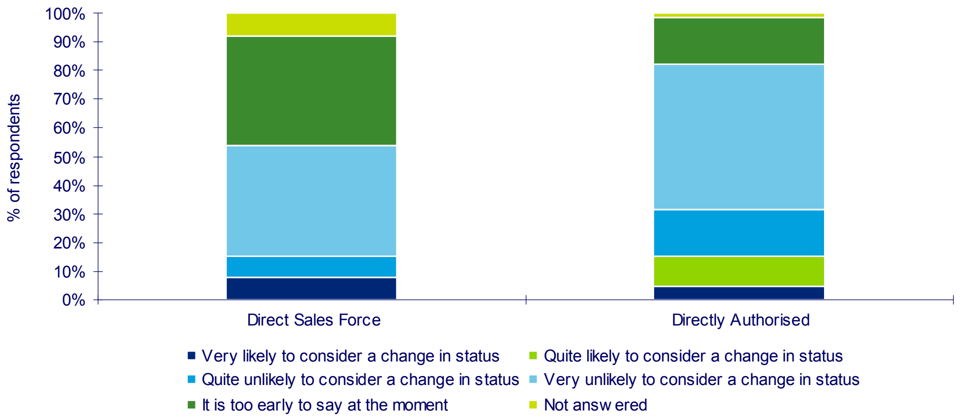
3. Retail investment providers – Direct Sales Forces

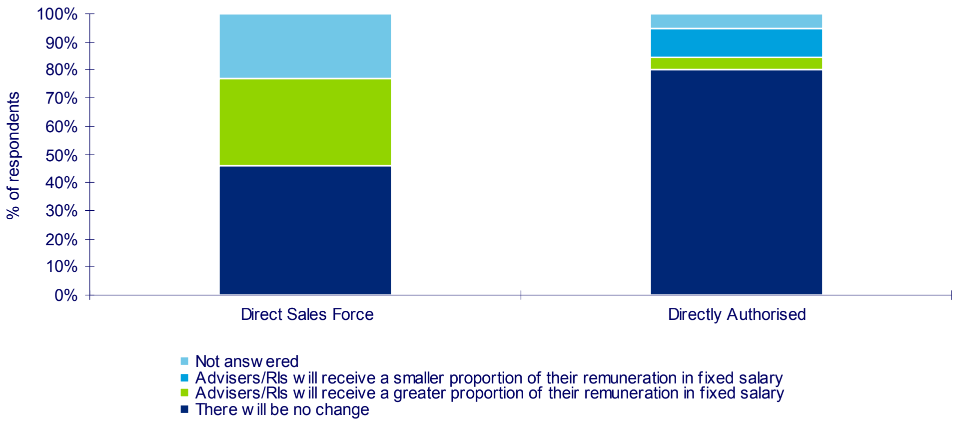
Response to the RDR proposals: comparison with Directly Authorised Firms

The following slides present an analysis of questions in relation to the 13 providers who indicated they had DSFs. For comparative purposes the responses for DSFs are presented against all responses for DA firms.

3.25 How likely are the RDR proposals to make firm seriously consider changing status?



3.26 What impact, if any, will the proposals have on firm's approach to remunerating your advisers?



Source: Deloitte survey of retail investment providers and intermediaries (February 2009)

Key observations

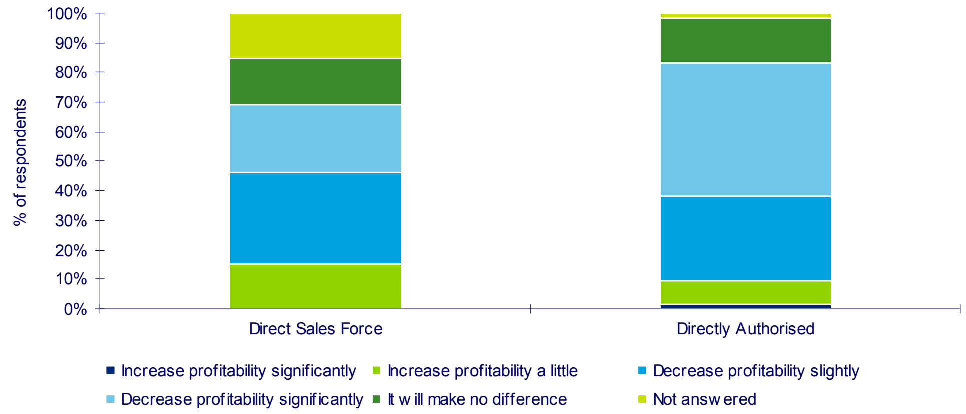
- Provider firms who also have DSFs were asked to indicate how likely the RDR proposals would be to make the firm 'seriously consider' changing the existing status of its DSF.
- The majority of providers either say they are unlikely to change the status of the their DSF or that it was too early to say.
- One provider said that they would be 'very likely' to move to an execution-only status.

- Four providers indicated that the proposals would have the effect of changing their firm's approach to remunerating advisers – with advisers receiving a greater proportion of their remuneration in fixed salary compared to the firm's current approach.

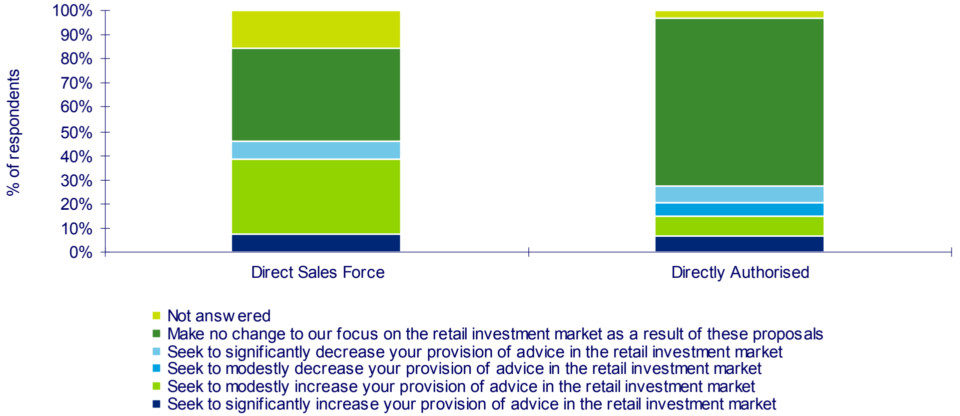
3. Retail investment providers – Direct Sales Forces

Response to the RDR proposals: comparison with Directly Authorised Firms

3.27 What impact are RDR proposals in isolation likely to have on the profitability of firm's advisory activities?



3.28 Considering the RDR proposals, will the firm change the extent to which its advisory capabilities focus on the retail investment market?



Source: Deloitte survey of retail investment providers and intermediaries (February 2009)

Key observations

- Providers with DSFs were more likely to believe that the firm's proposals would impact the profitability of their firm's advisory activities negatively than positively.
- The distribution of perceptions across provider firms with DSFs and across the DA community is reasonably similiar; on balance both are more likely to anticipate a decrease in profitability.

- Most providers with DSFs think that the RDR proposals will either increase their firm's focus on retail investments or make no difference in this respect (this is perhaps surprising, given their views on its potential impact on profitability, as referred to above).
- DSFs referred to in this survey appear to be more likely to increase their focus on retail investments than DA firms.

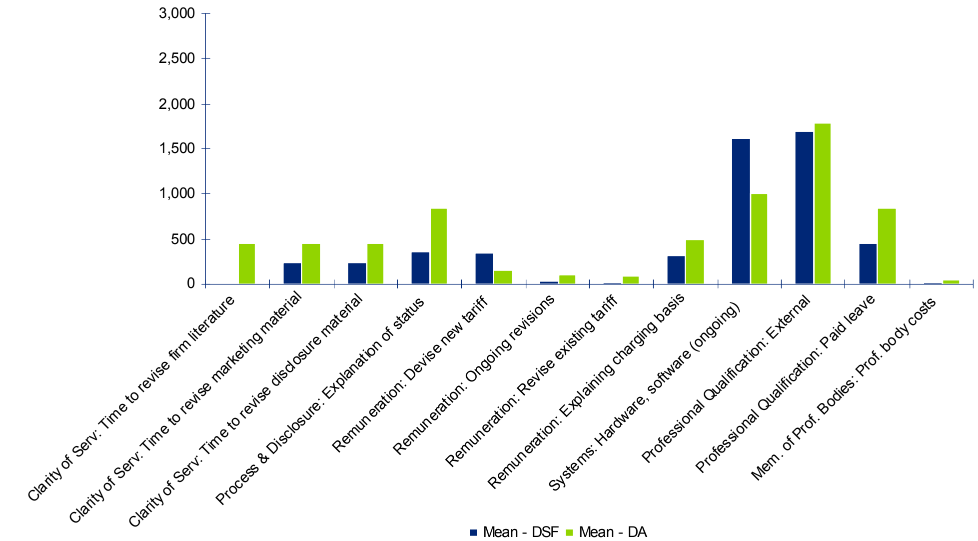
3. Retail investment providers – Direct Sales Forces
Perceived incremental costs: comparison with Directly Authorised Firms

The following slides present an analysis of the incremental costs in relation to DSFs. Thirteen providers indicated they had DSFs, but a number of questions were only answered by a small number of these. Consequently, responses are presented at a ‘cost per adviser level’ and are compared to costs per adviser for DA firms.

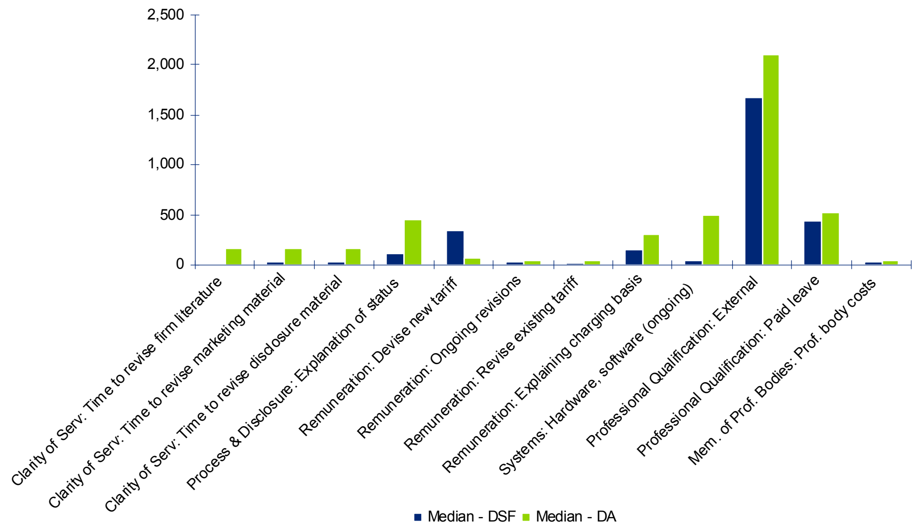
Key observations

- Providers with DSFs estimated incremental costs across a similar range of costs categories to DA intermediary firms.
- Median costs per adviser were estimated at lower levels for all costs categories, with the exception of:
  - one-off costs to produce a new tariff;
  - one-off IT/systems costs (these were £9,677 for DSF, compared with £667 for DA advisers);
  - ongoing IT systems costs; and
  - paid leave for training for professional qualifications.
- The high estimated IT costs may reflect an element of ‘double counting’ of those costs (i.e. across the provider and distribution parts of the business). Also, very few firms provided estimates for incremental DSF-related systems costs.

3.29 Providers with a Direct Sales Force and Directly Authorised Intermediaries - Mean per RI by Cost Category (Excluding one-off systems costs for DSF which skews the result)



3.30 Providers with a Direct Sales Force and Directly Authorised Intermediaries - Median per RI by Cost Category (Excluding one-off systems costs for DSF which skews the result)



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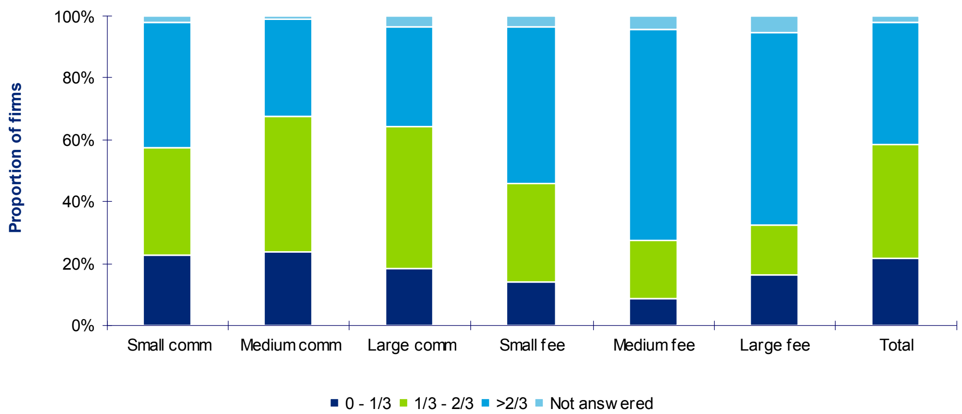
4. Retail investment intermediaries
Section summary

- This section focuses on retail investment intermediaries, covering their views on how their firm might respond to the changes proposed in the RDR, together with their estimates of incremental compliance costs implied by these proposals. The majority of the findings represent views of DA firms, as levels of responses from AR firms were low.
- Responses from the e-survey indicate that while the majority of DA firms do not expect to change the status of their business as a result of the RDR, some firms do expect to move to the non-independent sector or to exit the market as a result of the proposals. The main driver for considering moving to the non-independent advice sector appears to be a commercial one; firms believe their profitability would fall if their status remained unchanged.
- Adviser Charging appears to divide the DA community in terms of how they view their own capabilities to adopt this model of remuneration. Around half of the DA community either already operate Adviser Charging, the approach proposed by the RDR, or feel their firm would find it easy to adopt this. Many others – around a third – have yet to form a view on their firm's capabilities to adopt the approach. Some DA firms think this approach would be difficult for their firm to adopt.
- If Adviser Charging was introduced, most firms expect to use value-based up-front and ongoing charges.
- In contrast to investment providers, a significant number of DA intermediary firms expect the RDR proposals to impact the finance of their business negatively. However, the majority of DA firms do not see these proposals as a catalyst to change their product and market focus – for example increasing their efforts to develop business in other product markets such as mortgages and protection.
- DA firms estimate that one-off incremental costs will be dominated by the costs associated with achieving the qualifications required in the post-RDR regime. The highest ongoing costs are the estimated ongoing whole of market search costs.
- The analysis of costs within this section shows that economies of scale are experienced in a number of cost categories such as systems and firm literature, with the incremental costs per adviser falling as the size of the firm, and the number of advisers within the firm, increases. Economies of scale are particularly relevant to one-off costs (with the exception of the cost of obtaining the professional qualifications).

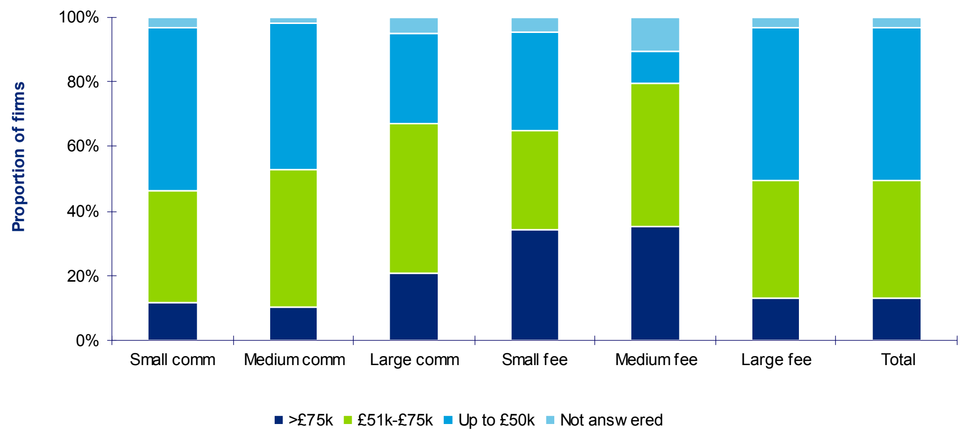
4. Retail investment intermediaries – Directly Authorised Firms
Profile of respondents

This section focuses on retail investment intermediaries, covering their views on how their firm might respond to the changes proposed in the RDR, together with their estimates of incremental compliance costs implied by these proposals. This section analyses detailed results for DA firms, with summary results for AR firms being reviewed at the end of the section. All data for DA firms is weighted (please see page 93 in Appendix 3 for details of the weighting approach used).

4.1 Share of revenues derived from investment business by firm category



4.2 Average client income by firm category



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Profile

- Fee-based DA firms on average tend to be more orientated to retail investments than commission-based firms. In fee-based firms revenues from retail investments accounted for two-thirds or more of total revenues for over 50% of all firms.
- The correlation of the size of a DA intermediary firm with the concentration of retail investment revenues is less clear.

- The average client incomes of DA firms show a correlation with remuneration approach but limited correlation with size.
- 48% of commission-based DA firms have customers with average annual incomes of under £50,000 (small, medium and large firms have 51%, 45% and 28% respectively in this category).
- For fee-based firms, the comparable figure is 27% (31%, 10% and 16% respectively for small medium and large firms).
- Fee-based DA firms are more likely to have customers with higher average incomes – 33% overall have customers with average annual incomes of over £75,000 (34%, 35% and 16% of firms in the small, medium and large segments).

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4. Retail investment intermediaries – Directly Authorised Firms
Information on RDR proposals given to intermediary survey respondents

The information set out below was provided at the beginning of the e-survey for investment intermediaries. It was considered important to give investment intermediaries relevant information on some of the changes proposed within the RDR prior to their responding to the survey questions.

Professional standards

The FSA wants to achieve consistent and higher standards of professionalism among advisers, to inspire consumer confidence and build trust. The FSA proposes to consult on the creation of an overarching Independent Professional Standards Board (IPSB) to function initially as a sub-committee of the FSA Board. In time, it may be launched as a separate body with statutory footing. The IPSB would provide a common framework for professional standards across all advice channels, and work with the Financial Services Skills Council to raise the benchmark qualification for advisers in the independent and non-independent advice sectors to QCA Level 4 (Scottish equivalent SCQF level 8). The IPSB would also be responsible for setting, reviewing and dealing with breaches to codes of ethics for advisers, and would set consistent minimum standards for continuing professional development (CPD).

Remuneration

The FSA aims to reduce the potential for commission bias by removing product provider influence over adviser remuneration. The FSA will establish the standards that it expects of adviser firms in setting their own charges, and in disclosing these to consumers. For example, there is an expectation that adviser charges should not vary by product provider (and to some extent by product type).

Conditions for independence

The FSA wants to change the criteria that adviser firms must meet to describe their services as 'independent', to make sure their services are truly independent. This would involve demonstrating that the 'independent' firm provided unbiased, unrestricted advice based on a comprehensive and fair analysis of their relevant market. The FSA no longer intends to restrict their independence standards to firms advising on packaged products but applying the standards across all forms of investment products. Further consideration needs to be given to the finer details but the FSA would expect some firms to conduct a more thorough review of the market and be able to demonstrate why a product was chosen over others. The FSA would expect to see firms increase their product knowledge in areas where they may not have recommended before e.g. tracker funds/ETFs.

Source: Deloitte survey of retail investment intermediaries (February 2009)

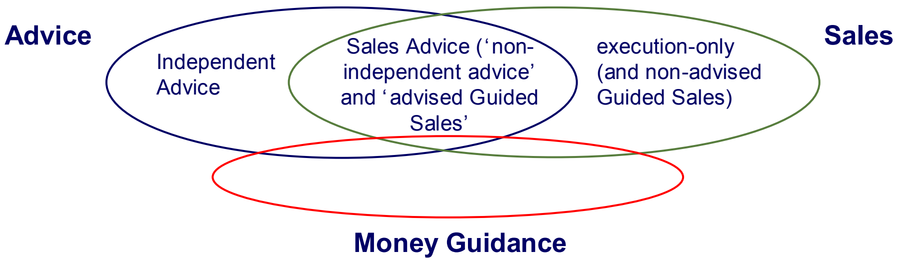
Deloitte.

4. Retail investment intermediaries – Directly Authorised Firms
Information on RDR proposals given to intermediary survey respondents

Information provided to retail investment intermediaries in the e-survey (cont)

Landscape (labels)

The FSA wants to improve clarity for consumers about the services on offer, including making it clearer for consumers whether or not investment advice they receive will be independent. Consequently, whichever part of the advice landscape the firm is operating under (independent advice vs. non-independent (or sales) advice), the firm will have to make clear to clients whether it is providing independent or non-independent advice, for example through some form of 'labelling', before providing the service. The proposed landscape is shown below.



Prudential requirements

The FSA wants to improve the capital holding of personal investment firms by making requirements consistent for all these types of firms. This would involve mandating a sliding scale of additional capital firms should hold as provision against potential liability for any activities excluded by their professional indemnity insurance policies, with a minimum of £5,000. It would also look to raise the overall minimum capital requirement to £20,000 for these firms.

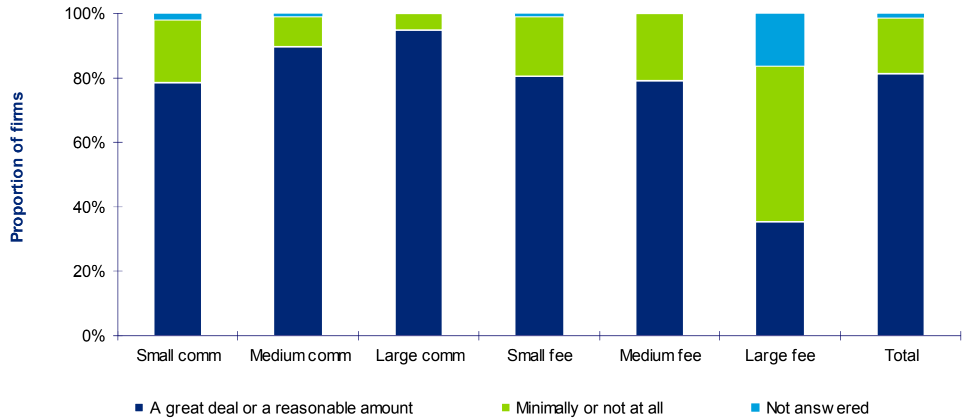
Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

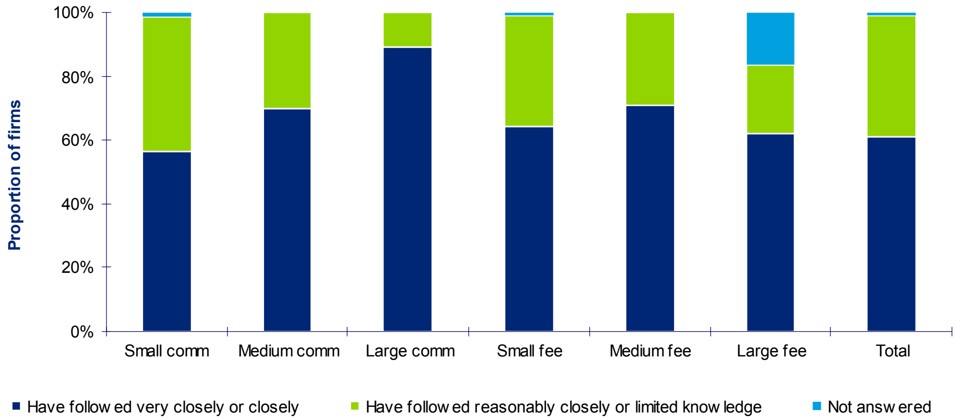
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: engagement with the RDR

4.3 Extent to which the RDR has been discussed in your firm (by category)



4.4 How closely have you followed RDR personally? (by firm category)



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

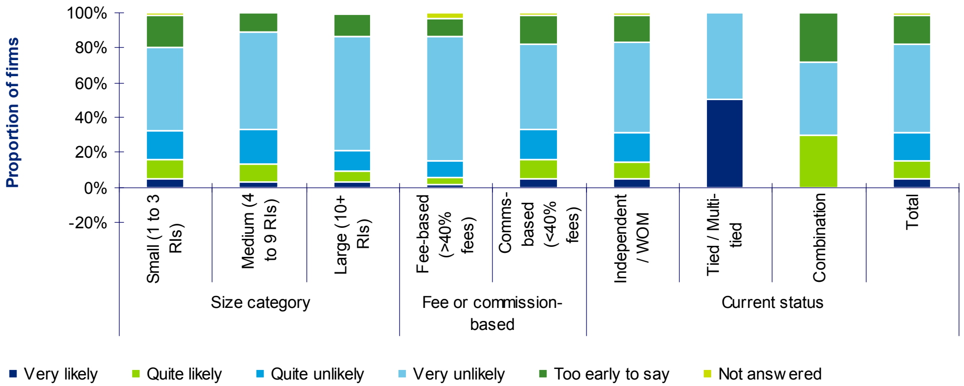
Engagement with the RDR

- The RDR proposals appear to have been discussed widely within DA firms – 82% of firms saying that these had been discussed either 'a great deal' or 'a reasonable amount'.
- The RDR proposals have been discussed less within fee-based firms – particularly large fee-based firms where over 56% of these said the proposals had either been discussed 'minimally' or 'not at all'.
- A significant number of mainly commission-based DA firms (20%) say the RDR proposals have not been discussed in detail internally (some of these will be sole practioners).
- Over 60% of all individuals from DA firms who completed the e-survey said they had personally followed RDR developments 'very closely' or 'closely'.
- The level of knowledge of respondents on the RDR proposals appears to have some correlation to firm size, with respondents in larger DA firms being more likely to have followed the RDR more closely. In particular, there were a significant number of respondents from small commission-based firms (43%) who said they had only followed RDR developments 'reasonably closely' or that they had 'limited knowledge'.

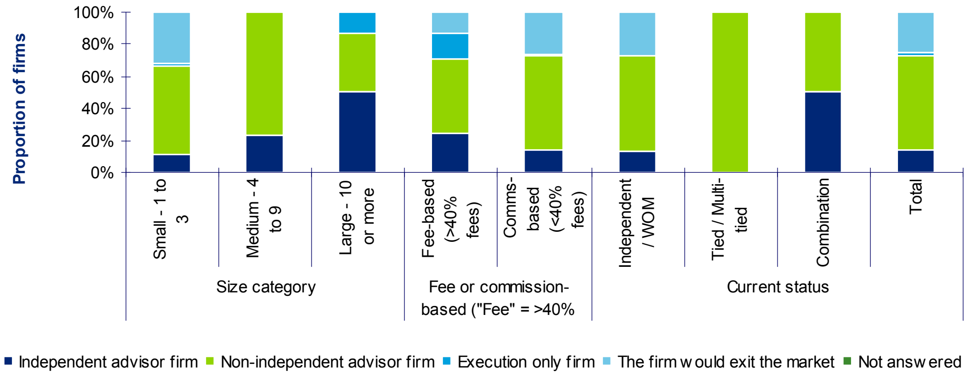
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: impact of the RDR

4.5 How likely are the RDR proposals to make your firm seriously consider changing the status of your business? (by category, size and current status)



4.6 Likely new firm status (if likely to consider change) by category, size and current status

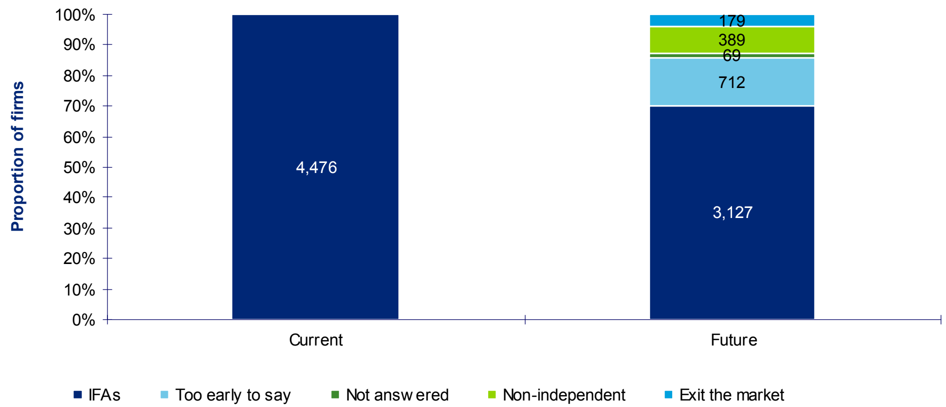


Key observations

Likelihood of changing status

- DA firms were asked whether they would be likely to change their firm's status as a result of the RDR proposals. The majority of DA firms (71%) say it is unlikely they will consider changing their status.
- 13% of DA firms say they are 'very or quite' likely to consider a change in status.
- A further 16% of firms responded 'it is too early to say' whether they will change their status.
- Firms saying they are likely to change status would either move to the non-independent sector (9%) or that they would exit the market (4%).
- The small, mainly commission-based independent DA firm is most likely to say that they will exit the market.
- Chart 4.7 below shows the possible 'destination' of DA firms saying they are likely to change status.

4.7 Potential future breakdown of current IFA firms based on 'very likely/quite likely' outcomes

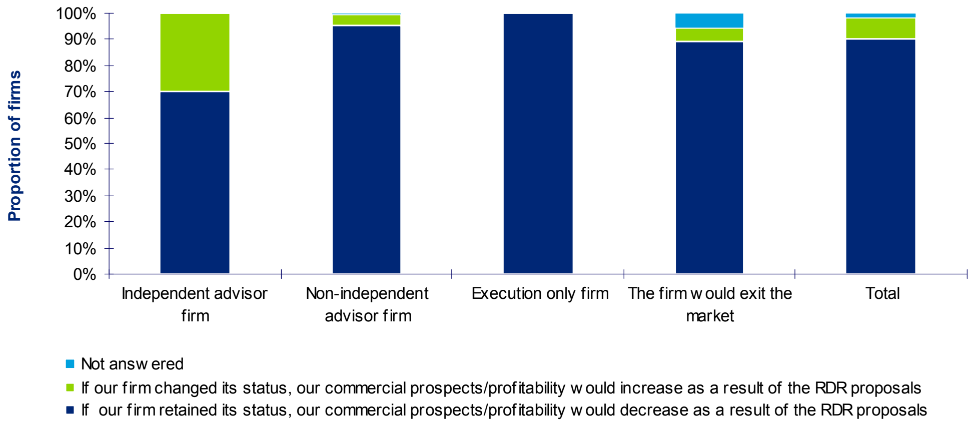


Source: Deloitte survey of retail investment intermediaries (February 2009)

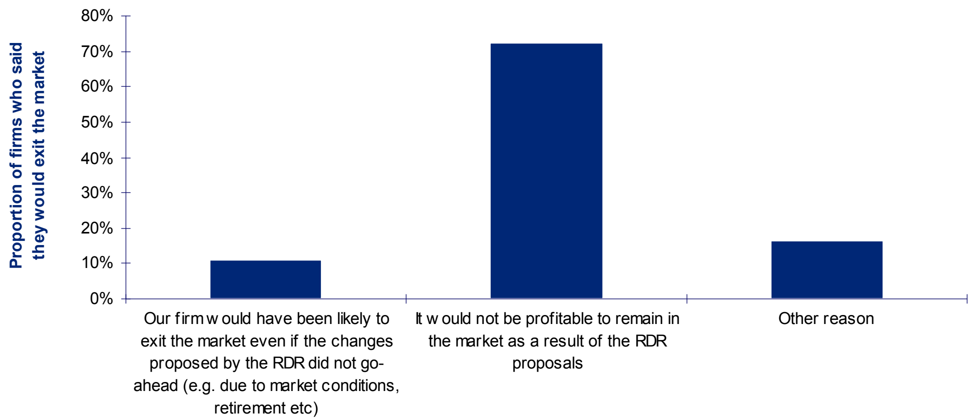
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: impact of the RDR

4.8 Reasons for potential status changes by expected future status



4.9 Reasons for exiting the market



Base: All DA firms saying would exit the market at figure 4.5

Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Reasons for changing status

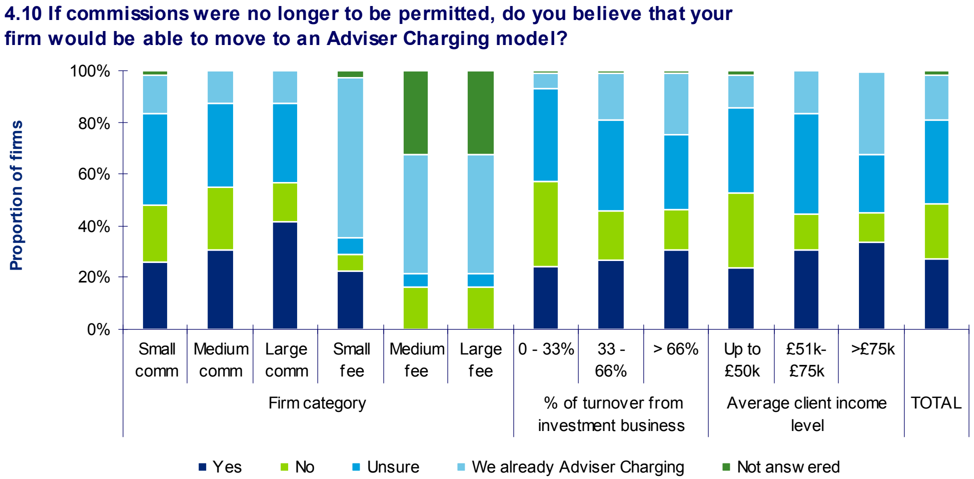
- The 14% of DA firms indicating they would consider changing status are most likely to do so because they believe their firm's profitability would decrease as a result of the RDR changes if they retained their current status.
- Around 33% of firms considering a move to the independent advice sector expect profitability of their firm to increase by doing so and state this as their primary reason for a change in status.

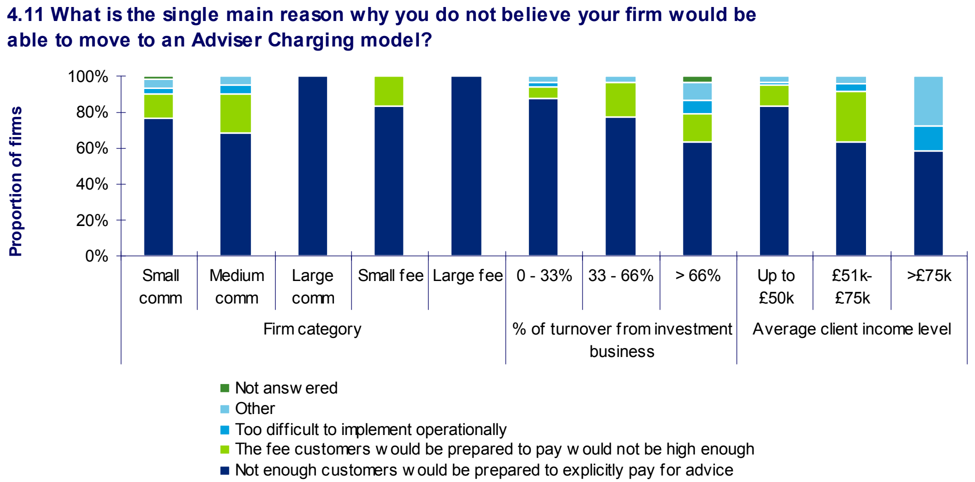
Reasons for exiting the market

- The majority (72%) of firms who say they would consider leaving the market (4% of all DA firms) if the RDR proposals were implemented say this is because it 'would not be profitable to remain in the market'.
- A further 11% say their firm 'would have been likely to exit the market even if the RDR proposals were not implemented'.

4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: Adviser Charging





Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Adviser charging

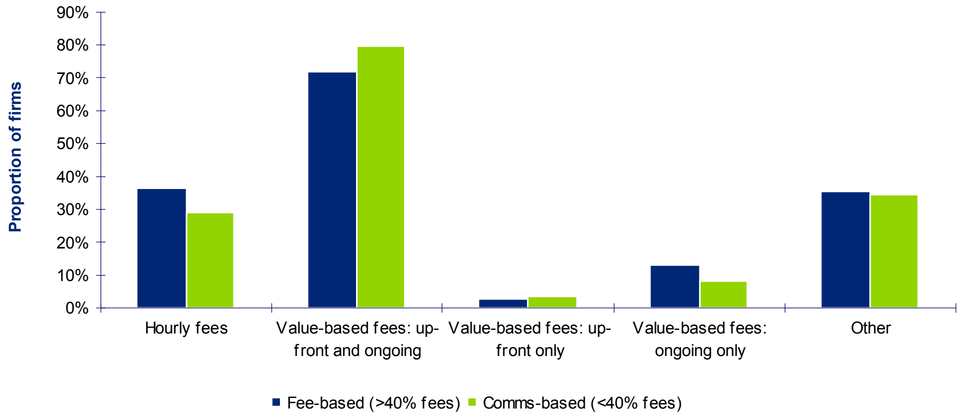
- 28% of DA firm respondents believe that they would be able to move to an Adviser Charging model – with 17% responding that they already use an Adviser Charging model.
- 21% of the respondents said that they were unlikely to be able to move to an Adviser Charging model and a significant portion – 33% were unsure about their ability to move to an Adviser Charging model.
- Commission-based firms were most likely to say that they thought they would be unable to move to an Adviser Charging model.
- The ability to move to an Adviser Charging model has some correlation to the importance retail investment revenue has to the DA firm. The lower the importance of this revenue to the firm, the more likely the firm was to say that they would not be able to adopt an Adviser Charging model.

Barriers to moving to Adviser Charging

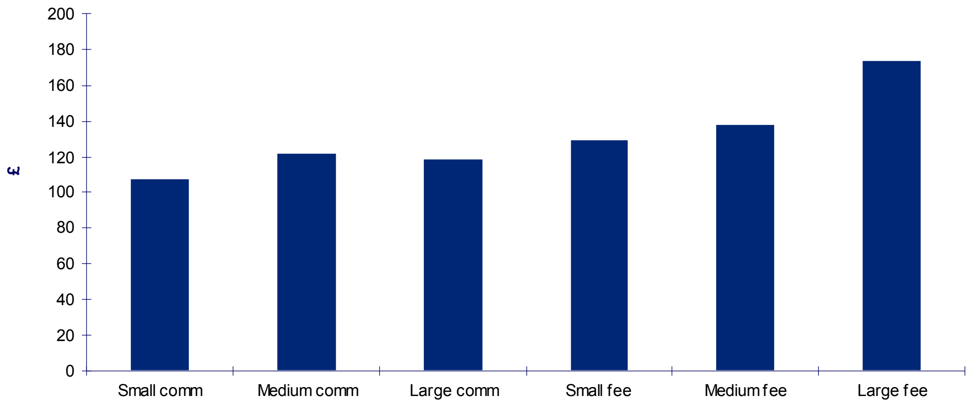
- Most DA firms (76%) who say that they think they would not be able to move to an Adviser Charging model consider the main barrier will be customers as they will not be prepared to pay for advice explicitly.
- A smaller proportion of DA firms who would not move to Adviser Charging (15%) say that the main barrier would be that customers would not be prepared to pay enough for advice for the model to be financially viable.
- Operational barriers to moving to an Adviser Charging model are only anticipated by a small minority (3%) to be the main barrier.

4. Retail investment intermediaries – Directly Authorised Firms
Response to the RDR proposals: Adviser Charging

4.12 Type of charges would expect to use vs. current predominant revenue model



4.13 Hourly fees you would expect current commission-based customers to be willing to pay (£)



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Types of charges

- DA firms were asked what types of charging approaches they would use if the RDR proposals. were implemented (and commission was banned).
- The charging approach most (79%) DA firms anticipate using is a combination of up-front and ongoing value based fees, followed by hourly fees. 29% also anticipate using hourly fees.
- There were not significant differences between mainly fee-based and mainly commission-based DA firms in relation to choices of future charging approaches, although the former were slightly more likely to say they would use hourly fees (36% compared to 29% respectively).

Average hourly fees

- DA firms believe their current customers who they deal with on a commission basis would be prepared to pay £114 per hour on average if they moved to hourly fees. This finding is broadly consistent with Deloitte's 'Costing Intermediary Services' report (2008) which found that firms believed their commission-paying customers would be willing to pay £92 per hour in fees if required to do so.
- Expected average hourly fees customers would pay appear to be correlated both to current remuneration models (with fee-based firms producing a higher average fee) and to firm size (with predicted fee levels increasing by firm size).

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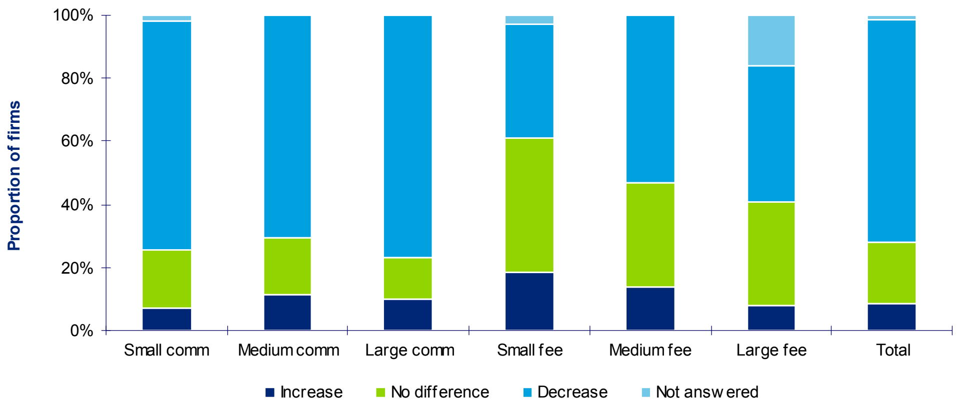
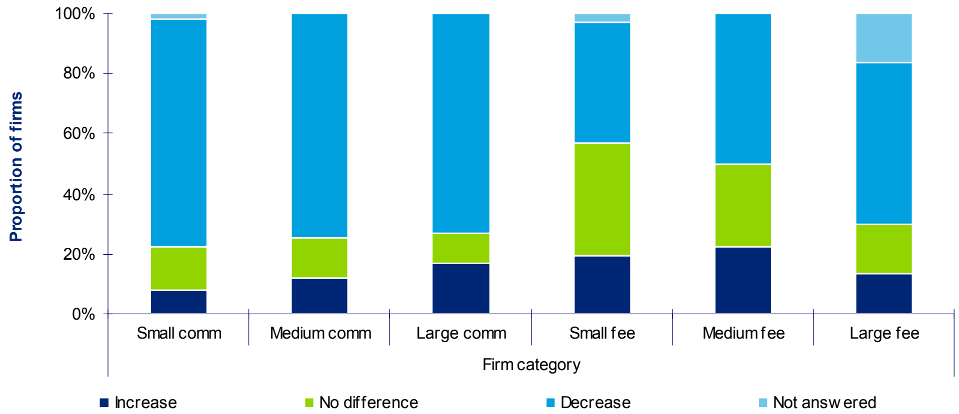
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: financial impact of the RDR

4.14 Expected impact of RDR on revenue



4.15 Expected impact of RDR on profitability



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Turnover

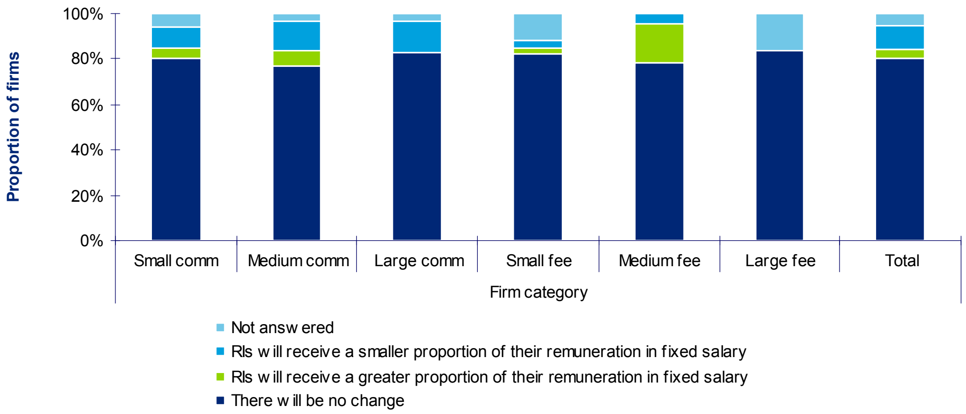
- 70% of DA firms believe that the RDR proposals, if implemented, will lead to a decrease in their firm's turnover. Commision based firms were more likely to believe this than fee-based firms. Conversely, 9% believe their turnover will increase – with small mainly fee-based firms being more than twice as likely than average to say this.
- A number of IFA firms in the qualitative stage interviews anticipated that the industry would contract as a result of the reforms, driving many advisers out of the market. Some, however, saw the RDR as creating opportunities for growth for their own firm, as well as an opportunity to increase fees as the supply of advice shrinks. A number of advisers said they had pre-emptively increased their emphasis on service and transparency to clients.

Profitability

- The profitability of retail investment business is expected to decrease as a result of the changes in the RDR proposals as stated by 73% of DA firm respondents.
- Only 10% of DA firm respondents expect profitability to increase.
- The patterns of responses among DA firms on profitability are similar to their responses on the impact on turnover, with commission-based firms – who may have the most changes to make to their business model – being more likely to believe profitability will decline.

4. Retail investment intermediaries – Directly Authorised Firms
Response to the RDR proposals: financial impact of the RDR

4.16 What impact, if any, will moving to Adviser Charging have on your firm's approach to remunerating RIs?



Key observations

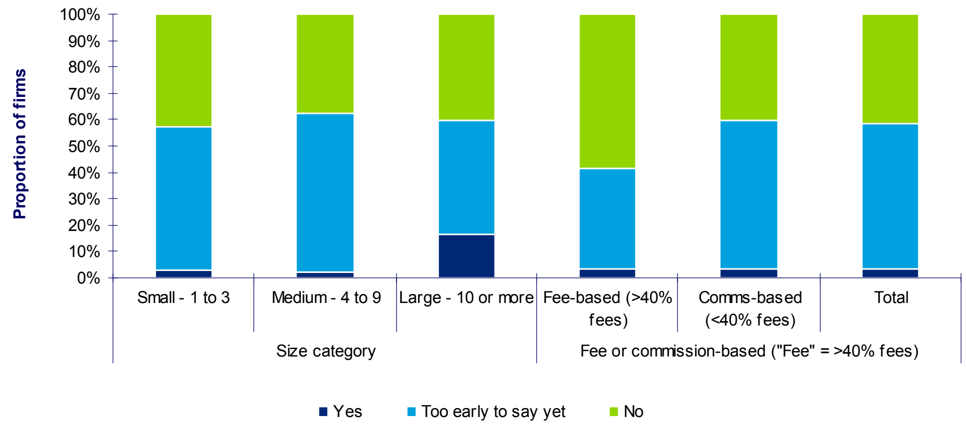
- The vast majority of DA firm respondents (80%) do not think that the changes implied by the RDR will lead to a change to their firm's approach to remunerating advisers.
- This may reflect an expectation from many commission-based firms of moving to a revenue model that effectively mirrors their current commission model, albeit with charges agreed by the customer.
- Where a change in remuneration practices is expected, most firms expect the change to be a reduction in the fixed salary element of remuneration. This expectation is most prevalent in commission-based firms.
- This finding appears counter-intuitive e.g. Deloitte's Costing Intermediary Services study in 2008 found that predominantly fee-based firms pay a higher proportion of their advisers' remuneration in the form of fixed salary, reflecting the fact that a smaller proportion of their revenue is contingent and driven by transactions. This expectation may reflect some firms' uncertainty over their revenue prospects under the proposed model.

Source: Deloitte survey of retail investment intermediaries (February 2009)

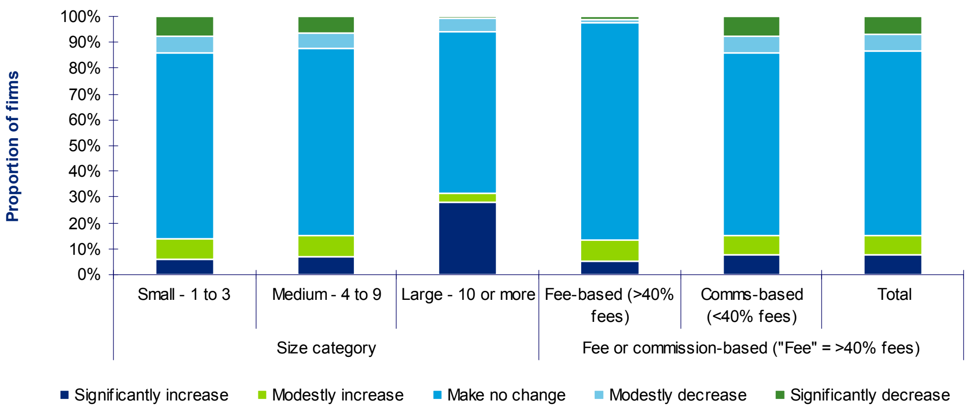
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: strategic changes

4.17 Whether expect to offer Guided Sales service



4.18 Expected impact on degree of focus on retail investment market (vs. other product areas)



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Provision of Guided Sales

- The majority of firms responded that it is 'too early to say yet' whether they will offer Guided Sales.
- Less than half the DA firm respondents indicated that they do not expect to offer the Guided Sales service which could be a potential (new) customer proposition put forward by the FSA within the RDR proposals.
- Only a small minority (4%) of DA firms plan to offer Guided Sales – with the larger firms being more likley to say they intend to offer Guided Sales (16% of the large DA firms).

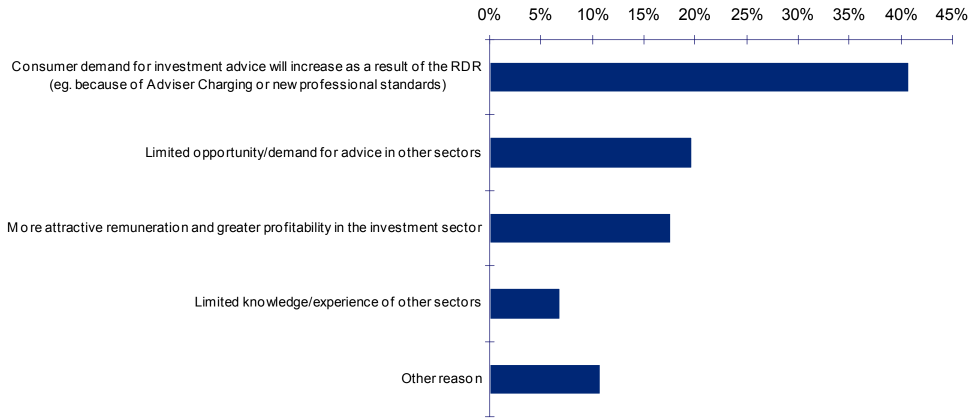
Focus on retail investments

- Most DA firms (over 69%) think the changes proposed by the RDR would make no change to their firm's degree of focus on the retail investment market.
- The remaining firms (who believe the changes implied by the RDR will cause a difference in their focus on retail investments) are divided approximately evenly between those believing it will increase their firm's focus and those saying it will decrease their firm's focus.
- Larger firms (34%) were more likely to say the changes would increase their focus on retail investments.

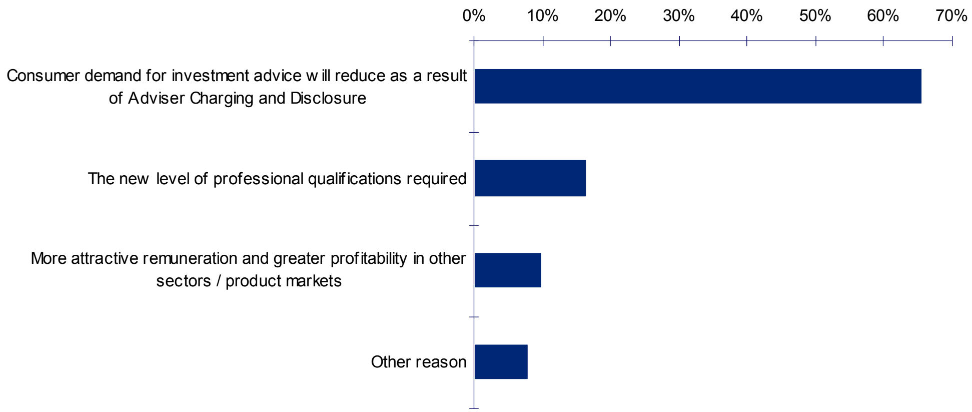
4. Retail investment intermediaries – Directly Authorised Firms

Response to the RDR proposals: strategic changes

4.19 Main reason for increasing focus on investment market



4.20 Main reason for reducing focus on investment market



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Increased focus

- The most common reason for firms to say they intend to increase their focus on retail investments is an expectation that consumer demand for advice will increase (mentioned by 41%).
- Other reasons given were:
  - limited opportunity in other sectors (20%);
  - more attractive remuneration in investments (18%); and
  - limited experience of other sectors (7%).

Decreased focus

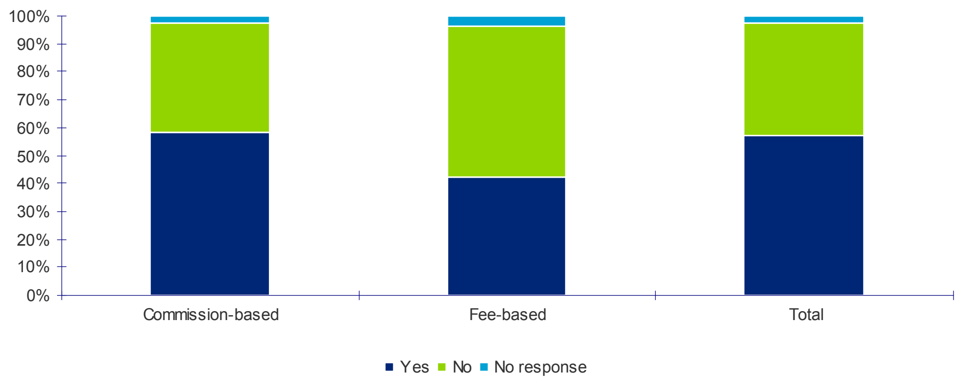
- The reason a majority of the DA firm respondents (66%) gave as to why they would decrease their focus on the retail investment market was that they anticipate that the consumer demand for advice would reduce as a result of Adviser Charging and Disclosure.
- A further 17% said that the requirement for increased professional qualifications would be the reason for the decreased focus on the investment market.
- Only 10% stated that '*more attractive opportunities in other product markets*' was the reason for a decreased focus on retail investments.

4. Retail investment intermediaries – Directly Authorised Firms

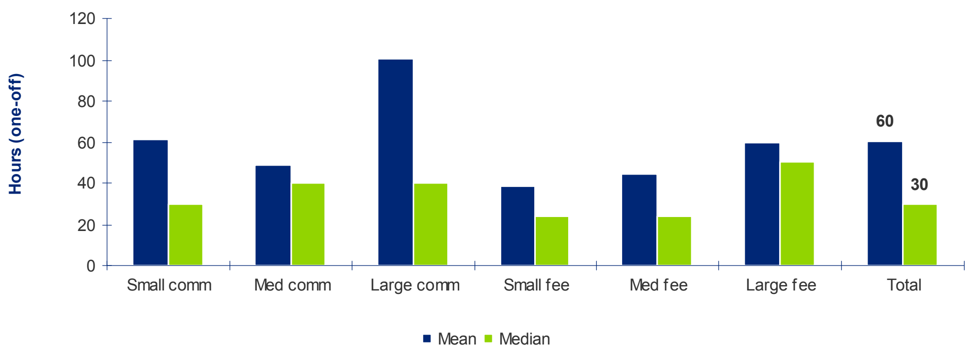
Perceived incremental costs (1): clarity of services – literature

This section focuses on DA firms' expectations of the incremental compliance costs implied by the RDR proposals. There are six areas where these costs may be incurred and these are set out in turn in the following pages.

4.21 Will operating under the status in the new regime that is equivalent to your current status require a change to firm literature and marketing materials?



4.22 Approximately how much time do you estimate would be involved in amending firm literature and marketing materials in this way? (hours)



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

Firm literature

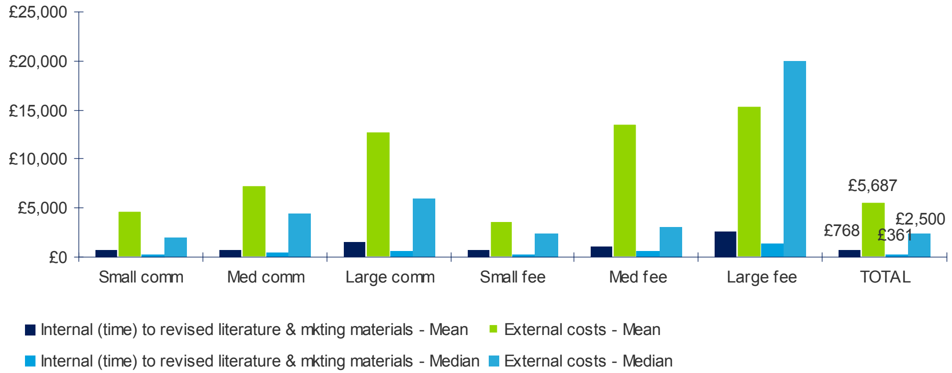
- Overall, 57% of firms expect to have to change their firm literature, marketing material and disclosure documents in order to operate under the status in the new regime which is equivalent to their current status.
- Commission-based firms were more likely to believe they would have to make such changes: 60% of commission-based firms expected to have to make these changes compared with 44% of the fee-based firms.

Time required to amend literature

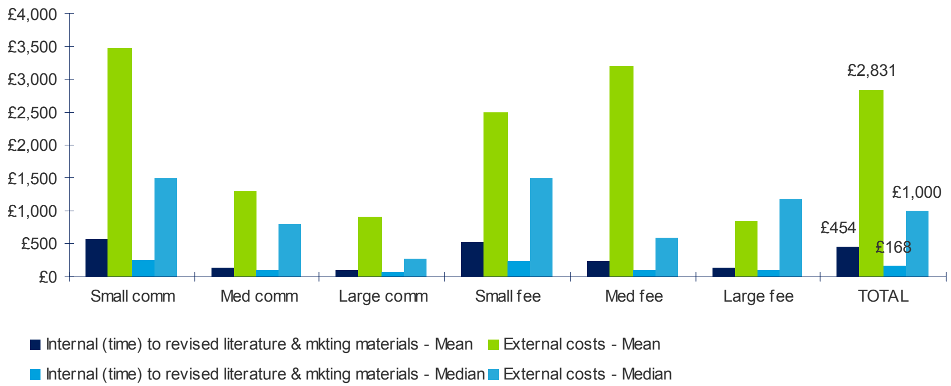
- Of firms expecting to have to make changes to such literature, 92% provided estimates of the internal staff time requirement to do so.
- The median of those that exceed zero is 30 hours (the mean is 60 hours). *(It should be noted that a relatively high estimate by a single DA firm in the large commission segment has produced a high mean for this segment.)*

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (1): clarity of services – literature

4.23 Cost of amending firm literature and marketing materials to reflect operation under equivalent status: Mean and median per firm



4.24 Cost of amending firm literature and marketing materials to reflect operation under equivalent status: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

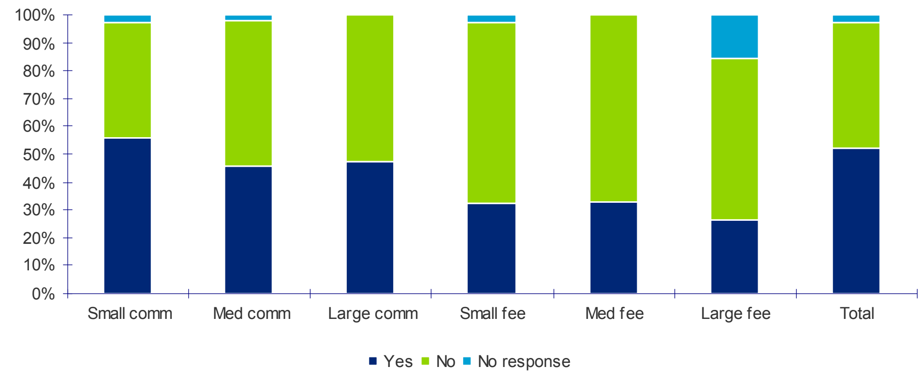
Costs of amending firm literature

- The cost of the staff time required to amend firm literature is estimated by applying an hourly rate (see model assumptions in Appendix 3) to the number of hours estimated by firms as being required. This provides an estimate of ‘internal’ costs associated with these changes.
- Where DA firms thought literature would need to be changed, they were also asked to provide estimates of any external costs they might expect to incur (for example, in relation to printing). Of firms who believed their literature would require amending, 85% provided an estimate of their expectation of the external cost implications.
- The median internal time cost per adviser for amending firm literature and marketing materials was estimated by the DA firms as £168. The median external cost per adviser was estimated at £1,000.
- The median for the large fee-based segment, which appears high relative to the other segments, is based on a small number of firms (four) who provided estimates for this cost category.
- Some estimates for the literature costs looked particularly high – no verification or validation of the estimates was carried out.
- It is possible that not all of this cost category should be considered to be truly incremental. It may be partially absorbed as part of the process of regularly updating the various forms of literature that firms are required to produce.

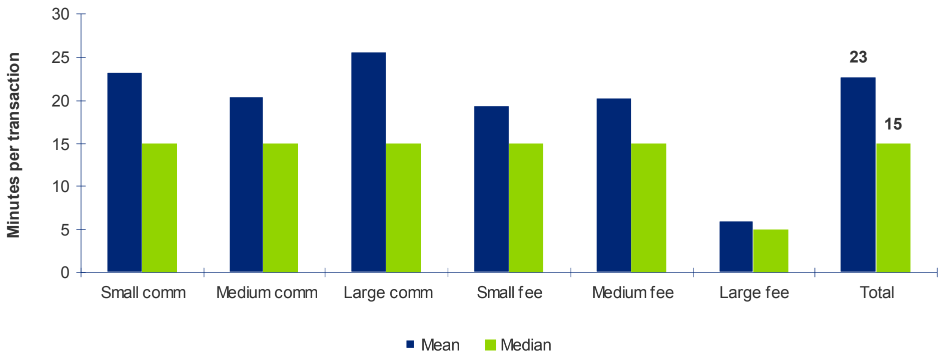
Deloitte.

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (2): clarity of services – disclosure

4.25 Do you expect the explanation / disclosure of your firm's status to take longer under the proposed regime?



4.26 How much longer do you expect the disclosure of your firm's status to take per transaction in the new regime (mins per transaction)



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

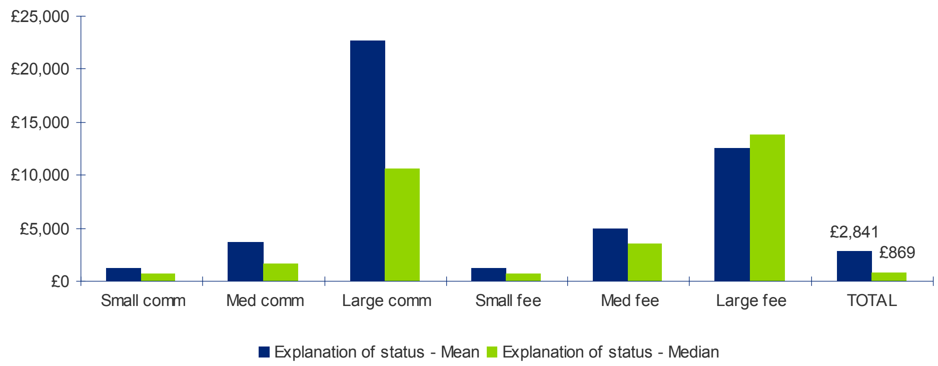
- 52% of DA firms believe it will take them longer to explain their firm's status to clients under the proposed regime than at present (assuming they operate under the status that is equivalent to their current status); most fee-based firms believe that it will take no longer than at present.

- Amongst the 52% of firms that believe it will take longer to explain their status, 92% provided an estimate of how much longer they expected it to take: the estimated extra time required was 15 minutes (the median) or 23 minutes (the mean) per product transaction undertaken by an adviser.
- There was little difference between the fee-based and commission-based firms. The estimate for large fee-based firms was lower, although this is based on estimates from only five firms.
- The overall median estimate of 15 minutes of additional time appears high relative to the total amount of time currently spent on disclosure, which was estimated at 15 minutes in previous research for the FSA ('Estimation of FSA third party administrative burden' – research conducted by Real Assurance on behalf of the FSA, December 2006).

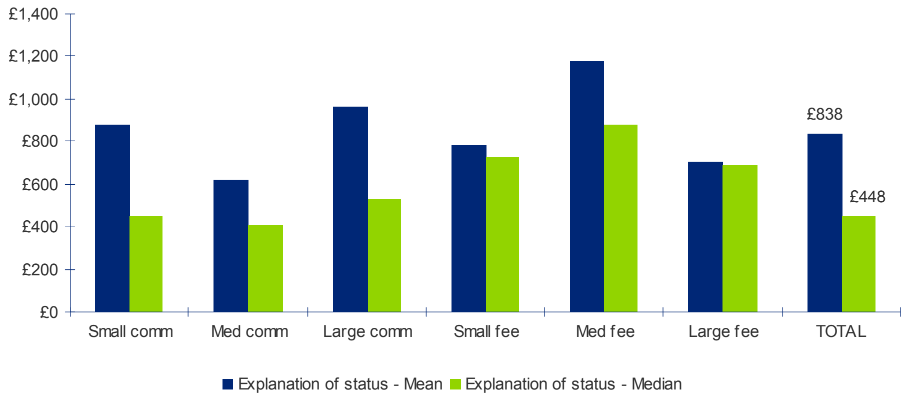
Deloitte.

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (2): clarity of services – disclosure

4.27 Incremental cost of explaining equivalent status: Mean and median per firm



4.28 Incremental cost of explaining equivalent status : Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

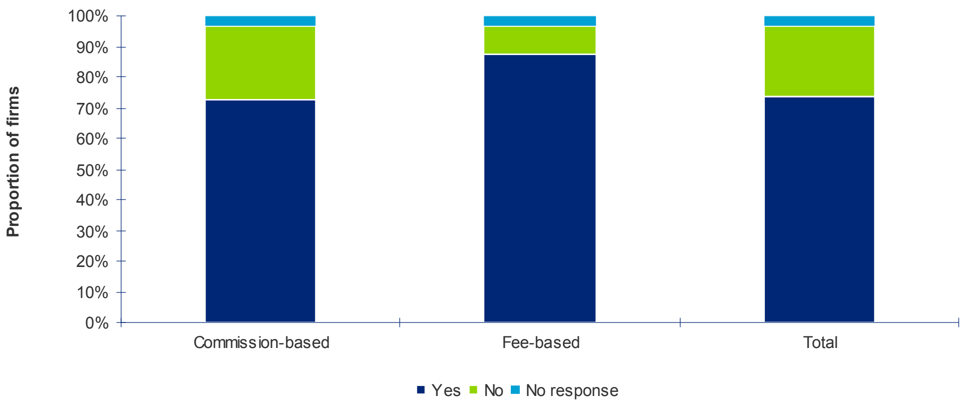
Key observations

- Based on the estimates of additional time required to disclose a firms' status under the new regime, and using an assumption of 150 transactions per adviser per annum, the incremental costs per firm correlate with the firm size as would be expected.
- The incremental costs per adviser vary across the firm segments and are higher among fee-based firms. This is not because they expect to spend more time explaining their status than commission-based firms, but is driven by the higher hourly cost of their advisers' time. This is due to the higher average adviser salaries in the fee-based segment as well as a higher fixed element to salaries.
- The peak cost is among the medium fee-based firms estimated at £879 per adviser, compared to a median estimate of £448 per adviser across all firms. This would be an annual, ongoing cost to firms.

4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (3): remuneration

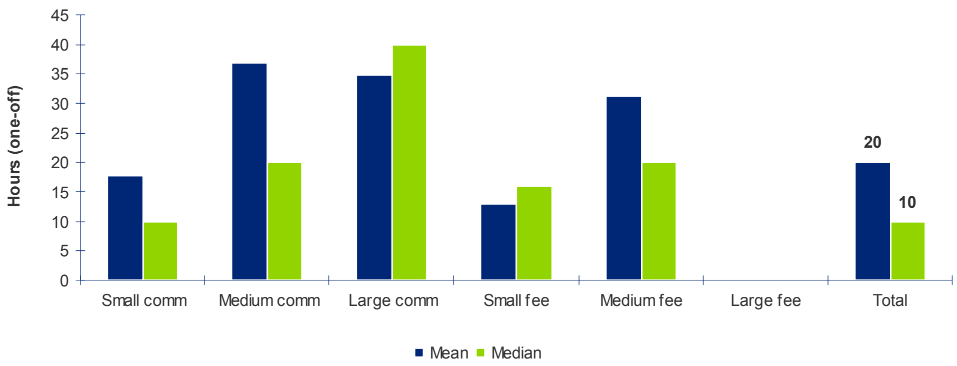
4.29 Do you have a price tariff?



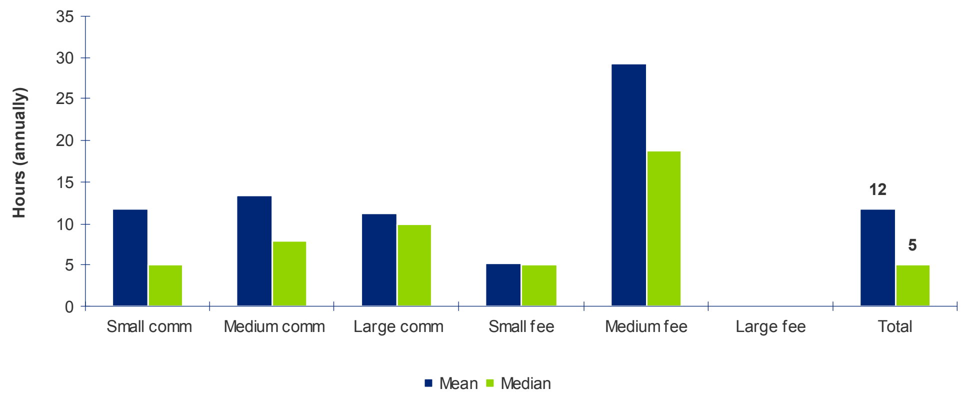
Key observations

- Most of the DA firm respondents (73%) say they have a price tariff, outside of any commission arrangements they have, for the services they offer.
- DA firms without existing price tariffs (23%) were asked to estimate the management time (e.g. planning and budgeting) that would be required to produce a tariff initially and to update it periodically going forward: 91% provided estimates of the initial time requirement; 89% provided estimates of the annual ongoing time requirement.
- Median figures among those providing estimates were 10 hours to produce a tariff and five hours annually to update it. The overall median was higher among commission-based firms, for whom tariff-based revenues form a smaller part of revenues. Estimates for individual segments varied significantly due to small numbers of respondents.

4.30 For those with no price 'tariff': How much management time (planning & budgeting) to produce one? (hours)



4.31 For those with no price 'tariff': How much management time (planning & budgeting) to update new tariff annually? (hours)

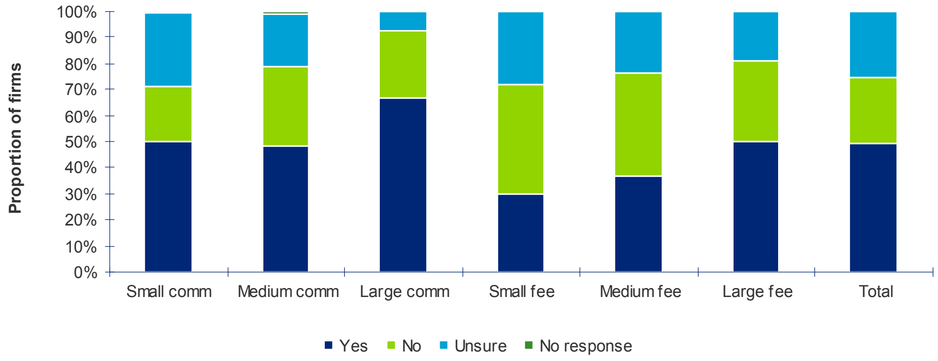


Source: Deloitte survey of retail investment intermediaries (February 2009)

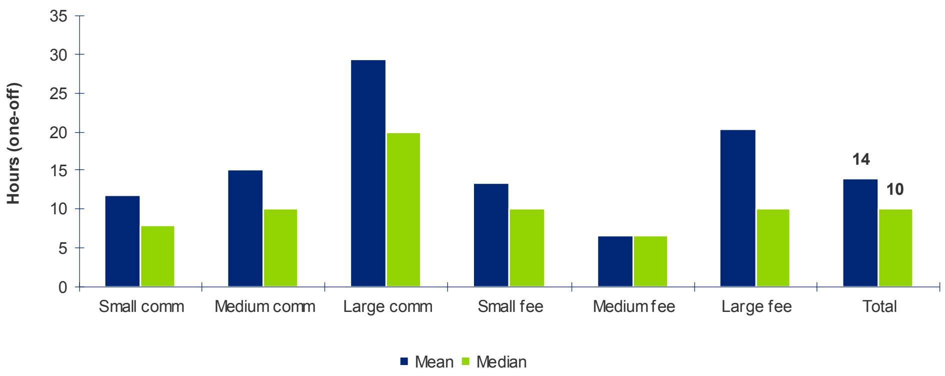
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (3): remuneration

4.32 Do you think you will need to change your existing price tariff as a result of the changes proposed in the RDR?



4.33 How much management time to revise existing tariff? (hours)



Source: Deloitte survey of retail investment intermediaries (February 2009)

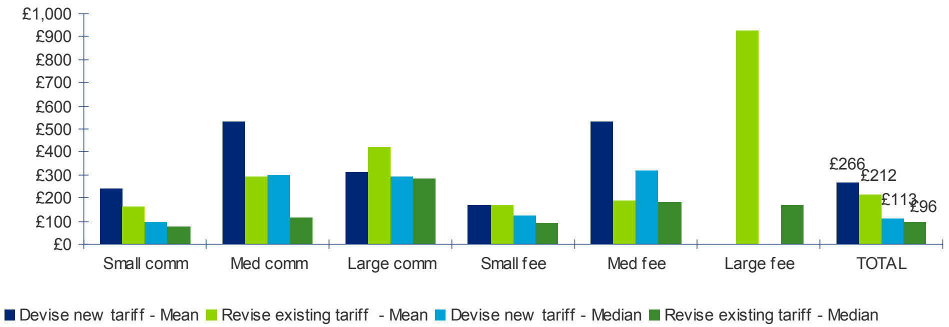
Key observations

- Proposed changes to remuneration were was cited in the qualitative stage as one the key factors that may lead to advisers exiting the market, although some considered the changes will simply make advisers more creative in how they maintain levels of remuneration.
- Approximately half of the 73% of DA firm respondents who already have price tariffs think their existing price tariffs will need to be changed as a result of the RDR changes. A further 25% of firms with existing tariffs are '*unsure*' whether changes in response to the RDR will be required.
- A higher proportion of larger DA firms – both fee and commission based – think that it is likely that their existing price tariffs will need to be changed as a result of the RDR proposals.
- Of the firms that believed their price tariff will need to be revised, 96% provided an estimate of the amount of time that would be required to do so.
- The median number of hours estimated as being required to revise existing tariffs is 10 hours – the same as the estimate of the time required to produce a new tariff by firms who currently not have a price tariff (See Chart 4.30).
- As was the case in relation to devising a new tariff, larger firms on average expect to spend more time revising existing tariffs than firms with fewer advisers.

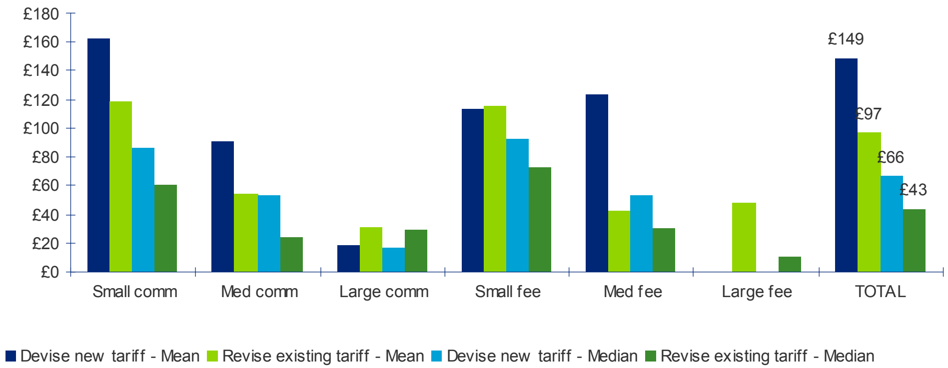
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (3): remuneration

4.34 One-off cost of devising new price tariff / revising existing tariff: Mean and median per firm



4.35 One-off cost of devising new price tariff / revising existing tariff: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

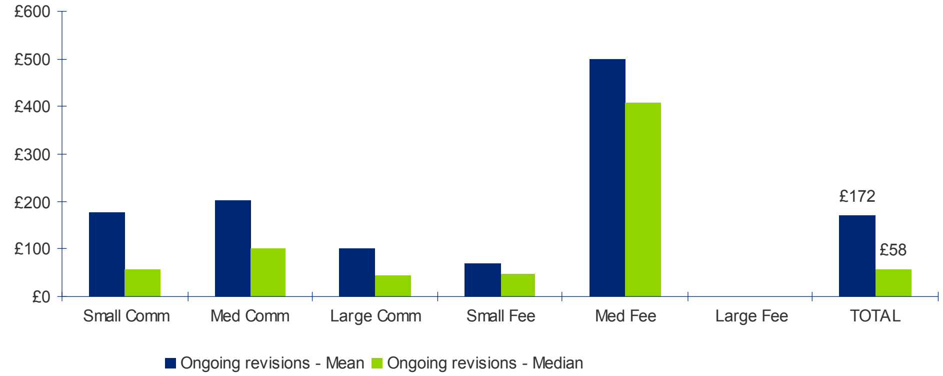
Key observations

- The median one-off incremental cost is estimated by e-survey respondents to be £66 per adviser to devise a new price tariff (applies to 23% of DA firms) and £43 per adviser for revising an existing price tariff (applies to 36% of all DA firms).
- All of the large fee-based firms already have a tariff and therefore would not incur any incremental cost from devising one.
- Economies of scale impact on the cost per adviser figure between firms of different sizes; the larger the firm, the lower the average cost per adviser.

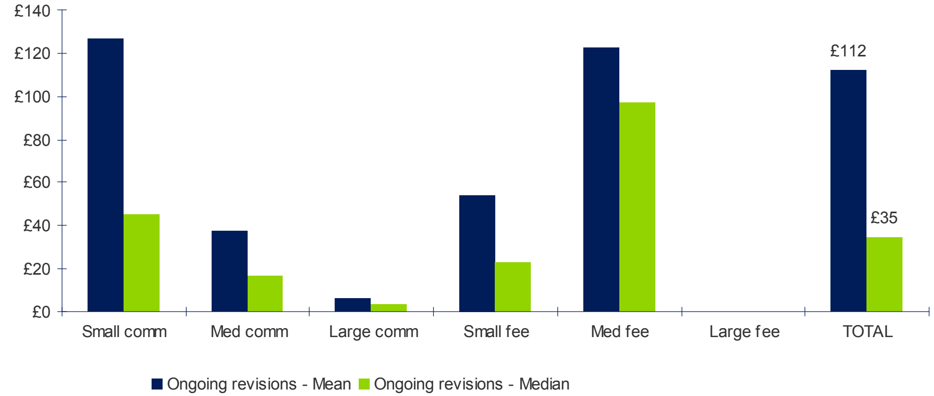
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (3): remuneration

4.36 Ongoing incremental cost of updating price tariff on a regular basis: Mean & median per firm



4.37 Ongoing incremental cost of updating price tariff on a regular basis: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

- The median annual, ongoing incremental cost of updating a new price tariff periodically is estimated by e-survey respondents to be £35 per adviser. This would apply to the 23% of firms who anticipate incurring this incremental cost.
- A small number of high estimates in the medium fee-based segment has driven the relatively high mean scores for firms and advisers in this segment.
- All of the large fee-based firm respondents already have a tariff and therefore would not incur this incremental cost.

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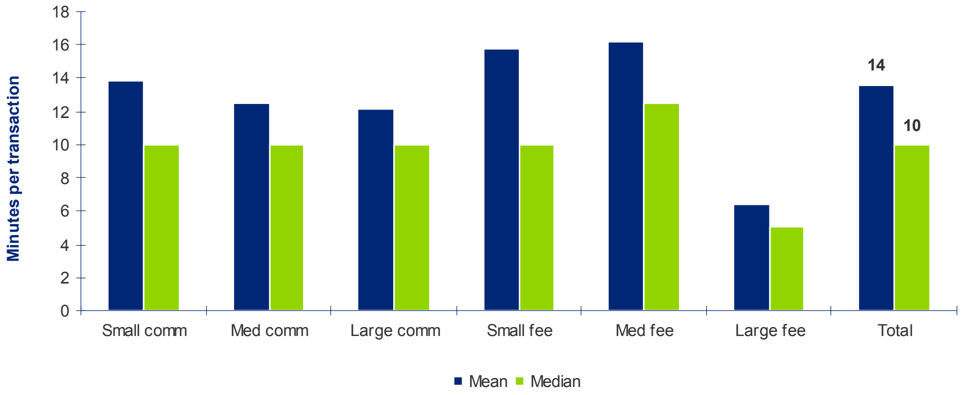
4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (3): remuneration

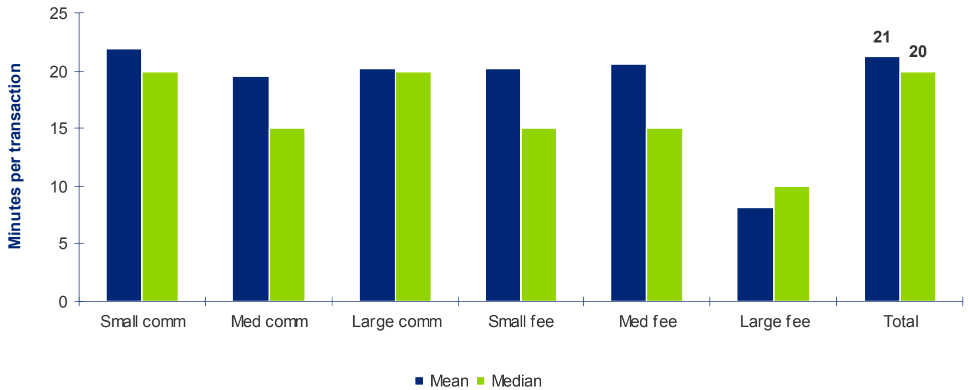
4.38 How long does it currently take to explain to clients how you earn your revenue? (minutes per transaction)



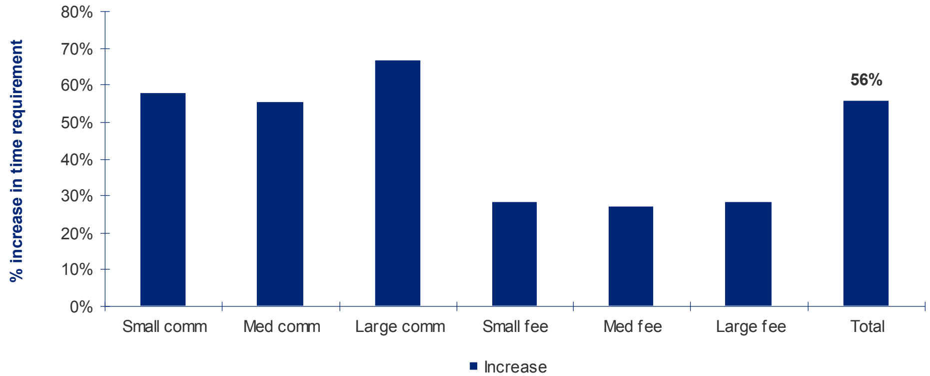
Key observations

- A further incremental cost of the changes proposed by the RDR could be manifested through any change in the time required to disclose to clients how revenue is earnt.
- DA firm respondents provided estimates of minutes per transaction required both under the current regime and their expectations under an 'Adviser Charging' regime, as proposed by the RDR.
- Overall, DA firms predicted a significant increase in time (56% more than current levels) would be needed to explain how they earned revenue to clients. As might be expected, estimates of incremental time requirements were lower across fee-based firms than across their commission-based firm equivalents.

4.39 How long do you expect it will take under Adviser Charging? (minutes per transaction)



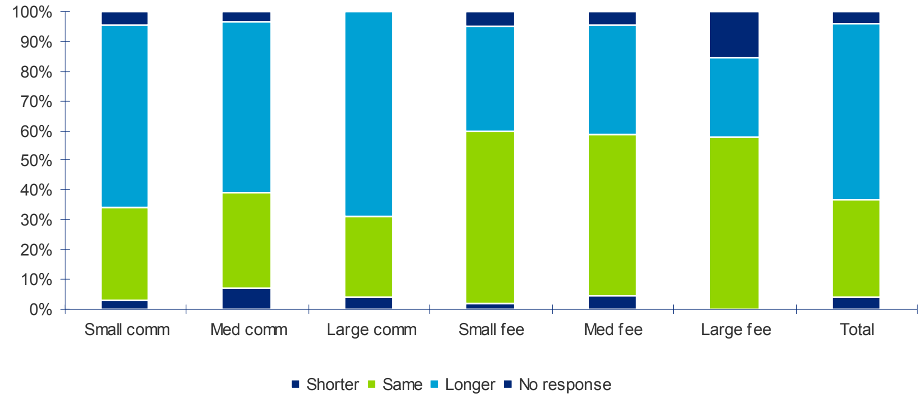
4.40 Percentage increase in amount of time per transaction to explain how firm earns revenue (%)



Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (3): remuneration

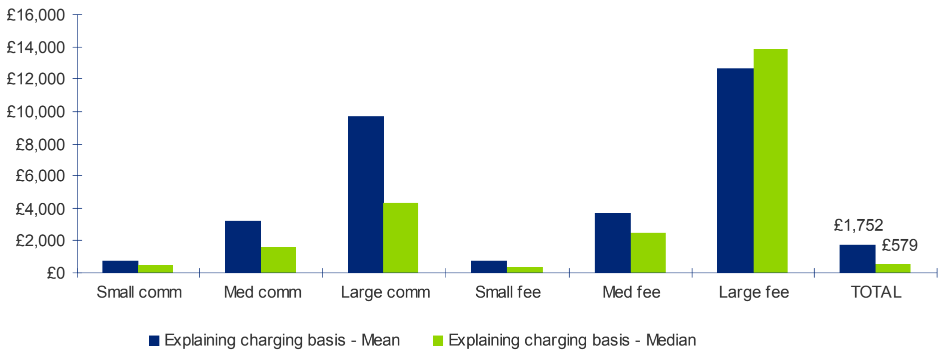
4.41 How will time taken to explain Adviser Charging revenue basis compare with current approach?



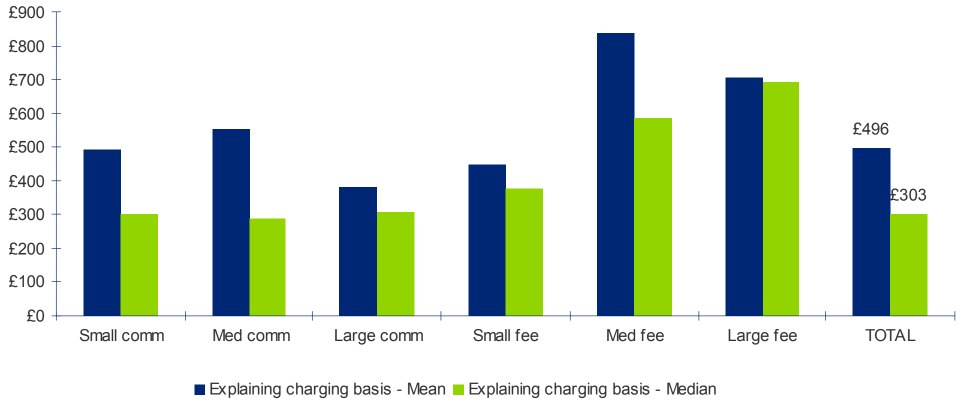
Key observations

- Overall, 59% of firms expect the disclosure of their remuneration basis to take longer under the proposed Adviser Charging regime than it does at present. This varies across firm categories as shown in the top chart.
- For those firms that expect disclosure to take longer, the median annual, ongoing incremental cost per adviser of remuneration disclosure is broadly consistent across commission-based firms of different sizes and is estimated at £303 per adviser per annum.

4.42 Ongoing incremental cost of explaining charging basis: Mean and median per firm



4.43 Ongoing incremental cost of explaining charging basis: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

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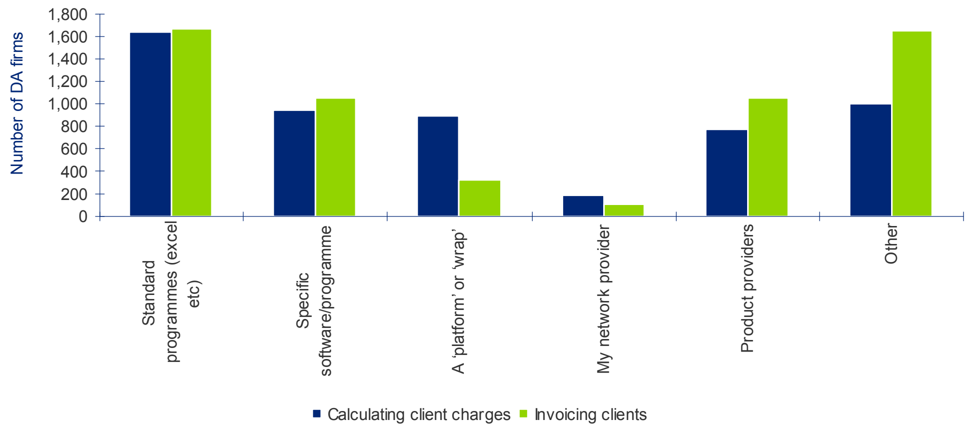
4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (4): IT / systems costs

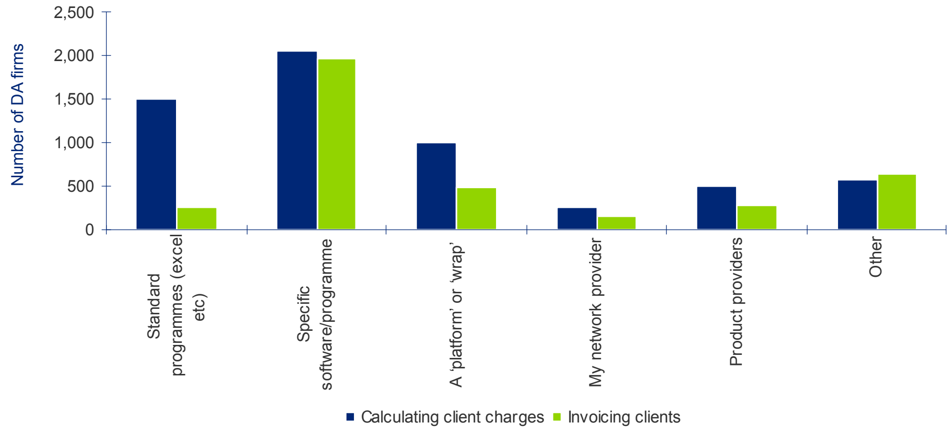
4.44 What do you currently use for calculating customer charges and invoicing



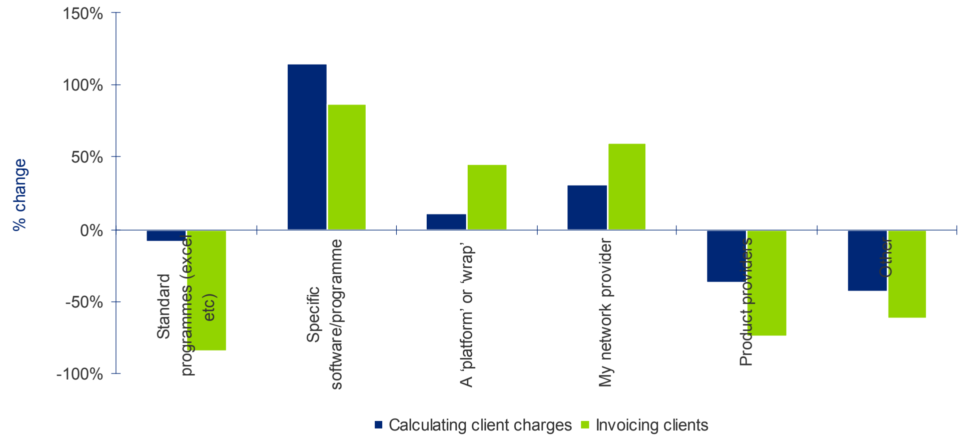
Key observations

- The research considered the incremental costs which may be incurred from the impact of the RDR proposals on IT and systems changes as a result of the move to an Adviser Charging model.
- In the e-survey, DA firms were asked how charges paid by customers for advice are currently calculated and how they are expected to be calculated when Adviser Charging is introduced.
- Chart 4.46 compares the expected use of different approaches to calculating charges now and after Adviser Charging is introduced.
- The key expected trends for the calculation of customer charges are that there will be a decrease in the role product providers will play, with an expected increase in the role of specific software programs in calculating Adviser Charges.

4.45 What do you expect to use for calculating customer charges and invoicing



4.46 Change in expected use of different approaches

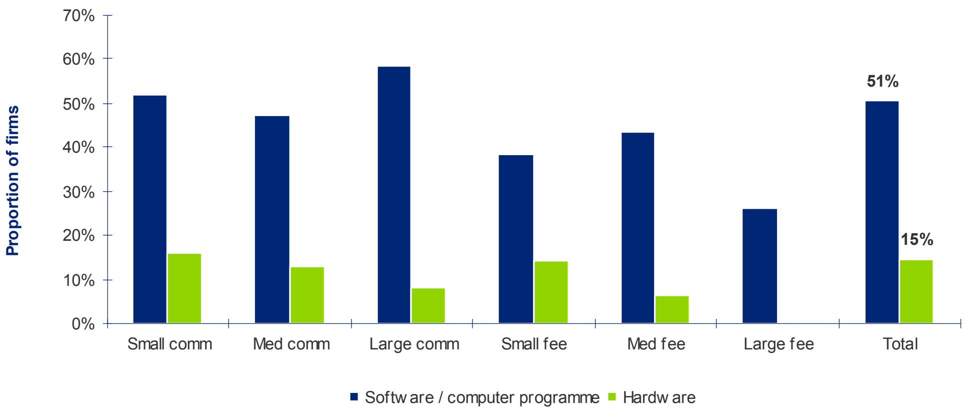


Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (4): IT / systems costs

4.47 Which of the following do you think your firm would need to purchase specifically to enable your firm to operate Adviser Charging?



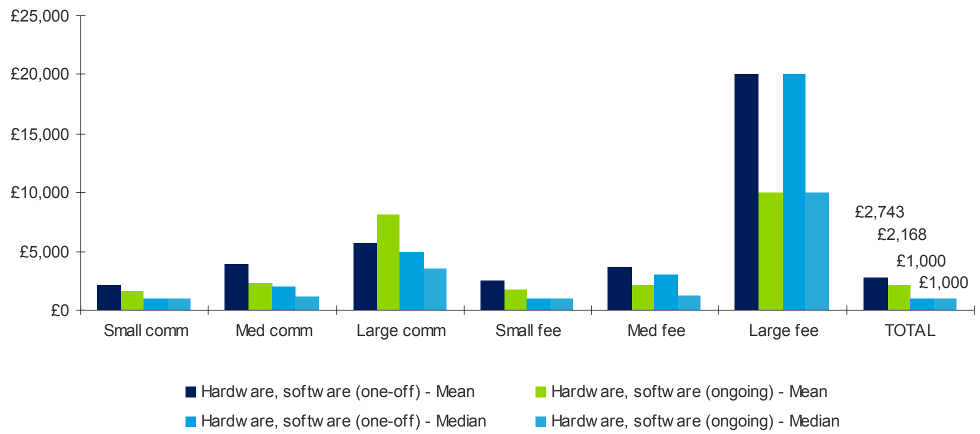
Key observations

- The qualitative stage indicated that few adviser firms had given detailed consideration to the implications of incremental IT costs, although the larger firms believed costs could be significant.
- Approximately half of the DA firms anticipate that they will need to purchase software or a computer program in order to support their organisation to operate Adviser Charging.
- A small percentage of DA firms, 15%, expect to need to purchase computer hardware to support Adviser Charging. Smaller DA firms – across both fee and commission-based firms – are more likely to believe the purchase of hardware specifically to support Adviser Charging will be necessary.
- In total, 63% of DA firms anticipate having to make some form of IT/systems purchase in order to move to Adviser Charging.

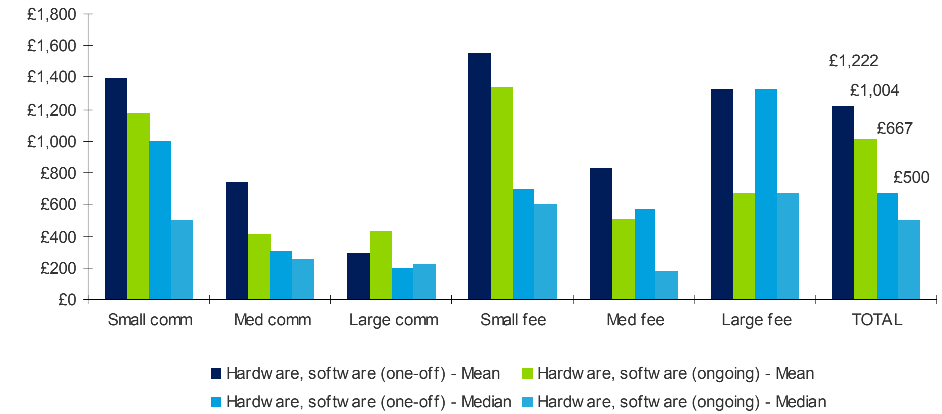
Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (4): IT / systems costs

4.48 IT / Systems costs: Mean and median per firm



4.49 IT / Systems costs: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

- The costs shown are the averages for those firms who provided an estimate of the expected one-off and annual ongoing IT/systems related costs. As noted on the previous page, 63% of all firms expect to have to purchase either new computer software or computer hardware in order to move to Adviser Charging; 61% of firms provided an estimate of one-off IT/systems related costs and 63% provided an estimate of annual ongoing IT/systems related costs.
- The median anticipated costs per firm are higher for both one-off and ongoing costs for larger commision-based firms than for smaller and medium-sized DAs. Both one-off and ongoing median costs are estimated £1,000 per firm across all firms that expect to incur this cost.
- Economies of scale are anticipated – the cost per adviser falls as firm size increases among commission-based DA firms.
- Firms expect to incur almost as much on an ongoing basis as they do on a one-off basis. It is possible that firms have included ongoing cost elements that should not have been factored in to this cost category e.g:
  - They may have factored an allocation of staff time into their cost estimates, such as administrative time spent in relation to Adviser Charging.
  - They may have anticipated a requirement to continually update their systems or software. Such costs may not be incremental, as it is not clear that the RDR would require firms to do this.

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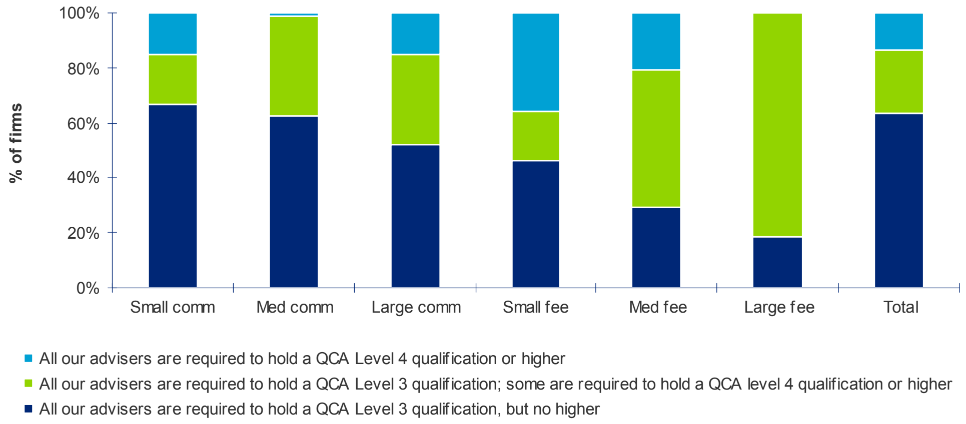
4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (5): professionalism

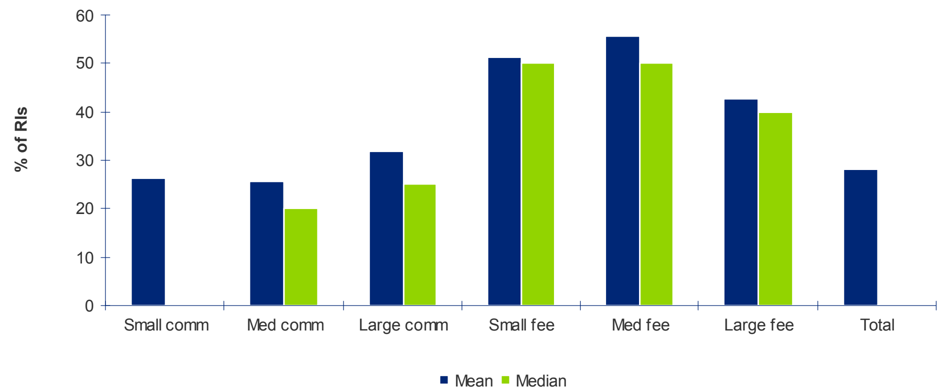
4.50 Firm policy in relation to adviser qualification level



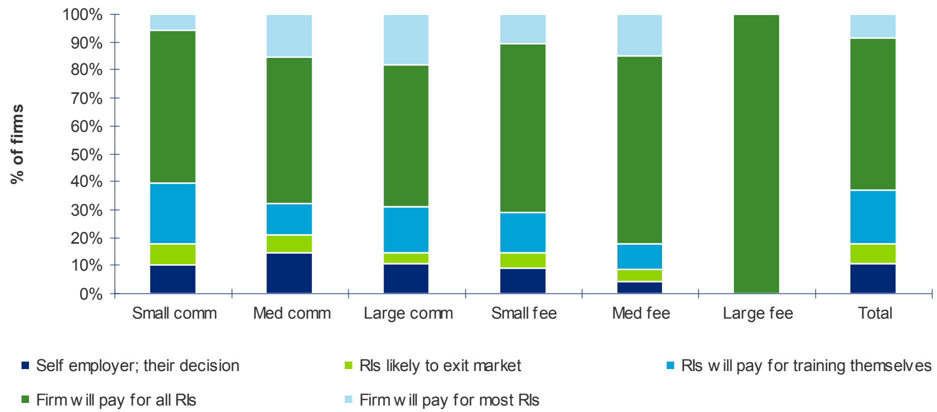
Key observations

- A further area for incremental compliance costs to be incurred relates to the costs that may be associated with achieving the level of professional qualifications required (equivalent to QCA Level 4).
- A total of 13% of firms already have 100% of their advisers at QCA Level 4 and so would not incur any incremental cost as a result of the proposals; 14% of DA firms say they require their advisers to attain a QCA Level 4 or higher qualification, and would also not incur incremental costs even if their advisers have not all yet reached that level; a further 24% of DA firms require 'some' of their advisers to hold a QCA Level 4 qualification.
- The majority of DA firms (55%) say they expect to pay these additional costs of training for all advisers where needed; a further 9% indicate they will pay costs for most of their advisers. Small commission-based firms were most likely to expect their employees advisers to pay for the training

4.51 Approximately what proportion of your RIs have the following qualifications - QCA Level 4 (e.g. CII Diploma in Insurance / Dip CII, ISO22222) or higher



4.52 Who will pay for RIs to upskill?

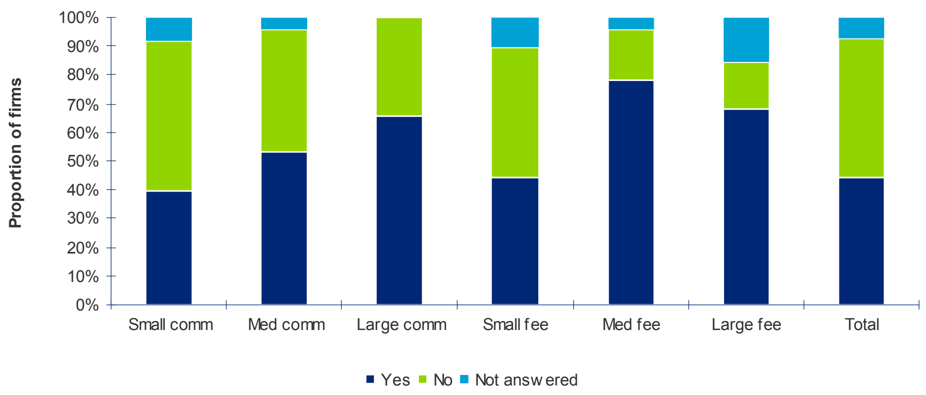


Source: Deloitte survey of retail investment intermediaries (February 2009)
Note: Since the report was completed the Qualification and Curriculum Authority (QCA) has been replaced by OfQual, The Office of the Qualifications and Examinations regulator

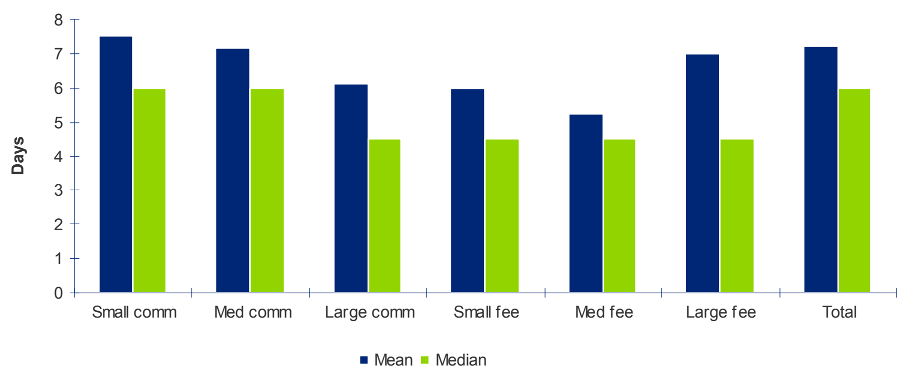
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (5): professionalism

4.53 Will you permit RIs to take paid leave?



4.54 How much paid leave will you permit your RIs to take?



Source: Deloitte survey of retail investment intermediaries (February 2009)

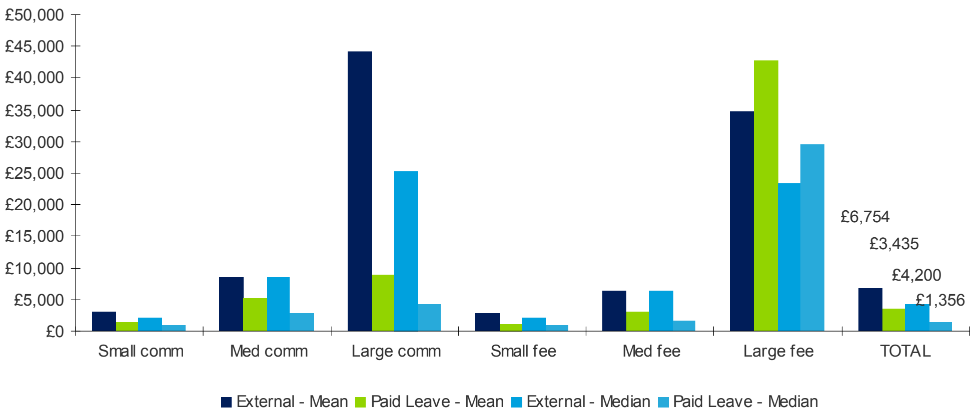
Key observations

- A further incremental cost DA firms could incur is the salary paid to advisers during periods when they are on leave for courses and examinations (study leave).
- DA firms are divided roughly evenly as to whether or not they will offer paid leave to their advisers to study for the professional qualifications required.
- Larger firms – both commission and fee-based – are more likely to say they will offer paid leave to their advisers.

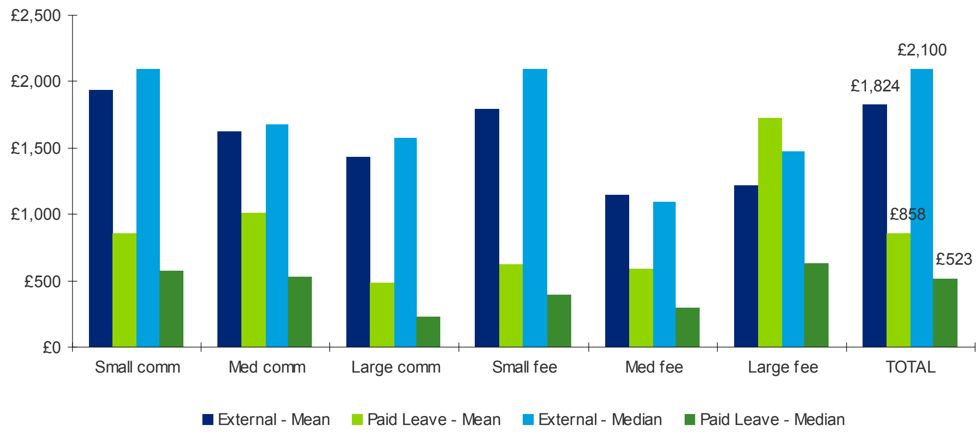
- The incremental cost will also be driven by the quantum of paid leave offered at a firm level. The median level of days paid leave is six – with commission-based firms, particularly small and medium firms – offering more days on average than fee-based firms (although, they are less likely to provide paid leave in the first instance).

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (5): professionalism

4.55 Training costs: Mean and median per firm



4.56 Training costs: Mean and median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

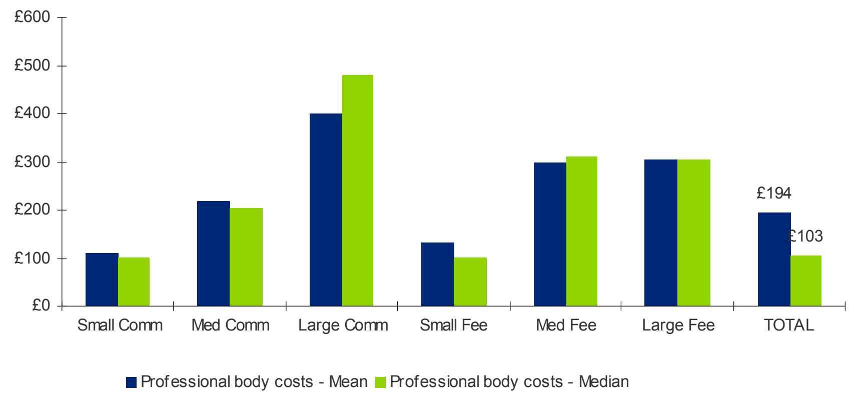
Key observations

- The DA firm respondents estimate that the most significant incremental costs will be those associated with their advisers obtaining the professional qualifications required by the RDR proposals.
- The median cost per adviser across all DA firms that would incur incremental cost (69% of firms for external costs; 31% for paid leave) is estimated as £2,100 for external costs and £523 for the cost of paid leave.
- This includes cost that would be borne by the individuals themselves rather than the firms, if the firm does not intend to finance the training.
- This is the estimated cost of training all current advisers who are not currently at QCA Level 4 up to the required level, which may be spread over a period of several years.
- It excludes the cost of training advisers to QCA Level 4 if the firm says that it is already its policy to train advisers to QCA Level 4 (even if they are not yet at that level).
- In addition to this 'one-off' cost, there would be an ongoing cost of training to QCA Level 4 the new advisers that enter the industry. Some of this cost will be incremental, depending on which firm they initially train with and that firm's current approach. This cost element has not been included as it was not possible to model it on a firm-by-firm basis with the information available.

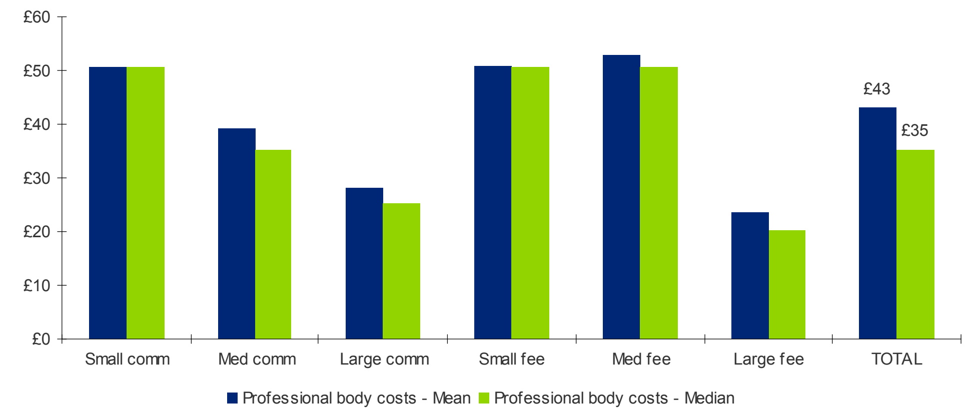
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (5): professionalism

4.57 Professional body costs: Mean & median per firm



4.58 Professional body costs: Mean and median per RI



Key observations

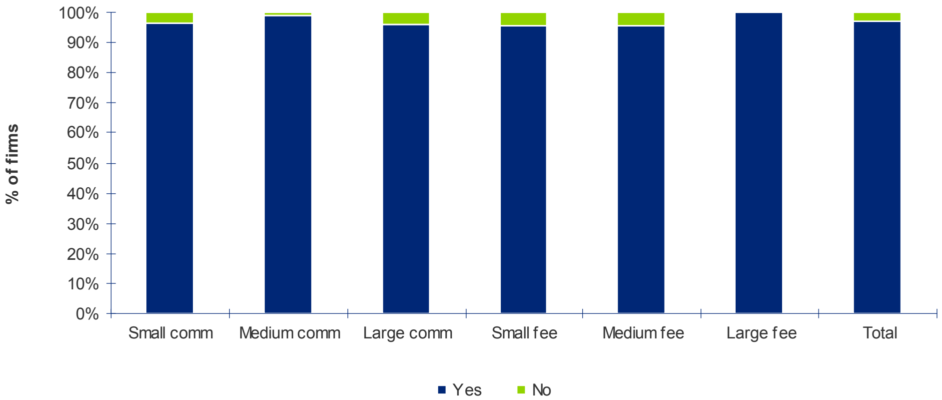
- The working assumptions for the incremental cost estimates, decided at the outset, were that professional body membership would be compulsory as proposed in the RDR Feedback Statement.
- The cost estimate per adviser is based on the cost of being a member of the Chartered Insurance Institute. Where advisers are already members of such a professional body, they will not incur additional costs.
- The costs per adviser per firm segment therefore reflects the proportion of advisers who are already members of professional bodies within that segment. This is lowest among small commission-based firms and highest among large commission-based firms.
- Overall, only 9% of firms would incur incremental costs in this category. Across those firms, the median cost per adviser of the RDR requirment for membership of a professional body is £35.

Source: Deloitte survey of retail investment intermediaries (February 2009)

Note: Professional membership was a working assumption established at the start of the research. The current policy under consideration does not propose mandatory membership of a professional body for advisers.

4. Retail investment intermediaries – Directly Authorised Firms
Perceived incremental costs (6): independence

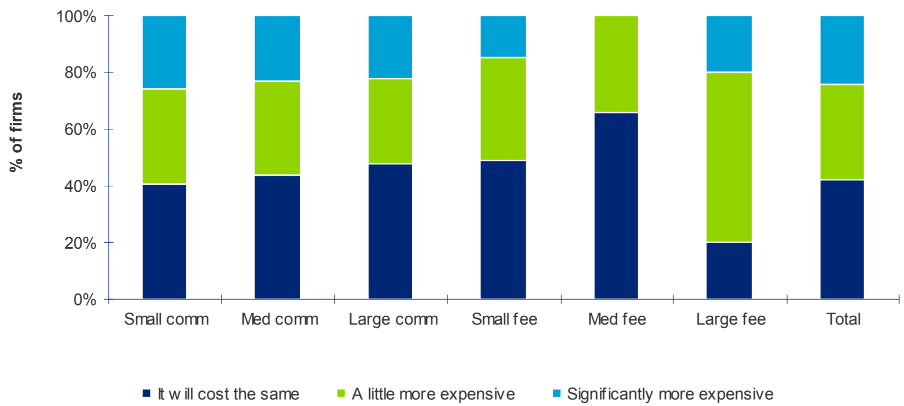
4.59 Do you currently recommend from the whole of market?



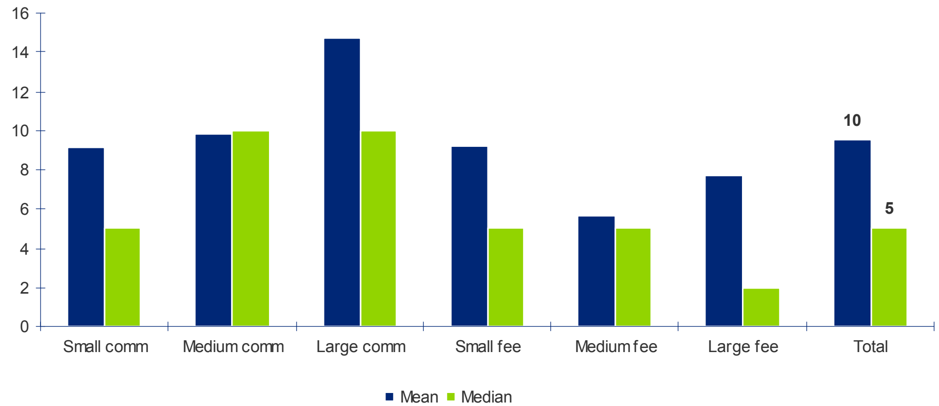
Key observations

- The RDR includes proposals for a new definition of independence and a new requirement for firms to provide unrestricted advice based on a comprehensive and fair analysis of the relevant market.
- 97% of the DA firm respondents currently recommend products from the whole of the market and of this group, 58% believe the new requirements to 'search the market' will bring incremental costs. Of these, 24% believe the requirements will be '*significantly more expensive*'.
- Large fee-based firms were most likely to say they anticipated incremental costs, although only six firms in the segment responded to the question.
- The anticipated additional time required to meet the new search requirements were estimated across the market to be five hours (median) and 10 hours (mean) per firm per week.

4.60 Expectation of cost impact on new independence requirements: it will cost...



4.61 Additional search time (hours per week)



Source: Deloitte survey of retail investment intermediaries (February 2009)

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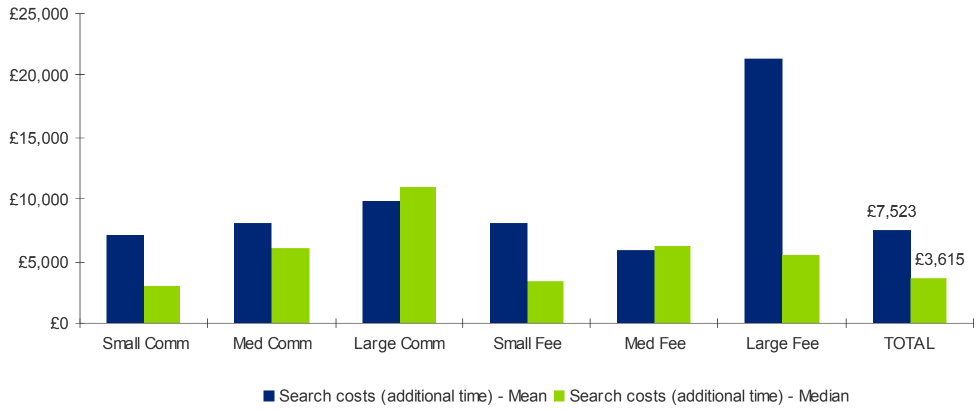
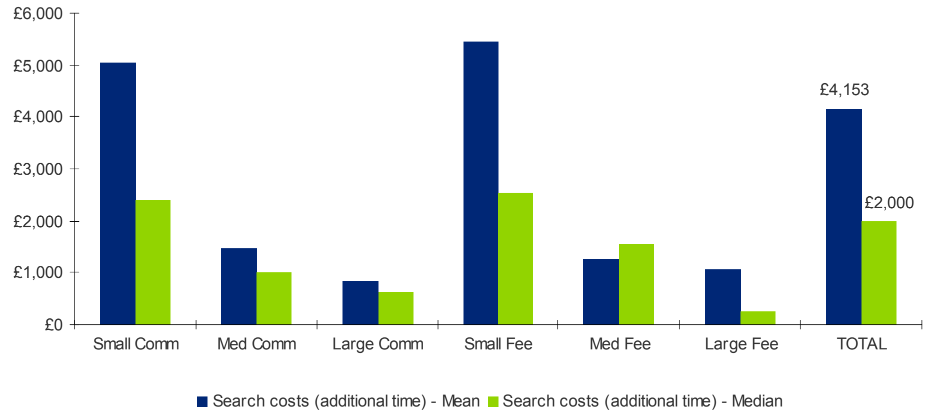
4. Retail investment intermediaries – Directly Authorised Firms

Perceived incremental costs (6): independence

4.62 Search costs: Mean & median per firm



4.63 Search costs: Mean & median per RI



Source: Deloitte survey of retail investment intermediaries (February 2009)

Key observations

- Just over half of the total market estimated additional search costs that would arise from the new market search requirements. For those firms, the median annual ongoing cost per adviser of the requirements is estimated as £2,000. The median cost per firm of the requirements is estimated as £3,615.
- The search costs per adviser decline as the number of advisers increase, reflecting the fact that a portion of these costs are likely to be incurred centrally, particularly for larger firms, rather than by the individual advisers.
- Some of the estimates involve small numbers of respondents: only 10 medium-sized fee-based firms and three large fee-based firms provided estimates.
- In addition to internal search costs, some firms may face additional incremental costs through payments to external providers of market search services, and also for training.
- A total of 17% of firms felt that they would incur additional one-off costs to external search service providers and 27% thought there would be additional ongoing costs to such businesses; 27% also believed that that they would be likely to incur additional training costs as a result of the revised definition of independence.
- A separate 'mini-survey' was issued to a subsection of the sample to gather indicative information on current external search costs. The median cost across the non-representative sample of 26 respondents was 0.3% of a firm's revenue per annum.

4. Retail investment intermediaries – Directly Authorised firms

Summary of median costs per DA firm and per adviser

Table 4.1 Summary of one-off incremental costs of compliance per firm

Cost category	Median one-off costs per firm £*1	Proportion of DA firms expecting to incur incremental cost*2
Professional qualifications – external costs	4,200	80%
Professional qualifications – paid leave	1,356	35%
IT/systems costs	1,000	63%
Clarity of services – internal time	361	57%
Clarity of services – external costs	2,500	57%
Remuneration – devise new tariff	113	23%
Remuneration – revise existing tariff	96	36%

Table 4.2 Summary of ongoing incremental costs of compliance per firm

Cost category	Median ongoing costs per firm £*1	Proportion of DA firms expecting to incur incremental cost*2
IT/systems costs	1,000	63%
Process and disclosure – explanation status	869	52%
Remuneration – ongoing revisions	58	23%
Remuneration – explaining charging basis	579	59%
Professional body costs	103	9%
Independence – additional search costs	3,615	54%

Source: Deloitte survey of retail investment intermediaries (February 2009)
*1 Estimated medians are only for the firms that would incur the incremental cost
*2 The proportion of firms that said that they would need to make the changes that would incur incremental costs

Key observations

One-off costs

- The most significant of the one-off costs are the costs associated with professionalism. Other areas of significant cost are the external costs associated with updating firm literature and marketing material (‘clarity of services – external costs’), as well as IT/systems costs.

Ongoing costs

- Ongoing costs are dominated by the estimated costs associated with the additional time required for market searches. There was a wide range of estimates in relation to this cost category.
- Other relatively significant estimates of costs are attached to IT and systems costs and ongoing disclosure (explaining status to clients).

Proportion of DA firms expecting to incur incremental cost

- The proportion of DA firms expecting to incur incremental costs reflects the firms that have indicated they will need to make a change to their current behaviour as a result of the RDR (while maintaining their equivalent status under the new regime). It excludes non-respondents to the questions that determine whether a firm needs to make those changes.
- For example, for ‘professional qualifications – external costs’, it reflects firms in the DA population that indicated that they do not already have all of their advisers at QCA Level 4 and that did not say it is their policy to train them to that level. These firms are the ones that will incur incremental cost; the median is the median cost for those firms. However, it excludes the 6% of firms that did not respond to the question on their advisers’ qualification levels.

4. Retail investment intermediaries – Directly Authorised firms

Summary of median costs per DA firm and per adviser

Table 4.3 Summary of one-off incremental costs of compliance per adviser

Cost category	Median one-off costs per adviser £
Professional qualifications – external costs	2,100
Professional qualifications – paid leave	523
IT/systems costs	667
Clarity of services – internal time	168
Clarity of services – external costs	1,000
Remuneration – devise new tariff	66
Remuneration – revise existing tariff	43

Table 4.4 Summary of ongoing incremental costs of compliance per adviser

Cost category	Median ongoing costs per adviser £
IT/systems costs	500
Process and disclosure – explanation status	448
Remuneration – ongoing revisions	35
Remuneration – explaining charging basis	303
Professional body costs	35
Independence – additional search costs	2,000

Key observations

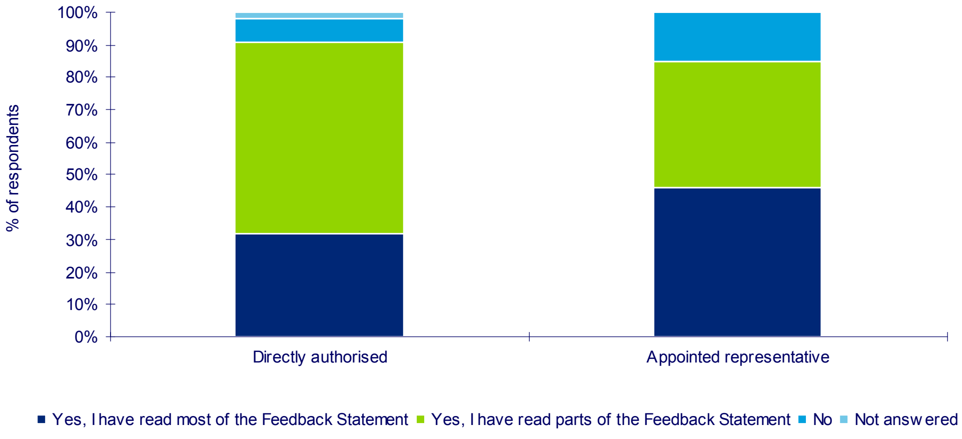
- Tables 4.3 and 4.4 present the data on the preceding page on a ‘per adviser’ basis.

Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Appointed Representatives

Response to the RDR proposals: comparison with DAs

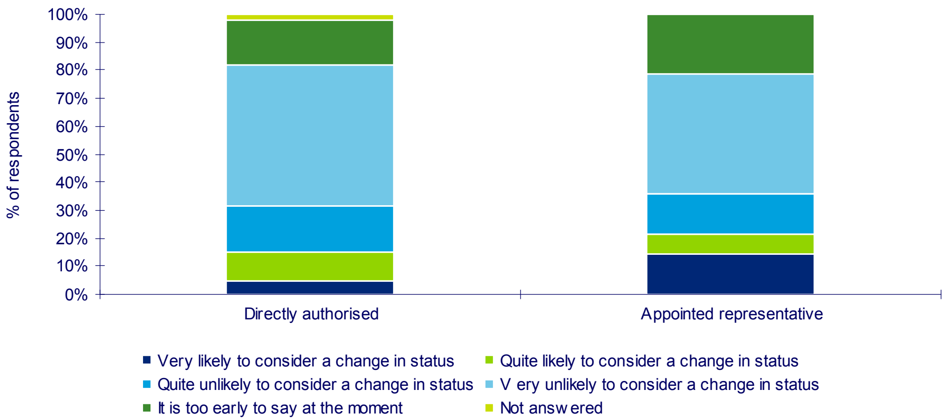
4.64 Have you read any of the Feedback Statement on the RDR?



Key observations

- Fourteen AR firms responded to the e-survey. This does not provide a sufficient number of responses from AR firms either to weight responses or to be considered in any way as representative of the wider community of AR firms. However, total AR responses have been compared against DA responses for a number of questions in the e-survey.
- The AR sample was more weighted towards small commission-based firms than the DA sample, this segment making up 71% of the AR sample versus 56% of the DA sample. Commission-based firms overall were 85% of the AR sample versus 75% of the DA sample.
- The small number of AR responses did not differ greatly from DA responses in terms of their engagement with the RDR and their plans for a potential change in status of the business as a result of the RDR.

4.65 How likely are the RDR proposals to make your firm seriously consider changing the status of your business



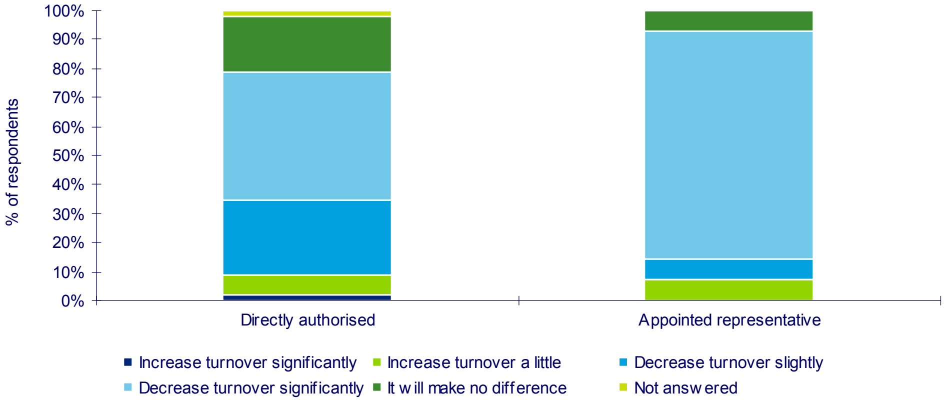
4.66 What would your firm be likely to change its status to

Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Appointed Representatives

Response to the RDR proposals: comparison with DAs

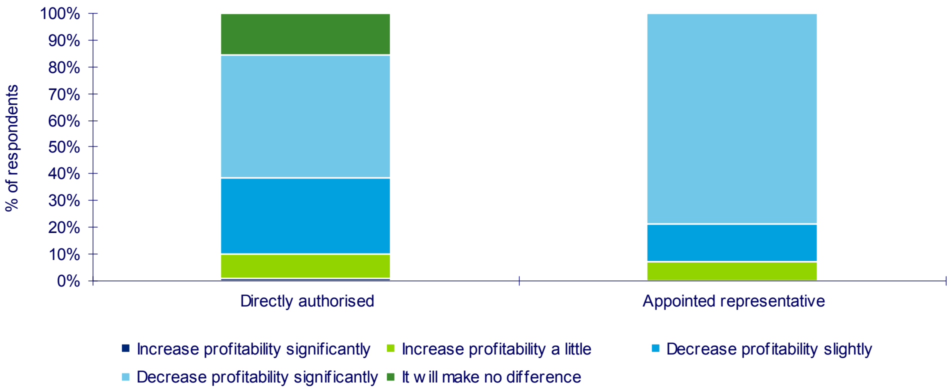
4.67 What impact do you think the RDR proposals in isolation are likely to have on the turnover your firm



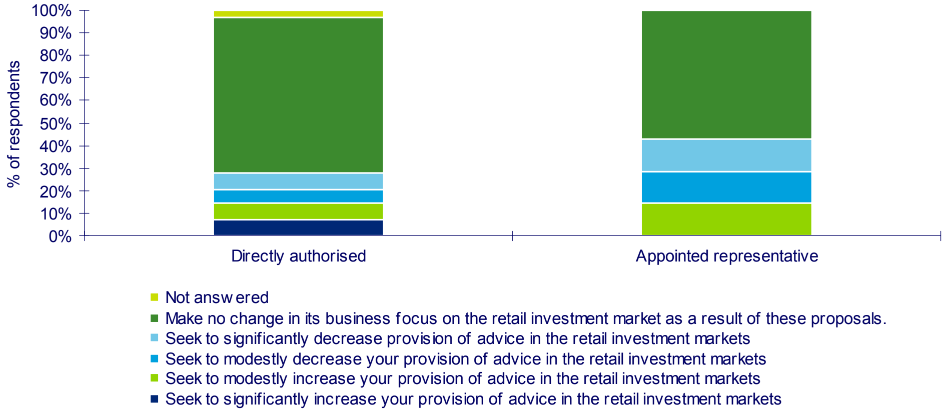
Key observations

- There were few significant differences, particularly given the small number of AR respondents, between AR and DA views on the potential impact of the RDR on their firm's turnover, profitability and degree of focus on the retail investment market. The ARs surveyed also tended to think the proposals could lead to a decrease in their firm's turnover and profitability, but the majority also did not expect to change their firm's degree of focus on retail investments.

4.68 What impact do you think the RDR proposals in isolation are likely to have on the profitability of your firm



4.69 Considering the RDR proposals, will your firm change the extent to which it focuses on the retail investment market



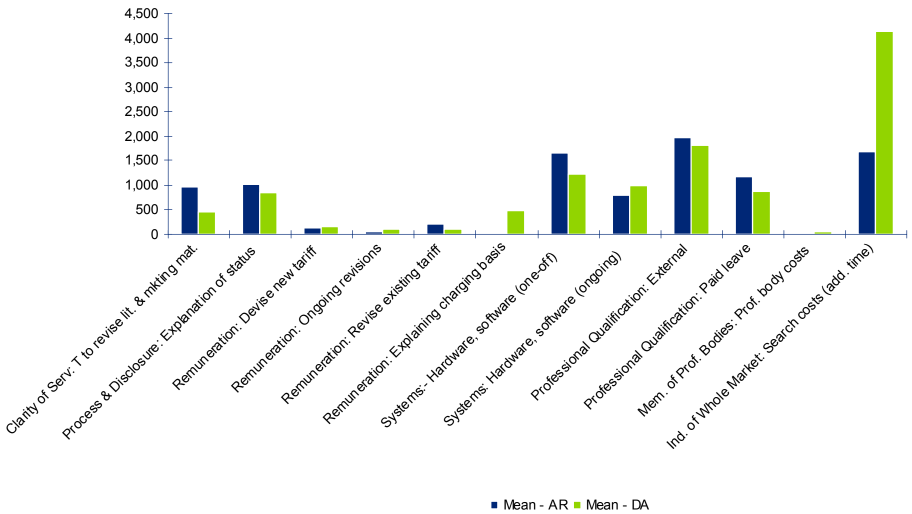
Source: Deloitte survey of retail investment intermediaries (February 2009)

4. Retail investment intermediaries – Appointed Representatives
Summary of perceived incremental costs: comparison with DAs

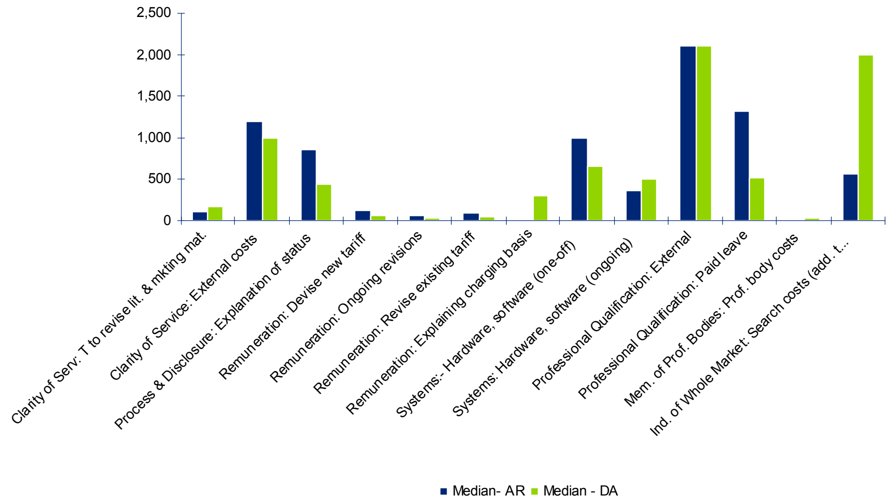
Key observations

- Fourteen AR firms responded to the e-survey. This does not provide a sufficient number of responses from AR firms either to weight responses or to be considered in any way as representative of the wider community of AR firms.
- For illustrative purposes only, mean and median costs per adviser for AR firms have been provided below. These have been presented together with similar data for DA firms. It is important to recognise that the AR figures are not only based on a small number of responses, but that in many cost categories not all 14 AR respondents provided data – reducing the sample base still further.
- The mean cost for 'clarity of service: external costs' has been excluded as a high estimate skews the results, producing a mean of £31,495 for this category.
- Further research will need to be conducted in order to provide clarity on incremental costs of compliance for AR firms.

4.70 Appointed Representative and Directly Authorised Mean per RI by Cost Category (Excluding Clarity of Service External cost as the AR Mean skews the results)



4.71 Appointed Representative and Directly Authorised Median per RI by Cost Category



Source: Deloitte survey of retail investment intermediaries (February 2009)

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Statement of Responsibility

We hereby take responsibility for this report, which is prepared on the basis of the limitations set out on page 2 and below.

Basis of our work
This report ('the report') and any related advice we give has been prepared for the sole purpose of assisting and advising the FSA in accordance with our engagement letter dated 23 January 2009. The information we have used to prepare the report has been provided to us by the FSA, or by retail investment providers and intermediaries or is derived from our own research of publicly available sources. Our procedures did not include verification work or constitute an audit in accordance with auditing standards.

Limitation of information and our work
The scope of our work to date has been limited by the information made available to us and by the time frame made available to Deloitte LLP to undertake this engagement. No follow-up or verification of cost estimates provided by respondents to the e-survey have been made. The analysis in this report is therefore subject to limitations in relation to the quality of information available, and is subject to limitations in relation to the quantity of information available which is driven by the number of responses to the e-survey. In the circumstances, our report may not be comprehensive as we may not have become aware of all facts or information that you may regard as relevant.

Use of report
This report was prepared solely for the exclusive use of the Financial Services Authority (FSA) for the purpose of helping the FSA develop policy in the distribution of retail investments as agreed with the FSA in in our engagement letter with the FSA dated 23 January 2009. This report is not to be used for any other purpose and we accept no duty, responsibility or liability to any party other than the FSA in connection with this report or this engagement.

Post-date events
We have no responsibility to update our report for events occurring after the report date (14 May 2009) nor to monitor its continuing relevance or suitability for the FSA's purposes or otherwise.

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

14 May 2009

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Your Firm

	Please input the full name of the firm on behalf of which you are answering this questionnaire.	
	Name of Contact: (This is optional and is in case any responses require any clarification; results will not be attributable):	

Section 1: Background to the Retail Distribution Review

This section asks some general questions about the Retail Distribution Review proposals and your familiarity with these proposals.

1.1	Which of the following statements reflects the extent to which the proposals contained in the Retail Distribution Review Feedback Statement have been discussed within your organisation? Have they been discussed...	A great deal A reasonable amount Minimally Not at all	
1.2	Within your broader firm, do you offer consumers regulated advice on retail investment products through a direct sales force?	Yes	No
1.3	Do you currently distribute products through the independent advice channel?	Yes	No

Section 2: The Retail Distribution Review; Questions for providers of retail investments

This section asks for your views on how your firm as a provider of retail investments might be impacted by the RDR proposals and your firm's likely response, together with questions relating your potential approach to the compliance requirements. To assist you in completing this questionnaire, a summary of some of the key proposals in relation to both providers and intermediaries within the Retail Distribution Review is provided in the box below. Detailed proposals (you do not need to read these to complete the questionnaire) can be found at http://www.fsa.gov.uk/pages/Library/Communication/PR/2008/139.shtml.

Summary of Select RDR Proposals

Providers

Remuneration

The FSA aims to ban product providers from paying commission to adviser firms for selling their products:

- Product providers will not be able to influence how much money an adviser firm is paid by the consumer
- The FSA will establish the standards that it expects of adviser firms in setting their own charges – such as requiring firms to have a price list/tariff, and not allowing adviser charges to vary by product provider recommended (and to some extent by product type).
- Product providers will be permitted to facilitate payments to advisers through the customer's product or investment. However, by the end of 2012, any payment for advisery services made through the customer's product or investment must be funded directly by matching a deduction from that product or investment made at the same time as that payment, sometimes referred to as 'perfect matching'.
- Product providers would also be required to reprice new products without commission from 2012, on all retail investment products when sold via adviser firms.

Intermediaries

Professional Standards

The FSA propose to consult on the creation of an overarching Independent Professional Standards Board (IPSB) to function initially as a sub-committee of the FSA Board. In time, it may be launched as a separate body with statutory footing:

- The IPSB would provide a common framework for professional standards across all advice channels, and work with the Financial Services Skills Council to raise the benchmark qualification for advisers in the independent and non-independent advice sectors to QCA Level 4 (Scottish equivalent SCQF level 8).
  The IPSB would also be responsible for setting, reviewing and dealing with breaches to codes of ethics for advisers, and would set consistent minimum standards for continuing professional development (CPD).

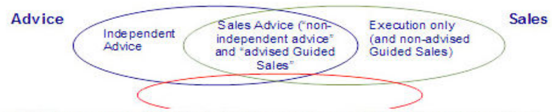
Conditions for Independence

The FSA want to change the criteria that adviser firms must meet to describe their services as 'independent'.

- This would involve demonstrating that the 'independent' firm provided unbiased, unrestricted advice based on a comprehensive and fair analysis of the relevant market.
- The FSA no longer intends to restrict their independence standards to firms advising on packaged products but applying the standards across all forms of investments products.
- The FSA would expect some firms to conduct a more thorough review of the market and be able to demonstrate why a product was chosen over others. For example, the FSA would expect to see firms increase their product knowledge in areas where they may not have recommended before e.g. tracker funds/ETFs.

Clarity of Services

- The FSA want to improve clarity for consumers about the services on offer.
- Firms offering investment advice, including adviser firms and private client investment managers will be required to make clear whether the advice they offer is independent or non-independent before the service is provided.



- Capital resources: revising the rules to simplify the calculation and make it consistent for all firms
- Extending the expenditure-based requirement (EBR) to all firms based on the three months of relevant annual expenditure with a minimum capital resources floor of £20,000 for all firms
- Professional Indemnity Insurance: setting out more specific requirements as to the level of additional capital resources needed where firms have exclusions in their PII policy.

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- Professional Indemnity Insurance: setting out more specific requirements as to the level of additional capital resources needed where firms have exclusions in their PII policy.

Source: Deloitte survey of retail investment intermediaries (February 2009)

Appendix 1
Deloitte survey of retail investment providers (February 2009)

This section asks for your views on how your firm might be impacted by the RDR proposals, and your firm's likely response.

2.1 Overall, what level of impact do you expect the RDR proposals to have on your strategy to distribute the investment products you provide...?

- A significant impact
- Some impact
- Minimal impact
- No impact

2.2 As a result of these proposals, do you think the share of your firm's retail investments distributed through the following channels is likely to increase or decrease......?

2.2a. Independent advice

- Increase significantly
- Increase a little
- Remain unchanged
- Decrease a little
- Decrease significantly

2.2b. Non independent advice provided within our organisation

- Increase significantly
- Increase a little
- Remain unchanged
- Decrease a little
- Decrease significantly

2.2.c Non independent advice provided outside our organisation

- Increase significantly
- Increase a little
- Remain unchanged
- Decrease a little
- Decrease significantly

2.2d. Execution only

- Increase significantly
- Increase a little
- Remain unchanged
- Decrease a little
- Decrease significantly

2.3 Wraps and Platforms might take on the role of collecting charges / remuneration for advisers. Do you expect the RDR proposals to increase or decrease the share of your firm's new investment business that will be distributed through wraps and platforms?

- Increase significantly
- Increase a little
- Stay the same
- Decrease a little
- Decrease significantly

Source: Deloitte survey of retail investment intermediaries (February 2009)

2.4 When the RDR proposals are implemented, how likely is it that your firm will offer the following to adviser firms...?

2.4a. A service collecting and passing on adviser charges

- Very likely
- Quite likely
- Quite unlikely
- Very unlikely
- Unsure

2.4b. Factoring services - while permitted (Advancing the fees that advisers charge customers to the advisers, in advance of the customers paying those fees)

- Very likely
- Quite likely
- Quite unlikely
- Very unlikely
- Unsure

2.4c. A range of 'factory gate prices' (the product price without a charge for advice) rather than a single price. E.g. FGPs could vary by such factors as adviser size or premium size

- Very likely
- Quite likely
- Quite unlikely
- Very unlikely
- Unsure

2.5 Which of the following factors do you think will be the most important elements of your firm's proposition in the independent advice sector once the RDR proposals are implemented...?

Please rank the 3 most important factors in order of importance.

		1	2	3
2.5a.	Level of Factory Gate' prices for intermediaries	○	○	○
2.5b.	Quality of marketing	○	○	○
2.5c.	Strength of consumer brand	○	○	○
2.5d.	Financial strength of provider	○	○	○
2.5e.	Product propositions / features	○	○	○
2.5f.	Historical fund management performance	○	○	○
2.5g.	Quality of service / communications with intermediaries	○	○	○
2.5h.	Quality of service / communications with retail customers	○	○	○
2.5i.	Facility to collect and pass-on adviser charges / remuneration	○	○	○
2.5j.	Willingness to provide factoring services / pay anticipated charges in advance	○	○	○
2.5k.	Other (specify below)	○	○	○

If you selected "Other" please specify:

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Appendix 1

Deloitte survey of retail investment providers (February 2009)

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Retail Distribution Review – Market Response and Compliance Costs

Your financial performance

2.6 To what extent do you think the RDR proposals in isolation might impact the persistency of retail investments if you were to continue to operate your current distribution profile? Will persistency...

- Increase significantly
- Increase a little
- Stay the same
- Decrease a little
- Decrease significantly
- Uncertain of the impact

2.7a. Why will persistency increase? What is the single most important reason

- Advisers will not be as motivated to rebroke business
- Providers will become more focused on retaining existing business
- Customers will become more aware of the cost of advice and will not switch between products as regularly
- Other (pelase specify below)

2.7aa If you selected "Other" please specify:

2.7b. Why will persistency decrease? What is the single most important reason

- Advisers will review customers' circumstances more regularly and are more likely to recommend switching out of inappropriate products
- Competition between providers will focus more on factors (such as the cost and performance of products) that are likely to encourage product switching
- Customers will become more aware of factors (such as the cost and performance of products) that will motivate them to switch between products
- Other (please specify below)

2.7bb. If you selected "Other" please specify:

2.8 What impact do you think the RDR proposals in isolation (i.e. excluding other influences such as economic conditions) are likely to have on the profitability of your firm's activities in the retail investment market once implemented, if you were to continue operating your current business model? Will the impact be to...?

- Increase profitability significantly
- Increase profitability a little
- Decrease profitability slightly
- Decrease profitability significantly
- It will make no difference
- Uncertain of the impact

2.9 Which of the following major changes might your firm consider making in relation to your distribution strategy in the retail investment market when the RDR proposals are implemented? "We might consider..."

- Acquisition of other distributors
- Setting up/expanding direct sales force
- Distribution arrangements/partnerships with other Financial firms e.g. Bank and Building societies
- Distribution arrangements with other non traditional distribution partners (e.g. retailers)
- Increasing focus, or entering, the offshore or non UK retail investment market
- Acquisition of other product providers
- Other (please specify below)
- None of these

2.9a. If you selected "Other" please state:

Your Firm's Product / Market Focus

As stated earlier, the FSA's proposals on the Retail Distribution Review apply only to the investment market. The FSA has stated that they have no plans to apply these proposals to other 'product markets' such as protection and mortgages.

2.10 To what extent do you think the application of these proposals to the investment market only might change the 'product focus' of your firm. Will your firm be likely to?

- Seek to significantly increase your focus on the retail investment market
- Seek to modestly increase your focus on the retail investment market
- Seek to modestly decrease your focus on the retail investment market
- Seek to significantly decrease your focus on the retail investment market
- Make no change in our focus on the retail investment market as a result of these proposals

2.11 And from which other product market, if any, would your firm seek to increase revenues in order to replace the decreased focus on investment advice?

Please choose one market.

- Mortgages - retail
- Protection – retail
- General insurance – retail
- Corporate market
- Other (specify below)
- None

2.11a. If you selected "Other" please specify:

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Appendix 1

Deloitte survey of retail investment providers (February 2009)

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Retail Distribution Review – Market Response and Compliance Costs

B. YOUR FIRM'S RESPONSE AS A PROVIDER OF RETAIL INVESTMENTS TO COMPLYING WITH THE REQUIREMENTS OF THE RDR

Section B asks for your views on whether the RDR proposals imply new activities and processes for your organisation as a provider of retail investment products and whether your firm might need to incur additional costs in relation to these. The focus of these questions is your current business model.

One of the key proposal relating to provider firms (also documented earlier in this section) is:

Providers
Remuneration

The FSA aims to ban product providers from paying commission to adviser firms for selling their products:

- Product providers will not be able to influence how much money an adviser firm is paid by the consumer
- The FSA will establish the standards that it expects of adviser firms in setting their own charges – such as requiring firms to have a price list/tariff, and not allowing adviser charges to vary by product provider recommended (and to some extent by product type).
- Product providers will be permitted to facilitate payments to advisers through the customer's product or investment. However, by the end of 2012, any payment for advisery services made through the customer's product or investment must be funded directly by matching a deduction from that product or investment made at the same time as that payment, sometimes referred to as 'perfect matching'.
- Product providers would also be required, from 2012, to redesign all products sold via adviser firms to exclude commission payments and reprice them to reflect the factory gate price.

2.12	Does your firm currently offer 'Factory Gate Pricing' to adviser firms (defined as setting a product price that does not include any allowance for the costs of advice / commission)?	◯ Yes ◯ No – we have offered Factory Gate Pricing in the past but do not currently offer this ◯ No – we have never offered Factory Gate Pricing
2.13	From 2013 your firm's products will need to be priced to not include the cost of advice or commission payments. To what extent have the implications of these proposals for your firm's systems and information technology been discussed within your firm? Have the implications …?	◯ Not been discussed/reviewed ◯ Been discussed/reviewed at a reasonably 'high-level' ◯ Been discussed/reviewed in detail ◯ Don't know/not sure

IT/systems

2.14	As far as you know, which of the following statements is most likely to reflect the changes that might be required <u>in your firm</u> in relation to <u>systems and information technology</u> as a result of the requirement to re-price your products…?	◯ Our firm would probably need to make changes to our <u>existing</u> IT system, but these are likely to be <u>minimal</u> ◯ Our firm would probably need to make changes to our <u>existing</u> IT system – these are likely to be <u>moderate</u> ◯ Our firm would probably need to make changes to our <u>existing</u> IT system – these are likely to be <u>significant</u> ◯ Our firm would need to purchase/set-up a <u>new</u> IT system ◯ It is too early to say / unsure
2.15	If your firm was to purchase / set-up a new IT system, would your firm be likely to continue to run the existing IT system – for example for product administration and payment of trail commission on existing business - in tandem with the new system?	◯ Yes – but only as a temporary measure ◯ Yes – as a longer term measure ◯ No – the new system would replace the existing IT system ◯ It is too early to say / unsure
2.16	Overall, if you were to estimate the total IT/systems costs that might be implied for your firm (excluding any costs of non IT staff) <u>as a result of the need to re-price products only</u>, which of the following ranges do you believe the costs are likely to fall into…?	◯ Under £500,000 ◯ £500,000 - £1 million ◯ £1 million - £2 million ◯ £2 million - £3 million ◯ £3 million - £5 million ◯ £5million - £10 million ◯ More than £10 million ◯ Unsure / don't know

2.17	What is the level of costs that you anticipate as a result of the need to re-price products? (write amount in millions of pounds) £__________m	
2.18	Of the total costs you estimate your firm might incur as a result of the need to re-price products only, what proportion of these cost roughly do you expect to fall into the following categories….? Please ensure the percentages sum to 100%	
2.18a.	Direct cost of technology/systems	%
2.18b.	IT/systems staff time spent	%
2.18c.	Other (specify below)	%
	If you selected "Other" please specify:	

2.19 Would you incur further additional costs days, aside from IT costs, in any of the other areas of your business listed below <u>because of the requirement for providers to redesign their products to take into account changes in remuneration?</u>

Only include these if you would not have incurred these costs without this regulatory requirement. Are these costs likely to be one-off or on-going?

2.19a.	Project management time - One-off costs (man days in total)	
2.19a.	Project management time - Ongoing costs (man days per year)	
2.19b.	Actuarial time due to changes in design / manufacturing of new products - Ongoing costs (man days per year)	
2.19b.	Actuarial time due to changes in design / manufacturing of new products - One-off costs (man days in total)	
2.19c.	Time spent by other staff - One-off costs (man days in total)	
2.19c	Time spent by other staff - Ongoing costs (man days per year)	
2.20	Have you any further comments in relation to the costs to your business that are implied by the RDR proposals?	

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Retail Distribution Review – Market Response and Compliance Costs
C. YOUR FIRM'S PROFILE AS A PROVIDER OF RETAIL INVESTMENTS

The part of Section 2 collects some details in relation to the profile of your firm. This will be used to analyse differences in responses between types of investment providers.

2.21	My firm is a provider of:	☐ MIFID products ☐ Non-MIFID products
2.22	For MIFID business, approximately what were the gross retail sales in the UK for your firm last year?	◯ £0-£10m ◯ £10-£50m ◯ £50-£100m ◯ £100m-£500m ◯ £500-£1bn ◯ £1bn-£2bn ◯ >£2bn
2.23	For non-MIFID business, approximately what was the value of the APE (annual premium equivalent) in the UK for your firm last year?	◯ £0-£10m ◯ £10-£50m ◯ £50-£100m ◯ £100m-£500m ◯ £500-£1bn ◯ £1bn-£2bn ◯ >£2bn
2.24	Approximately what percentage of last year's profits in the UK are derived from your firms activities in the retail investment market? Please use your best estimate.	◯ Under 10% ◯ 10-19% ◯ 20-29% ◯ 30-39% ◯ 40-49% ◯ 50-59% ◯ 60-69% ◯ 70-79% ◯ 80-89% ◯ 90-100% ◯ Don't know
2.25	Approximately what proportion of your total retail investment business in the UK is related to investments using/through platforms and wraps? (Please specify)	◯ Under 10% ◯ 10-19% ◯ 20-29% ◯ 30-39% ◯ 40-49% ◯ 50-59% ◯ 60-69% ◯ 70-79% ◯ 80-89% ◯ 90-100% ◯ Don't know

2.26	What proportion of your current retail investment business is distributed through the following channels? *Please ensure that the figures entered total 100%	
2.26a.	Independent Financial Advisers (including Whole of Market Advisers)	%
2.26b.	Non-independent Advisers (tied or multi-tied) outside of our firm	%
2.26c.	Non-independent advisers (tied or multi-tied) within our firm	%
2.26d.	Execution only	%

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Retail Distribution Review – Market Response and Compliance Costs

Section 3: The Retail Distribution Review; questions for providers with direct sales forces

This section asks for your views on how your firm as a provider of advice on retail investments might be impacted by the RDR proposals and your firm's likely response, together with questions relating your potential approach to the compliance requirements

A. YOUR FIRM'S STRATEGIC RESPONSE AS A PROVIDER WITH A DIRECT SALES FORCE

Status and Strategy

3.1	How likely are the RDR proposals to make your firm seriously consider changing the status of your direct sales force, for example, moving to execution only?"	◯ Very likely to consider a change in status ◯ Quite likely to consider a change in status ◯ Quite unlikely to consider a change in status ◯ Very unlikely to consider a change in status ◯ It is too early to say at the moment
3.2	What would your direct sales force be likely to change its status to:	◯ Execution Only ◯ Our firm would close or sell its advisory capabilities
3.3	Which of the following statements best describes the reason why your firm would consider changing the status of its direct sales force if the RDR was to be implemented? Please select one answer only. Our firm might change the status of its direct sales force because...	◯ If our firm retained its status, our commercial prospects/profitability would decrease as a result of the RDR proposals ◯ If our firm changed its status, our commercial prospects/profitability would increase as a result of the RDR proposals
3.4	Why not?	◯ Offering advice to our customers is an important part of our proposition ◯ The cost or inconvenience of changing our business model would be too great ◯ Other
3.5	Which of the following statements best describes the main reason why your firm would be likely to close or sell its direct sales force?	◯ Our firm would have been likely to close or sell its direct sales force even if the changes proposed by the RDR did not go-ahead (e.g. due to market conditions) ◯ It would not be profitable to remain in the market as a result of the RDR proposals ◯ Other reason (please specify below)
3.5a.	If you selected "Other" please specify:	
3.6	Do you expect to offer your clients a choice of method of paying for advice?	◯ Yes ◯ No
3.7	What method of paying for advice do you think the majority of your customers are likely to choose under the new remuneration requirements?	◯ Paid by the customer up front, distinct from any charges or payments relating to the product ◯ Paid by the customer over time, distinct from any charges or payments relating to the product ◯ Charged against their products up front ◯ Charged against their products over time
3.8	Which method of payment for advice will your customers be required to use?	◯ Paid by the customer up front, distinct from any charges or payments relating to the product ◯ Paid by the customer over time, distinct from any charges or payments relating to the product ◯ Charged against their products up front ◯ Charged against their products over time
3.9	What impact, if any, will the proposals have on your firm's approach to remunerating your advisers. Which of the following is most likely...?	◯ There will be no change ◯ Advisers will receive a greater proportion of their remuneration in fixed salary ◯ Advisers will receive a smaller proportion of their remuneration in fixed salary
3.10	Those advisory firms that are non-independent may be required to separate the cost of advice and the cost of manufacturing for the consumer, under the proposals. How easy will it be for your firm to achieve this?	◯ Very easy ◯ Quite easy ◯ Neither easy nor difficult ◯ Quite difficult ◯ Very difficult ◯ Don't know
3.12	What is the single main reason why you do not believe your firm would be able to move to an Adviser Charging model?	◯ Not enough customers would be prepared to explicitly pay for advice ◯ The fee customers would be prepared to pay for advice would not be high enough ◯ The systems changes would be too complex and/or costly ◯ Our business model does not allow for easy separation of the cost of the product from the cost of advice ◯ Other (specify below)
3.12a.	If you selected "Other" please specify:	
3.13	What impact do you think the RDR proposals in isolation (i.e. excluding other influences such as economic conditions) are likely to have on the profitability of your firm's advisory activities once implemented, if you were to maintain your current business model? Will the impact be to...?	◯ Increase profitability significantly ◯ Increase profitability a little ◯ Decrease profitability slightly ◯ Decrease profitability significantly ◯ It will make no difference

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Retail Distribution Review – Market Response and Compliance Costs

Products

As stated earlier, the FSA's proposals on the Retail Distribution Review apply only to the investment market. The FSA has stated that they have no plans to apply these proposals to other 'product markets' such as protection and mortgages.

3.14	Considering the RDR proposals, do you think your firm will change the extent to which your advisory capabilities focus on the retail investment market? As a result of these proposals, will your firm be likely to....?	◯ Seek to significantly increase your provision of advice in the retail investment markets ◯ Seek to modestly increase your provision of advice in the retail investment markets ◯ Seek to modestly decrease your provision of advice in the retail investment markets ◯ Seek to significantly decrease provision of advice in the retail investment markets ◯ Make no change in its business focus on the retail investment market as a result of these proposals.
3.15	What is the single most important reason why you think your firm might seek to decrease the provision of advice in retail investment markets. Is this because of.....	◯ The new level of professional qualifications required ◯ Consumer demand for investment advice will reduce as a result of Adviser Charging and Disclosure ◯ More attractive remuneration and greater profitability in other sectors / product markets ◯ Other reason (please specify below)
3.15a.	If you selected "Other" please specify:	
3.16	And which other product market, if any, would you particularly seek to increase revenues from in order to replace the decreased focus on investment advice. Please choose one market.	◯ Mortgages - retail ◯ Protection – retail ◯ General insurance – retail ◯ Corporate market ◯ Other ◯ None – we will not seek to replace any decreased revenues from investment markets

Customers

3.18 Listed below are a number of statements in relation to your customers to whom your firm provides advice. Thinking about your current business model, please indicate the extent to which you agree or disagree with each statement. When the RDR is implemented.....

		1 Agree strongly	2 Agree slightly	3 Neither agree or disagree / unsure	4 Disagree slightly	5 Disagree strongly
3.18a.	I expect the financial profile / type of customer advised by my firm to remain broadly the same	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
3.18b.	I expect customers seeking advice will be more likely to demand an on-going service from our firm	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
3.18c.	I expect some of the firm's customers will seek to negotiate the levels of charges proposed to them	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
3.18d.	I expect most of the firm's customers will seek to negotiate the levels of charges proposed to them	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
3.18e.	I expect the firm will seek to focus on advising customers with higher incomes or assets than our current customer base	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
3.18f.	I expect our advisers will have fewer customers on average who they will provide more frequent advice to	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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B. YOUR FIRM'S RESPONSE AS A PROVIDER WITH A DIRECT SALES FORCE

The following section looks at likely policy changes in fives areas – Clarity of Services; Remuneration; Professionalism; Independence; and Prudential Rules - and asks you to consider the likely impact of these changes on your current advisory business.

(1) *Clarity of Services*

The new regulatory landscape will distinguish between independent and non-independent advice. Adviser firms and private client investment manager firms will be required to make clear whether the advice they offer is independent or non-independent before the service is provided.

3.19	Will the RDR proposals require you to make changes to how you disclose the scope of your service?	◯ Yes	◯ No
3.20a.	What changes will you need to make and how long will this take?	☐ Firm literature ☐ Marketing material ☐ Disclosure material	
3.20.1a	Firm literature	____ hrs	
3.20.1b	Marketing material	____ hrs	
3.201c	Disclosure material	____ hrs	
3.21	Do you expect the explanation / disclosure of your firm's status to take longer in the new Post-RDR regime than the explanation /disclosure of your firm's current status?	◯ Yes	◯ No
3.22	How much longer to you expect the disclosure of your firm's status to take per transaction in the new regime: (Minutes per transaction)	____	

(2) Remuneration

- Product providers will not be able to influence how much money an adviser firm is paid by the consumer.
- The FSA will establish the standards that it expects of adviser firms in setting their own charges – such as requiring firms to have a price list/tariff, and not allowing adviser charges to vary by product provider recommended (and to some extent by product type).
- Product providers will be permitted to facilitate payments to advisers through the customer's product or investment. However, by the end of 2012, any payment for advisory services made through the customer's product or investment must be funded directly by matching a deduction from that product or investment made at the same time as that payment, sometimes referred to as 'perfect matching'.
- Product providers would also be required to reprice new products without commission from 2012, on all retail investment products when sold via adviser firms.

Pricing and tariffs

3.23	Does your firm currently have a price 'tariff' (i.e. unrelated to any commissions that the firm may receive) for the advice that it offers?	◯ Yes	◯ No
3.24	How much management time (e.g. planning and budgeting) do you estimate would be required to develop a suitable price tariff for the advice services that you offer?		
3.24a.	hours (one-off cost – to produce the new tariff)	____	
3.24b.	hours (annually, on average – to update the tariff from time to time)	____	
3.25	How frequently is your price tariff for advice currently updated?	◯ It is not / has not been updated ◯ Occasionally / less than once a year ◯ Approximately once a year ◯ More often than once a year	
3.26	Approximately how much management time (e.g. planning and budgeting) time is involved each time your <u>current priceiff</u> for advice is revised? (hours)	____	
3.27	Do you think you will need to change your current price tariff for advice as a result of the changes proposed in the RDR?	◯ Yes ◯ No ◯ Unsure	
3.28	How much management time do you estimate would be required to revise your advice tariff in this way? (hours)	____	

<u>Process and disclosure</u>

3.29	On average, each time you explain to clients how you earn your revenue how long does this <u>currently</u> take? Please give your best estimate in minutes.	____
3.30	On average, how long do you think it would take each time to explain to clients how you earn your revenue if the RDR proposals were implemented and you were to move to a pure <u>'Adviser Charging' model</u>, with no revenue from commission? Please give your best estimate in minites.	____

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Systems

3.31 Which of the following do you currently use for a) calculating how much to charge clients and b) for invoicing clients :

Currently use the following for...

		1 Calculating how much to charge clients	2 invoicing clients
3.31a.	*Programmes that are included as standard on my computer e.g. Excel*	1	2
3.31b.	*A software package / computer programme designed specifically for that purpose*	1	2
3.31c.	*A 'platform' or 'wrap'*	1	2
3.31d.	Product providers	1	2
3.31e.	*Other (specify below)*	1	2
3.31f.	*None of these*	1	2
	If you selected "Other" please specify:		

3.32 If you were to move to an adviser charging model, which of the following do you anticipate that you would use a) for calculating how much to charge clients and b) for invoicing clients

If Adviser Charging were introduced as part of the RDR, would use the following for...

		1 Calculating how much to charge clients	2 invoicing clients
3.32a.	*Programmes that are included as standard on my computer e.g. Excel*	1	2
3.32b.	*A software package / computer programme designed specifically for that purpose*	1	2
3.32c.	*A 'platform' or 'wrap'*	1	2
3.32d.	*Product providers*	1	2
3.32e.	*Other (specify below)*	1	2
3.32f.	*None of these*	1	2
	If you selected "Other" please specify:		

3.33	If Adviser Charging, where the cost of advice is separated from the cost of manufacturing, were introduced as part of the RDR which of the following do you think your firm would need to purchase specifically to enable it to operate Adviser Charging (in addition to any system changes outlined in relation to Manufacturing, Section 2)?	New software package / computer programme to support Adviser Charging New computer hardware to support Adviser Charging
3.34	OPTIONAL; Please provide a broad estimate of any Information & Technology/systems costs that you believe your firm may incur on a one-off basis (initial costs) as a result of the introduction of Adviser Charging, for example to calculate charges or to invoice clients	£
3.35	OPTIONAL; Please provide a broad estimate of any Information & Technology/systems costs that you believe your firm may incur on an ongoing basis as a result of the introduction of Adviser Charging, for example to calculate charges or to invoice clients	£

(3) Professionalism and Training

The FSA intends to

- *increase the benchmark qualification requirement for Registered Individuals to QCA level 4, and possibly higher for designated specialists.*
- *introduce consistent standards of continuing professional development (CPD), and possibly introduce an "on-the-job" assessment for existing advisers as an alternative to the examination route.*

Professional qualifications

3.36	Approximately what proportion of your advisers have the following qualifications: *Please ensure that the percentages total 100%*	
	1. QCA Level 3 (e.g. CII Certificate of Financial Planning / Cert CII; IFS Certificate for Financial Advisors / CeFA; SII's Certificate in Investment and Financial Advice / CIFA)	%
	2. QCA Level 4 (e.g. CII Diploma in Insurance / Dip CII, ISO22222) or higher	%
3.37	What is your firm's current policy with regard to the qualification levels required of its advisers:	All our advisers are required to hold a QCA Level 3 qualification, but no higher All our advisers are required to hold a QCA Level 3 qualification; some are required to hold a QCA level 4 qualification or higher All our advisers are required to hold a QCA Level 4 qualification or higher
3.38	Which of the following statements is likely to reflect your firm's policy in relation to paying for any additional training (i.e. course and exam fees) that may be required by RIs in your firm as a result of the RDR professionalism proposals?	They will have to pay for the training themselves We will pay related costs for our all of RIs who need to upskill We will pay related costs for some of our RIs who need to upskill
3.39	Will your firm permit its RIs to take any paid leave in order to attain the required professional qualifications (for example to attend courses, to study and/or to attend examinations?)	Yes No
3.39a.	Approximately much paid leave would you allow an RI to take in total, on average, in order to attain QCA Level 4 (for example to attend courses, to study and/or to attend examinations)?	Up to 1 day 2-3 days 4-5 days 5-7 days 7-10 days 11-15 days More than 15 days

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Membership of professional bodies

3.41	Approximately what proportion of your advisers are members of one of the following professional bodies? Indicate all that apply.	
3.41.	Chartered Insurance Institute	%
3.41b.	Personal Finance Society	%
3.41c.	Institute of Financial Planning	%
3.41d.	IFS School of Finance	%
3.41e.	Securities and Investment Institute	%
3.41f.	Other	%
3.43	Does the firm pay for advisers to be members of a professional body?	Yes – all of them Yes – more than half of them Yes – less than half of them No

C. YOUR FIRM'S PROFILE AS A PROVIDER WITH A DIRECT SALES FORCE

The final part of Section 3 collects some details in relation to the profile of your firm's main advisory capabilities. This will be used to analyse differences in responses between types of advisory propositions offered by investment providers.

Please answer the below with your firm's main advisory capabilities in mind.

3.44	Is your firm's advisory capability Directly Authorised by the Financial Services Authority, or are you an Appointed Representative?	Directly Authorised Appointed Representative
3.45	How many of the following work for the main advisory capability of your firm?	
3.45a.	Advisers	
3.45b.	Administration staff	
3.45c.	Other	
3.46	What is the average tenure/length of service of adviser staff in your organisation?	Less than 2 years 3-4 years 5-7 years 8-10 years More than 10 years
3.47	What is the annual advisory staff turnover for your firm?	Less than 5 % 5 - 9% 10 – 14% 15 -19% 20 – 29% Over 30%
3.48	How many advisers does the firm expect to recruit on average each year over the next three years?	None 1 2 3-5 6-10 More than 10
3.49	Approximately what percentage of your annual turnover comes from advising individual clients and from corporate clients? *Please ensure that the figures entered total 100%	
3.49a.	Individual clients	%
3.49b.	Corporate Clients	%
3.50	On average, how many individual or retail customers, including individual employees of any corporate clients, would each adviser in your organisation have?	Under 50 50-99 100-149 150-199 200-299 300-399 400-499 500 or more
3.51	On average, what proportion of an adviser's individual customers would be new customers each year?	Under 10% 10-19% 20-29% 30-39% 40-49% 50% or more
3.52	Of the prospective new clients adviser's in your firm meet, in an average year, what proportion of these prospective clients would end up generating revenue for your firm, either in terms of fees or commission that year?	Under 20% 20-29% 30-39% 40-49% 50-59% 60-69% 70% or more

3.53	Please estimate the proportion of your firm's clients who receive advice with their product purchases that fall into the following income bands. *Please ensure that the figures entered total 100%	
3.53a.	Under £35,000 per year	%
3.53b.	£35,000 - £50,000	%
3.53c.	£50,000 - £75,000 per year	%
3.53d.	£75,000 - £100,000 per year	%
3.53e.	£100,000 - £150,000 per year	%
3.53f.	Over £150,000 per year	%
3.54	Approximately what percentage of last year's annual turnover for the advisory part of your business comes from advising individual clients comes from the following broad product markets? A broad estimate of the split is acceptable. *Please ensure that the figures entered total 100%	
3.54a.	Investments	%
3.54b.	Mortgages	%
3.54c.	Life insurance/ Protection	%
3.54d.	General insurance	%
3.54e.	Other	%
3.55	What proportion of the life insurance products sold last year have both a life insurance element and an investment element?	%
3.56	And approximately what proportion of your turnover from advising individual clients on investments is related to investments using platforms and wraps?	%
3.57	What was the overall turnover for your firm last year? A "rounded" or approximate figure would be acceptable.	£
3.57a.	Please specify.	
3.58	Can you broadly estimate approximately what proportion of the total revenue of your firm's main advisory capabilities last year was derived from the following types of arrangements? *Please ensure that the figures entered total 100%	
3.58a.	Initial commission	%
3.58b.	Trail commission	%
3.58c.	Transaction-related fees	%
3.58d.	Fund-based fees	%
3.58e.	Hourly–based fees	%
3.58f.	Other	%

Source: Deloitte survey of retail investment intermediaries (February 2009)

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10.1

As stated earlier your responses will be treated in the strictest confidence. No information will be published that will allow the responses of individual firms to be identified.

If you give permission, the responses will be shared with the FSA on an individual firm basis. This will be for analytical purposes only, which include matching with other FSA data, and will not be shared with FSA supervisors.

3.59	Do you give permission for the FSA to receive the results of your responses attributed to your organisation?	◯ No – I do not give permission ◯ Yes – I do give permission
	This completes the survey. Thank you for your help. Please add any other comments that you would like to make that will help us with our analysis.	

This is the end of the survey. Please click "Next" and "Finish" to submit your response.

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Retail Distribution Review – Market Response and Compliance Costs
Your Firm

	Please input the full name of the firm on behalf of which you are answering this questionnaire.	
	Name of Contact: (This is optional and is in case any responses require any clarification; results will not be attributable):	

Section 1: Retail Distribution Review; Background

This section asks some general questions about the Retail Distribution Review proposals and your familiarity with these proposals.

1.1	As you may be aware, the FSA is currently conducting the Retail Distribution Review (RDR). Which of the statements below reflects your <u>personal</u> understanding of the RDR?	◯ I have followed the RDR very closely and have a strong understanding of most of the issues involved ◯ I have followed the RDR closely and understand many of the issues involved ◯ I have followed the RDR reasonably closely and have some understanding of the key issues involved ◯ I am aware of the RDR and have limited knowledge of the issues involved ◯ I am not aware of the RDR
1.2	Have you read any of the Feedback Statement on the Retail Distribution Review, published by the FSA on November 25th 2008.	◯ Yes, I have read most of the Feedback Statement ◯ Yes, I have read parts of the Feedback Statement ◯ No
1.3	Which of the following statements reflects the extent to which the proposals contained in the Retail Distribution Review Feedback Statement have been discussed within your organisation? Have they been discussed...	◯ A great deal ◯ A reasonable amount ◯ Minimally ◯ Not at all

Section 2: The Retail Distribution Review; Your Firm's Response

To assist you in completing this questionnaire, a summary of some of the key proposals in relation to the Retail Distribution Review is provided in the box below. Detailed proposals (you do not need to read these to complete the questionnaire) can be found at http://www.fsa.gov.uk/pages/Library/Communication/PR/2008/139.shtml.

<u>Summary of Select RDR Proposals</u>

Professional Standards
The FSA propose to consult on the creation of an overarching Independent Professional Standards Board (IPSB) to function initially as a sub-committee of the FSA Board. In time, it may be launched as a separate body with statutory footing:

- The IPSB would provide a common framework for professional standards across all advice channels, and work with the Financial Services Skills Council to raise the benchmark qualification for advisers in the independent and non-independent advice sectors to QCA Level 4 (Scottish equivalent SCQF level 8).
- The IPSB would also be responsible for setting, reviewing and dealing with breaches to codes of ethics for advisers, and would set consistent minimum standards for continuing professional development (CPD).

Remuneration/Adviser charging
The FSA aims to ban product providers from paying commission to adviser firms for selling their products:

- Product providers will not be able to influence how much money an adviser firm is paid by the consumer
- The FSA will establish the standards that it expects of adviser firms in setting their own charges – such as requiring firms to have a price list/tariff, and not allowing adviser charges to vary by product provider recommended (and to some extent by product type).

Conditions for Independence
The FSA want to change the criteria that adviser firms must meet to describe their services as 'independent'.

- This would involve demonstrating that the 'independent' firm provided unbiased, unrestricted advice based on a comprehensive and fair analysis of the relevant market.
- The FSA no longer intends to restrict their independence standards to firms advising on packaged products but applying the standards across all forms of investments products.
- The FSA would expect some firms to conduct a more thorough review of the market and be able to demonstrate why a product was chosen over others. For example, the FSA would expect to see firms increase their product knowledge in areas where they may not have recommended before e.g. tracker funds/ETFs.

Clarity of services

Prudential Requirements
Changes will include:

- Capital resources: revising the rules to simplify the calculation and make it consistent for all firms
- Extending the expenditure-based requirement (EBR) to all firms based on the three months of relevant annual expenditure with a minimum capital resources floor of £20,000 for all firms
- Professional Indemnity Insurance: setting out more specific requirements as to the level of additional capital resources needed where firms have exclusions in their PII policy.

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Status and Strategy

	Question	Options
2.1	How likely are the RDR proposals to make your firm seriously consider changing the status of your business, for example, from providing independent advice (as currently defined) to non-independent advice (as defined in the new regime) or vice versa? Is your firm....?	◯ Very likely to consider a change in status ◯ Quite likely to consider a change in status ◯ Quite unlikely to consider a change in status ◯ Very unlikely to consider a change in status ◯ It is too early to say at the moment
2.2	What would your firm be likely to change its status to:	◯ Independent Advisor Firm ◯ Non-Independent Advisor Firm ◯ Execution Only Firm ◯ The firm would exit the market
2.3	Which of the following statements best describes the reason why your firm would consider changing its status if the RDR was to be implemented? Please select one answer only. Our firm might change the status of its business because...	◯ If our firm retained its status, our commercial prospects/profitability would decrease as a result of the RDR proposals ◯ If our firm changed its status, our commercial prospects/profitability would increase as a result of the RDR proposals
2.4	Which of the following statements best describes the main reason why your firm would be likely to exit the market?	◯ Our firm would have been likely to exit the market even if the changes proposed by the RDR did not go-ahead (e.g. due to market conditions, retirement etc) ◯ It would not be profitable to remain in the market as a result of the RDR proposals ◯ Other reason (please specify below)
2.5	If the RDR proposals are implemented, investment advisers will be required to move to "Adviser Charging". The product provider will have no role in agreeing or setting adviser remuneration. Advisers will be required to disclose charges for advice to customers. What types of charges would you be most likely to set for the majority of your investment customers? Please select the main types of charges you may choose.	☐ Hourly fees ☐ Value based fee - % (upfront plus ongoing) ☐ Value based fee - % (upfront only) ☐ Value based fee - % (ongoing only) ☐ Other fee basis (eg. fixed fee for a specific service)
2.6	For those clients who you currently deal with on a commission basis, what level of up-front hourly fee do you believe they would agree to pay on average for your services if required?	◯ <£50 per hour ◯ £50-75 per hour ◯ £75-100 per hour ◯ £100-150 per hour ◯ £150-200 per hour ◯ >£200 per hour
2.7	What impact, if any, will moving to Adviser Charging have on your firm's approach to remunerating RIs. Which of the following is most likely...?	◯ There will be no change ◯ RIs will receive a greater proportion of their remuneration in fixed salary ◯ RIs will receive a smaller proportion of their remuneration in fixed salary
2.8	If commissions were no longer to be permitted, do you believe that your firm would be able to move to an Adviser Charging model, as described at the beginning of Section 2?	◯ Yes ◯ No ◯ Unsure ◯ We already use an Adviser Charging model
2.9	What is the single main reason why you do not believe your firm would be able to move to an Adviser Charging model?	◯ Not enough customers would be prepared to explicitly pay for advice ◯ The fee customers would be prepared to pay for advice would not be high enough ◯ Moving to Adviser Charging would be too difficult to implement operationally ◯ Other (specify below)
2.9a.	If you selected "Other" please specify:	
2.10	What impact do you think the RDR proposals in isolation (i.e. excluding other influences such as economic conditions) are likely to have on the turnover of your firm once implemented, assuming your status under the proposed regime is equivalent to your current status i.e. IFAs and Whole of Market Advisers move to Independent Advice status; Multi-tied and Tied Advisers move to Non-Independent Advice status. Will the impact be to...?	◯ Increase turnover significantly ◯ Increase turnover a little ◯ Decrease turnover slightly ◯ Decrease turnover significantly ◯ It will make no difference
2.11	What impact do you think the RDR proposals in isolation (i.e. excluding other influences such as economic conditions) are likely to have on the profitability of your firm once implemented, assuming your status under the proposed regime is equivalent to your current status i.e. IFAs and Whole of Market Advisers move to Independent Advice status; Multi-tied and Tied Advisers move to Non-Independent Advice status. Will the impact be to...?	◯ Increase profitability significantly ◯ Increase profitability a little ◯ Decrease profitability slightly ◯ Decrease profitability significantly ◯ It will make no difference
2.12	Do you intend to introduce Guided Sales services, as proposed in the RDR, as part of your current service offering?	◯ Yes ◯ No ◯ Too early to say yet

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Products

As stated earlier, the FSA's proposals on the Retail Distribution Review apply only to the investment market. The FSA has stated that they have no plans to apply these proposals to other 'product markets' such as protection and mortgages.

2.13	Considering the RDR proposals, will your firm change the extent to which it focuses on the retail investment market, as opposed to other areas of the financial services market such as mortgages and protection? As a result of these proposals, will your firm be likely to….?	◯ Seek to significantly increase your provision of advice in the retail investment markets ◯ Seek to modestly increase your provision of advice in the retail investment markets ◯ Make no change in its business focus on the retail investment market as a result of these proposals. ◯ Seek to modestly decrease your provision of advice in the retail investment markets ◯ Seek to significantly decrease provision of advice in the retail investment markets
2.14	What is the single most important reason why you think your firm might seek to decrease the provision of advice in retail investment markets. Is this because of…..	◯ The new level of professional qualifications required ◯ Consumer demand for investment advice will reduce as a result of Adviser Charging and Disclosure ◯ More attractive remuneration and greater profitability in other sectors / product markets ◯ Other reason (please state below)
2.14a.	If you selected "Other" please state:	
2.15	And which other product market, if any, would you particularly seek to increase revenues from in order to replace the decreased focus on investment advice. Please choose one market.	◯ Mortgages - retail ◯ Protection – retail ◯ General insurance – retail ◯ Corporate market ◯ Other ◯ None – we will not seek to replace any decreased revenues from investment markets
2.16	What is the single most important reason why you think your firm will seek to increase or maintain the provision of advice in the investment market. Is this because of….	◯ Limited knowledge/experience of other sectors ◯ Limited opportunity/demand for advice in other sectors ◯ More attractive remuneration and greater profitability in the investment sector ◯ Consumer demand for investment advice will increase as a result of the RDR (eg. because of Adviser Charging or new professional standards) ◯ Other reason (please state below)
2.16a.	If you selected "Other" please state:	

Customers

2.17 Listed below are a number of statements in relation to your firm's customers. Thinking about your current business model, please indicate the extent to which you agree or disagree with each statement. When the RDR is implemented…..

		1 Agree strongly	2 Agree slightly	3 Neither agree or Disagree/unsure	4 Disagree	5 Disagree slightly
2.17a.	I expect the financial profile / type of customer advised by my firm to remain broadly the same	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.17b.	I expect customers seeking advice will be more likely to demand an on-going service from our firm	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.17c.	I expect some of the firm's customers will seek to negotiate the levels of charges proposed to them	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.17d.	I expect most of the firm's customers will seek to negotiate the levels of charges proposed to them	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.17e.	I expect the firm will seek to focus on advising customers with higher incomes or assets than our current customer base	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.17f.	I expect our RIs will have fewer customers on average who they will provide more frequent advice to	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5

2.18 Overall, what impact do you expect the FSA RDR proposals as a package to have on the current advice sectors (i.e. independent and non-independent advice) in the retail investments market?

Will the RDR….

		1 Lead to major growth within the sector	2 Lead to some growth within the se sector	3 Make little difference in terms of growth	4 Lead to some contraction within the sector	5 Lead to a major contraction within the sector
2.18a.	Independent advice	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5
2.18b.	Non-independent advice	◯ 1	◯ 2	◯ 3	◯ 4	◯ 5

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Section 3: The Retail Distribution Review; Compliance Requirements

The following section looks at likely policy changes in fives areas - Clarity of Services; Remuneration; Professionalism; Independence; and Prudential Rules - and asks you to consider the likely impact of these changes on your **current** business.

(1) Clarity of Services

The new regulatory landscape will distinguish between independent and non-independent advice. Adviser firms and private client investment manager firms will be required to make clear whether the advice they offer is independent or non-independent before the service is provided. When considering the impact of the compliance requirements on your business, please assume that your status under the proposed regime is equivalent to your current status i.e. Independent Financial Advisers and Whole of Market advisers move to Independent Advice status; Multi-tied and Tied advisers move to Non-Independent Advice status.

3.1	Will operating under the status in the new regime that is equivalent to your current status (as set out above) require a change to firm literature and marketing materials?	○ Yes	○ No
3.2	Approximately how much management time, and what other costs, do you estimate would be involved in amending firm literature and marketing materials in this way?	____ hrs.	
		____ £	
3.3	Do you expect the explanation / disclosure of your firm's status to take longer in the new Post-RDR regime than the explanation /disclosure of your firm's current status?	○ Yes	○ No
3.4	How much longer to you expect the disclosure of your firm's status to take per transaction in the new regime: (Minutes per transaction)	____	

(2) Remuneration

The new rules will mean the removal of provider influence over adviser firm remuneration and the introduction of 'Adviser Charging'. All adviser firms will set their own charges, and make their clients fully aware of what services supplied to them will cost. Product providers will not be able to determine how much commission adviser firms receive, or include adviser commission within their product prices. This will require separate disclosure of the costs of advisory services from product costs for both independent and non-independent advisory firms. New standards will govern the way that adviser firms must design and operate their own charges, and report these to the FSA

Pricing and tariffs

3.5	Does your firm currently have a price 'tariff' (i.e. unrelated to any commissions that the firm may receive) for the services that it offers?	○ Yes	○ No	
3.6	How much management time (e.g. planning and budgeting) do you estimate would be required to develop a suitable price tariff for the services that you offer?			
a.	Hours (one-off cost – to produce the new tariff)	____ hrs.		
b.	Hours (annually, on average – to update the tariff from time to time)	____ hrs.		
3.7	How frequently is your price tariff currently updated?	○ It is not / has not been updated ○ Occasionally / less than once a year ○ Approximately once a year ○ More often than once a year		
3.8	Approximately how much management time (e.g. planning and budgeting) is involved each time your current price tariff is revised?	____ hrs.		
3.9	Do you think you will need to change your current price tariff as a result of the changes proposed in the RDR?	○ Yes	○ No	○ Unsure
3.10	How much management time do you estimate would be required to revise your tariff in this way?	____ hrs.		

Process and disclosure

3.11	On average, each time you explain to clients how you earn your revenue how long does this currently take? Please give your best estimate.	____ min.
3.12	On average, how long do you think it would take each time to explain to clients how you earn your revenue if the RDR proposals were implemented and you were to move to a pure 'Adviser Charging' model, with no revenue from commission? Please give your best estimate.	____ min.

Systems

3.13 Which of the following do you currently use for a) calculating how much to charge clients and b) for invoicing clients:

Currently use the following for...

Programmes that are included as standard on my computer e.g. Excel	☐ Calculating client charges	☐ Invoicing clients
A software package / computer programme designed specifically for that purpose	☐ Calculating client charges	☐ Invoicing clients
A 'platform' or 'wrap'	☐ Calculating client charges	☐ Invoicing clients
My network provider	☐ Calculating client charges	☐ Invoicing clients
Product providers	☐ Calculating client charges	☐ Invoicing clients
Other (specify below)	☐ Calculating client charges	☐ Invoicing clients

If you selected "Other", please specify: ____

3.14 If you were to move to an adviser charging model, which of the following do you anticipate that you would use a) for calculating how much to charge clients and b) for invoicing clients

If Adviser Charging were introduced as part of the RDR, would use the following for...

Programmes that are included as standard on my computer e.g. Excel	☐ Calculating client charges	☐ Invoicing clients
A software package / computer programme designed specifically for that purpose	☐ Calculating client charges	☐ Invoicing clients
A 'platform' or 'wrap'	☐ Calculating client charges	☐ Invoicing clients
My network provider	☐ Calculating client charges	☐ Invoicing clients
Product providers	☐ Calculating client charges	☐ Invoicing clients
Other (specify below)	☐ Calculating client charges	☐ Invoicing clients

If you selected "Other", please specify: ____

3.15	If Adviser Charging were introduced as part of the RDR, which of the following do you think your firm would need to purchase specifically to enable your firm to operate Adviser Charging?	☐ New software package / computer programme to support Adviser Charging ☐ New computer hardware to support Adviser Charging
3.16	Please provide a broad estimate of any Information & Technology/systems costs that you believe your firm may incur on a one-off basis (initial costs) as a result of the introduction of Adviser Charging, for example to calculate charges or to invoice clients.	____ £
3.17	Please provide a broad estimate of any Information & Technology/systems costs that you believe your firm may incur annually, on an ongoing basis as a result of the introduction of Adviser Charging, for example to calculate charges or to invoice clients	____ £

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Retail Distribution Review – Market Response and Compliance Costs

Section 3: The Retail Distribution Review; Compliance Requirements *(continued)*

(3) Professionalism and Training

The FSA intends to

- increase the benchmark qualification requirement for Registered Individuals to QCA level 4, and possibly higher for designated specialists.
- introduce consistent standards of continuing professional development (CPD), and possibly introduce an "on-job" assessment for existing advisers as an alternative to the examination route.

Professional qualifications

3.18 Approximately what proportion of your RIs have the following qualifications:

Please ensure that the percentages total 100%

1. QCA Level 3 (e.g. CII Certificate of Financial Planning / Cert CII; IFS Certificate for Financial Advisors / CeFA; SII's Certificate in Investment and Financial Advice / CIFA)	%
2. QCA Level 4 (e.g. CII Diploma in Insurance / Dip CII, ISO22222) or higher	%

3.19 What is your firm's current policy with regard to the qualification levels required of its advisers:

- All our advisers are required to hold a QCA Level 3 qualification, but no higher
- All our advisers are required to hold a QCA Level 3 qualification; some are required to hold a QCA level 4 qualification or higher
- All our advisers are required to hold a QCA Level 4 qualification or higher

3.20 Which of the following statements is likely to reflect your firm's policy in relation to paying for any additional training (i.e. course and exam fees) that may be required by RIs in your firm as a result of the RDR professionalism proposals?

- RIs will have to pay for any training themselves
- The firm will pay related costs for all our RIs who need to upskill
- The firm will pay related costs for most of our RIs who need to upskill
- Our RIs are self-employed; it is their decision how they fund their training
- Our RIs are unlikely to undertake the required training and will exit the market

3.21 Will your firm permit its RIs to take any paid leave in order to attain the required professional qualifications (for example to attend courses, to study and/or to attend examinations?)

- Yes
- No

3.22 Approximately much paid leave would you allow an RI to take in total, on average, in order to attain QCA Level 4 (for example to attend courses, to study and/or to attend examinations)?

- Up to 1 day
- 2-3 days
- 4-5 days
- 5-7 days
- 7-10 days
- 11-15 days
- More than 15 days

Membership of professional bodies

3.23 Approximately what proportion of your RIs are members of one of the following professional bodies? Indicate all that apply.

1. Chartered Insurance Institute	%
2. Personal Finance Society	%
3. Institute of Financial Planning	%
4. IFS School of Finance	%
5. Securities and Investment Institute	%
6. Other	%

3.24 Does the firm pay for RIs to be members of a professional body?

- Yes – all of them
- Yes – more than half of them
- Yes – less than half of them
- No

Source: Deloitte survey of retail investment intermediaries (February 2009)

Deloitte.

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Retail Distribution Review – Market Response and Compliance Costs

Section 3: The Retail Distribution Review; Compliance Requirements *(continued)*

(4) Independence / Whole of Market Requirements

The FSA intends to introduce a new definition of 'independent' with two high-level principles:

- independent firms must be equipped to give comprehensive and fair analysis of the relevant markets and
- must provide unbiased, unrestricted advice.

The market search requirements may be more onerous than the current 'whole of market' definition. For example, it will apply to all investment products not just packaged products, so firms may need to consider products that they previously largely ignored e.g. tracker funds, exchange-traded funds and structured products (although firms will still be able to specialise in a particular market and be independent provided this is made clear to their client).

3.25 Does your firm currently make recommendations/ select any products for customers on a 'whole of market' basis?
- Yes
- No

3.26 Which products are selected on a whole of market basis?
- Packaged products (other than collective investments)
- Collective investments (e.g. unit trusts, ISAs)
- Annuities
- Mortgages
- Protection products

3.27 Do you use a panel of providers for selecting products for your customers?
- Yes
- No

3.28 Approximately how often is your firm's panel reviewed?
- More often than once a week
- Every week
- Every month
- Every 3 months
- Every 6 months
- Every year
- Less frequently than once a year

3.29 Which products do you generally select using a panel of providers?
- Packaged products (other than collective investments)
- Collective investments (e.g. unit trusts, ISAs)
- Annuities
- Mortgages
- Protection products

3.30 Who selects the panel of providers?

Please select all that apply.
- It is done by the firm, internally
- A 'wrap' or 'platform' provider
- My network
- Another external service provider or software provider

3.31 When the RDR is implemented, do you think your firm will use a panel of providers to fulfil the new independence standards?
- Yes
- No

3.32 Do you believe your current whole of market panel would comply with the FSA's new requirement that firms must be equipped to give a *"comprehensive and fair analysis of relevant markets"*, including offering advice on non-packaged products?
- Yes
- No

3.33 Is the approach you expect to take to searching the market, to comply with the FSA's new requirements on independence / whole of market, likely to be more or less expensive than your current approach?
- Significantly more expensive
- A little more expensive
- It will cost the same
- A little cheaper
- Significantly cheaper

3.34 In order to comply with the FSA's new requirements on independence / whole of market, what additional costs do you believe would have to be incurred.

Please select all that apply:
- Staff would have to spend more time on market searches on an ongoing basis
- Additional ONE-OFF external costs would have to be incurred (e.g. to panel provider or platform provider)
- Additional ONGOING external costs would have to be incurred (e.g. to panel provider or platform provider)
- Additional RI training would be required to enable them to advise on a wider range of products

3.35 How much additional time do you estimate would have to be spent on market searches and any new record keeping practices that may be required?

Hours per week

hrs.

(5) Prudential rules

The proposed minimum capital requirement for ALL firms is the higher of £20,000 (increased from £10,000) and an expenditure-based requirement based on 3 months expenditure.

3.36 Would you need to raise additional capital to comply with this requirement?
- Yes
- No

3.37 How much additional capital do you estimate you would need to raise to comply with this requirement?

£

3.38 Would you expect to be able to raise these additional capital resources?
- Yes
- No

3.39 Where would you source the capital from?
- The business's current resources
- My own personal resources
- Bank loan or other form of debt

The proposed prudential rules have been streamlined and updated so that the requirements apply to all firms in a clear, simple and consistent way.

3.40 How much additional time and resource cost do you expect to need to read, understand and implement the proposed rules? An approximate estimate is acceptable.

Days

3.41 To end the questions in this section, has your firm already incurred any costs in making changes in anticipation of the requirements proposed in Retail Distribution Review being implemented?
- Yes
- No

3.42 Please provide an estimate of the costs incurred by your firm to date in anticipation of the requirements proposed in the Retail Distribution Review being implemented?

£

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Deloitte survey of retail investment intermediaries (February 2009)

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Retail Distribution Review – Market Response and Compliance Costs

Section 4: Firm profile

The final section collects some details in relation to the profile of your firm. This will be used to analyse differences in responses between types of intermediary firms.

4.1 Which status does your firm adopt?
- Full IFA status
- Whole of Market
- Limited range / multi-tie
- Single tie
- Network provider
- Combination of the above
- Other (please specify below)

If you selected "Other", please specify:

4.2 Is your firm Directly Authorised by the Financial Services Authority, or are you an Appointed Representative?
- Directly Authorised
- Appointed Representative

4.3 How many of the following work for your firm?
- Registered individuals (RIs) – employed
- Registered individuals (RIs) – self employed
- Finance/Accounting staff
- Marketing staff
- Administration staff
- Other

4.4 What is the average tenure/length of service of RI staff in your organisation?
- Less than 2 years
- 3-4 years
- 5-7 years
- 8-10 years
- More than 10 years

4.5 What is the annual RI staff turnover for your firm?
- Less than 5 %
- 5 - 9%
- 10 – 14%
- 15 -19%
- 20 – 29%
- Over 30%

4.6 How many RIs does the firm expect to recruit on average each year over the next three years?
- None
- 1
- 2
- 3-5
- 6-10
- More than 10

4.7 Approximately what percentage of your annual turnover comes from advising individual clients and from corporate clients?

**Please ensure that the figures entered total 100%*
- Individual clients %
- Corporate Clients %

4.8 On average, how many individual or retail customers, including individual employees of any corporate clients, would each RI in your organisation have?
- Under 50
- 50-99
- 100 – 149
- 150 – 199
- 200 – 299
- 300 – 399
- 400 – 499
- 500 or more

4.9 On average, what proportion of an RI's individual customers would be new customers each year?
- Under 10%
- 10-19%
- 20-29%
- 30-39%
- 40-49%
- 50% or more

4.10 Of the prospective new clients RIs in your firm meet, in an average year, what proportion of these prospective clients would end up generating revenue for your firm, either in terms of fees or commission that year?
- Under 20%
- 20-29%
- 30-39%
- 40-49%
- 50-59%
- 60-69%
- 70% or more

4.11 Please estimate the proportion of your firm's clients that fall into the following income bands.

**Please ensure that the figures entered total 100%*
- Under £35,000 per year %
- £35,000 - £50,000 %
- £50,000 - £75,000 per year %
- £75,000 - £100,000 per year %
- £100,000 - £150,000 per year %
- Over £150,000 per year %

4.12 Approximately what percentage of last year's annual turnover from advising individual clients comes from the following broad product markets? A broad estimate of the split is acceptable.

**Please ensure that the figures entered total 100%*
- Investments %
- Mortgages %
- Life insurance/ Protection %
- General insurance %
- Other %

4.13 What proportion of the life insurance products sold last year have both a life insurance element and an investment element ? %

Source: Deloitte survey of retail investment intermediaries (February 2009)

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Deloitte survey of retail investment intermediaries (February 2009)

4.14	And approximately what proportion of your turnover from advising individual clients on investments is related to investments using platforms and wraps?	%
4.15	What was the overall turnover for your firm last year? A "rounded" or approximate figure would be acceptable. (Please specify)	£
4.16	Can you estimate approximately what proportion of the total revenue of your firm last year was derived from the following types of arrangements? **Please ensure that the figures entered total 100%*	
	Initial commission	%
	Trail commission	%
	Transaction-related fees	%
	Fund-based fees	%
	Hourly–based fees	%
	Other	%
	If you selected "Other", please specify:	
4.17	What was your firm's total RI remuneration last year, including fixed salary, any share of commission or other revenue, plus any other bonuses and dividends paid to RIs?	£
4.18	Approximately what proportion of this was fixed salary?	%

As stated earlier your responses will be treated in the strictest confidence. No information will be published that will allow the responses of individual firms to be identified.

If you give permission, the responses will be shared with the FSA on an individual firm basis. This will be for analytical purposes only, which include matching with other FSA data, and will not be shared with FSA supervisors.

4.19	Do you give permission for the FSA to receive the results of your responses attributed to your organisation?	No – I do not give permission Yes – I do give permission
4.20	This completes the survey – thank you for your time. Please add any other comments that you would like to make that will help us with our analysis.	

Please click "Next" and then "Finish" to submit your responses.

Source: Deloitte survey of retail investment intermediaries (February 2009)

Appendix 3: DA and AR Model calculation assumptions
Basis of calculations

Introduction

- The following incremental cost assumptions relate principally to the Intermediary DA Model. As the number of DA respondents (600) is considered to be sufficiently large to enable us to segment responses and weight responses according to the total market size, with the assumptions underlying this analysis detailed below.
- With only a small number of AR respondents (14), segmentation and weighting has not been carried out with results reported on an adviser basis only.
- The sections below indicates if assumptions relate to the DA Model only, otherwise assumptions are common to both the DA and AR models.

Fee or commission basis

- The Investment Intermediary firms are allocated between either fee or commission basis, as defined by the assumptions below.
- If a firm has over 40% fixed fee activity then it is classified as a 'FEE' basis firm. If the firm has less than 40% of its activity charged on a fee basis then it is classified as a commission-based ('COMM') firm. Data used to distinguish between fee and commission firms is drawn from intermediary responses to the e-survey.

Business size category – DA Model only

- Firms are allocated to size classes based on the number of Registered Individuals (RIs) as reported in their e-survey response according to the following criteria.

Firm size category	Number of RIs
Small	Fewer than 4
Medium	4 to 9
Large	10 or above

- Using a combination of the fee or commission basis and business size category classification all the firms are allocated to one of the following survey segments.
  - Small Commission
  - Medium Commission
  - Large Commission
  - Small Fee
  - Medium Fee
  - Large Fee

Basis of the cost calculations

- Hourly adviser cost/rate = ((Fixed Salary % x adviser remuneration + adviser remuneration x Mark up assumption (30%)) / (No. of advisers x Working hrs per year). This is used when the adviser remuneration data is available (see below when adviser remuneration data is unavailable). Working hours per year assumes a 52 week year (fixed salary costs will continue to be paid during holidays)

- The Hourly adviser cost/rate used when adviser remuneration data is unavailable is £22.45 and £11.59 per hour for FEE and COMM respectively, based on data from the FSA's 'Costing Intermediary Services' project which studied the economics of both DA and AR firms.

- In the DA model these rates have been calculated using weighted average total adviser remuneration / number of advisers, and then converted to hourly rate and with a 30% mark-up applied – as applied in "Measuring Administrative Costs: UK Standard Cost Model Manual" – Better Regulation Executive, 2005. These rates have also been applied within the AR model.

- Weight = Ratio of market population to sampled firms (for a given size category) (*see weighting section for details of how the weight is calculated)*

- The number of annual transactions per adviser = 150. This figure is a working assumption based on analysis of data from the 2008 FSA 'Costing Intermediary Services' project and analysis of ABI transaction figures. This assumption was discussed with the FSA.

- For each of the cost categories, the table below shows how the total cost of the item is calculated using the input data from the e-survey. Where applicable the following metrics are extracted from the base data or calculated for each cost category (see below table for details of the cost drivers).
  - One-off cost per firm
  - One-off cost per adviser = One-off cost per firm / No. of advisers
  - One-off weighted cost = Total cost x weight
  - Ongoing cost per firm (calculated from drivers as detailed below)
  - Ongoing cost per adviser = Ongoing cost per firm / No. of advisers
  - Ongoing Weighted cost = Total cost x weight

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Appendix 3: DA Model calculation assumptions
Basis of calculations cont.

Weighting categories – DA Model only

- The survey data has been scaled up to approximate the entire market population of firms using weighting factors. These weighting factors are calculated by comparing the survey size to the market size. The total market size is obtained from the FSA RMAR database.
- The market, and the surveyed, firms are divided into categories according to i) whether they are commission or fee-based and ii) the number of advisers. For each market size category, inputs have been used for the number of independent and non independent commission and fee-based firms.
- The sample to market weighting is calculated from the sum (within each market subdivision) of total market population / sum (within each market subdivision) of surveyed companies.As an example, there are 75 commission-based firms with 7 advisers in the population and 11 in the sample, so the weighting applied to each firm in the sample was 6.8 (i.e. each firm in the sample represents 6.8 firms in the market).
- The sample was weighted on the basis of revenue split (fee/comms) and the number of advisers per firm. Where there were no firms in the sample to represent a particular firm size in the population, firms were grouped by size e.g. two commission-based firms with between 18 and 23 advisers represent 27 firms within the same size band in the sample.

Weighting Categories – DA Model (cont)

- The groupings were set so as to minimise the difference between the average size of firms within a band in the sample and the population, while at the same time minimising weighting factors so that no individual firms in the survey have excessively high weightings (the highest weighting is 13.5).
- These weighting factors are then used to scale up the sample data for each market size category in the total cost estimations
- Note that the same market subsections are used for both commission and fee-based firms.

Mean, Median, Max, and Min metrics

- For the purpose of these metrics non-respondents have been excluded.
- Data outliers in all cost categories have generally been included at the FSA's request, although a small number of estimates that were considered to be clearly erroneous were removed. Some unusually high estimates of cost and time are therefore included.
- The mean averages are weighted averages (using the weightings as described above).

Appendix 3: DA Model calculation assumptions
Cost driver table

The table below identifies for each of the cost categories i) the drivers for estimating cost, ii) whether the cost is one-off or ongoing and iii) any specific comments.

	Drivers			Cost type (One-off / ongoing)	Comments
Change literature and marketing	Time required (hrs)	Hourly adviser rate (£)		One-off	
Status explanations to take longer	Additional time required per transaction (mins)	No of transactions (#)	Hourly adviser rate (£)	Ongoing	
Implement price tariffs	Hours required to implement (hrs)	Hourly adviser rate (£)		One-off	Only where no existing price tariff
Time to update tariff going forward	Hours required to update (hr	Hourly adviser rate (£)		Ongoing	Only where no existing price tariff
Additional time to explain charging basis	Current time (mins)	Proposed time (mins)	Hourly adviser rate (£)	Ongoing	
New software package / computer programs	Input cost (£)			One-off	

Appendix 3: DA Model calculation assumptions
Cost driver table cont.

	Drivers			Cost type (One-off / ongoing)	Comments
Annual ongoing IT / systems costs	Input cost (£)			Ongoing	
Training requirement costs	% of advisers requiring QCA Level 4	Total number of advisers (#)	Assumption Cost of training QCA Level 3 to QCA Level 4 (£2100*)	One-off	* £2,100 costs taken from London Metropolitan University costs
Paid leave given to attain the required professional qualifications	Days of adviser training required (days)	No of advisers requiring training (#)	Hourly adviser rate (£) No of days paid leave firm prepared to give advisers	One-off	Only where the firm gives paid leave for training purposes
Professional Body membership costs	Input assumption, membership fee (£101)	Current % employees not already qualified in the main qualification of the firm	Number of advisers in the firm (#)	Ongoing	
Additional time on market searches	Additional hours required per week (hrs)	Week to year conversion	Hourly adviser rate (£)	Ongoing	
Additional need to understand requirements	Additional hours required (hrs)	Hourly adviser rate (£)		One-off	
Related costs incurred firm to date	Input costs (£)				Only where applicable

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Appendix 3: Provider – Manufacturer & DSF – Model calculation assumptions

Basis of calculations

Introduction

- The assumptions underlying the incremental cost estimation for Providers are provided below. The assumptions, unless otherwise stated apply to both the Manufacturer and DSF providers.

Segmentation of firms

- Firms are segmented by revenue generation in relation to last year's sales of MiFID and non-MiFID retail investment products (data provided by providers in the e-survey), as defined by the criteria below:
  - Revenue under £50m
  - Revenue between £50m and £500m
  - Revenue above £500m
  - Revenue unknown

DSF; Fee or commission basis

- The Investment Intermediary firms are allocated between either fee or commission basis, as defined by the assumptions below.
- If a firm has over 40% fixed fee activity then it is classified as a 'FEE' basis firm. If the firm has less than 40% of its activity charged on a fee basis then it is classified as a commission-based ('COMM') firm. Data used to distinguish between Fee and commission firms is drawn from intermediary responses to the e-survey.

Basis of the cost calculations

- The Hourly adviser rate used when adviser remuneration data is unavailable is £22.45 and £11.59 per hour for FEE and COMM respectively.
- The assumption rates used for Management , Actuarial and Other Staff time are £26.44, £33.17 and £24.04 per hour respectively (see driver table for how these costs are applied). Costs for Management and Actuarial time have been calculated using benchmark data from Payscale, assuming average annual salaries as follows:
  - Project management – £55,000
  - Actuarial – £69,000
  - Other staff – £50,000.
- The cost of professional training and membership of the professional body is assumed to be £2,100 and £101 respectively (see driver table for how these costs are applied).
- For DSF providers, Transactions = No. of advisers x assumption of annual transactions per adviser (150). 150 transactions per year per adviser is a working assumption based on analysis of data from the 2008 'Costing Intermediary Services' project and analysis of ABI transaction figures.
- For each of the cost categories, the table below shows how the total cost of the item is calculated using the input data from the e-survey. Where applicable the following metrics are extracted from the base data or calculated for each cost category (see below table for details of the cost drivers).
  - One-off cost per firm (calculated from drivers as detailed below)
  - One-off cost per adviser = One-off cost per firm / No. of advisers (DSF model only)
  - Ongoing cost per firm (calculated from drivers as detailed below)
  - Ongoing cost per adviser = One-off cost per firm / No. of advisers (DSF model only)

Mean, Median, Max, and Min metrics

- For the purpose of these metrics non-respondents have been excluded.
- As agreed with the FSA, outliers have in general been retained in the model, other than estimates that were considered to be clearly erroneous.

Appendix 3: Provider – Manufacturer & DSF – Model calculation assumptions
Cost driver table

The table below identifies for each of the cost categories i) the drivers for estimating cost, ii) whether the cost is one-off or ongoing and iii) any specific comments.

	Drivers			Cost type (One-off / ongoing)	Comments
Disclosure time costs	Time required (hrs)	Hourly adviser rate (£)		One-off	Only where direct sales force exists
Marketing material costs	Time required (hrs)	Hourly adviser rate (£)		One-off	
Disclosure material costs	Time required (hrs)	Hourly adviser rate (£)		One-off	
Explanation costs	Time required to update (hrs)	Hourly adviser rate (£)	Number of transactions (#)	One-off	
New tariff costs	Hours required to produce (hrs)	Hourly adviser rate (£)		One-off	Only where no existing price tariff exists
New tariff costs	Time required to update tariff	Hourly adviser rate (£)		Ongoing	Only where no existing price tariff exists

Appendix 3: Provider – Manufacturer & DSF – Model calculation assumptions
Cost driver table cont.

	Drivers			Cost type (One-off / ongoing)	Comments
Revenue explanation costs	Difference in explanation time between old and new regime (hrs)	Hourly adviser rates	Number of transactions (#)	Ongoing	
IT system costs	Input cost (£)			One-off and ongoing	Only if direct sales force exists
Training costs	Number of advisers requiring training (#)	Input assumption cost of training (£)		One-off	
Training leave costs	Total adviser time (hrs)	Hourly adviser rate (£)		One-off	
Professional body membership costs	Input assumption membership fee (£)	Number of advisers not already members of a professional body		Ongoing	
Anticipated cost to reprice products	Input cost (£)			One-off	

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Appendix 3: Provider – Manufacturer & DSF – Model calculation assumptions
Cost driver table cont.

	Drivers			Cost type (One-off / ongoing)	Comments
Project management time costs	Time required (hrs)	Assumed management hourly rate (£)		One-off	
Project management costs	Ongoing time required (hrs)	Assumed management hourly rate (£)		Ongoing	
Actuarial time costs	Actuarial time required (hrs)	Assumed actuarial hourly rate (£)		One-off	
Actuarial time costs	Ongoing actuarial time required (hrs)	Assumed actuarial hourly rate (£)		Ongoing	
Other staff time costs	Staff time required (hrs)	Assumed staff hourly rate (£)		One-off	
Other staff time costs	Ongoing staff time required (hrs)	Assumed staff hourly rate (£)		Ongoing	

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Appendix 4: Detailed cost estimates – Directly Authorised firms

- The table below is a summary of information provided by DA firms in the e-survey, showing the mean and median cost estimates by cost category broken down into the six firm categories covered in this report, the proportion of firms that incremental costs apply to and response rates in each cost category.

	Commission-based						Fee-based						TOTAL	
	Small		Medium		Large		Small		Medium		Large			
Total population	3,251		826		246		241		46		19		4,628	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Weighted number / % of firms needing to make change to firm literature & mkting materials	1889 / 58%		472 / 57%		152 / 62%		101 / 42%		17 / 37%		11 / 59%		2643 / 57%	
Time cost to revise literature / disc docs / mkting materials	716	346	731	386	1,457	636	711	325	1,008	576	2,597	1,442	768	361
Response rate (% of those needing to make change who provided estimate)	93%		92%		91%		97%		86%		73%		92%	
External cost to revise literature / disc docs / mkting materials	4,744	2,000	7,366	4,400	12,819	6,000	3,641	2,500	13,552	2,975	15,455	20,000	5,687	2,500
Response rate (% of those needing to make change who provided estimate)	93%		92%		91%		97%		86%		73%		92%	
Weighted number / % of firms with no existing price tariff	923 / 28%		72 / 9%		52 / 21%		21 / 9%		8 / 16%		0 / 0%		1075 / 23%	
Cost of devising a new pricing tariff	240	98	536	297	312	290	169	121	533	318	NA	NA	266	113
Response rate (% of those needing to make change who provided estimate)	91%		100%		100%		72%		64%		NA		91%	
Weighted number / % (of those with a tariff) who would need to revise / update existing tariff	1117 / 50%		352 / 49%		120 / 67%		64 / 30%		14 / 36%		8 / 52%		1674 / 49%	
Cost of revising / updating existing tariff for RDR	164	75	290	116	424	289	171	92	188	182	930	170	212	96
Response rate (% of those needing to make change who provided estimate)	97%		93%		100%		96%		83%		100%		96%	
Weighted number / % of firms needing to purchase either software *or* hardware	2190 / 67%		500 / 61%		153 / 62%		81 / 34%		13 / 29%		2 / 11%		2939 / 63%	
Weighted number of firms providing an estimate of one-off IT systems/software costs	2,085		499		157		85		14		2		2,842	
IT systems/software - one-off	2,221	1,000	3,938	2,000	5,683	5,000	2,564	1,000	3,740	3,000	20,000	20,000	2,743	1,000
Response rate (% of ALL firms who provided an estimate)	64%		60%		64%		35%		32%		11%		61%	
Weighted no. / % of firms needing to train RIs to QCA4 whose current policy is not to do so	2507 / 77%		792 / 96%		211 / 86%		143 / 59%		33 / 73%		16 / 86%		3701 / 80%	
Professional qualification – external	3,103	2,100	8,493	8,400	44,206	25,200	2,856	2,100	6,306	6,300	34,573	23,310	6,754	4,200
Weighted no. / % of firms offering paid leave, needing to train Ris and policy not currently to do so	969 / 30%		414 / 50%		134 / 55%		64 / 27%		27 / 59%		12 / 65%		1620 / 35%	
Professional qualifications - paid leave	1,527	956	5,289	2,769	9,076	4,180	1,224	826	3,178	1,631	42,771	29,364	3,435	1,356
Response rate (% of ALL firms who provided estimate of RI qualification levels)	94%		98%		100%		97%		97%		86%		95%	
Professional qualification – paid leave	1,378	480	1,748	848	1,619	705	1,636	486	1,631	836	2,238	849	1,477	554

	Commission-based						Fee-based						TOTAL	TOTAL
	Small		Medium		Large		Small		Medium		Large	Large		
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Weighted number / % of firms expecting it to take longer to explain status	1823 / 56%		376 / 46%		117 / 48%		78 / 32%		15 / 33%		5 / 27%		2414 / 52%	
Explanation of status, disclosure to customer	1,288	661	3,643	1,738	22,701	10,583	1,290	769	4,954	3,516	12,635	13,846	2,841	869
Response rate (% of those needing to make change who provided estimate)	91%		95%		100%		96%		91%		100%		93%	
Weighted number / % of firms with no existing price tariff [as above]	923 / 28%		72 / 9%		52 / 21%		21 / 9%		8 / 16%		0 / 0%		1075 / 23%	
Ongoing revisions to price tariff	176	176	201	102	102	44	70	46	499	407	0	0	172	58
Response rate (% of those needing to make change who provided estimate)	91%		100%		58%		72%		54%		NA		89%	
Weighted number / % of firms saying it will take longer to explain charging basis	1985 / 61%		476 / 58%		171 / 70%		84 / 35%		17 / 37%		5 / 27%		2738 / 59%	
Time cost of explaining charging basis	719	433	3,258	1,563	9,699	4,345	751	398	3,672	2,503	12,635	13,846	1,752	579
Weighted number of firms providing an estimate of ongoing IT systems/software costs	2,105		487		191		96		13		2		2,894	
IT systems/software - ongoing	1,617	1,000	2,282	1,200	8,063	3,600	1,750	1,000	2,210	1,238	10,000	10,000	2,168	1,000
Response rate (% of ALL firms who provided an estimate)	65%		59%		78%		40%		29%		11%		63%	
Membership of professional body	111	101	220	202	400	480	132	102	299	310	303	303	194	103
Response rate (% of ALL firms who provided estimate of prof body membership rate)	84%		98%		100%		97%		97%		86%		88%	
Weighted number / % of firms expecting to take longer on market searches	1765 / 54%		440 / 53%		123 / 50%		122 / 51%		18 / 40%		12 / 63%		2480 / 54%	
Time cost of additional market search	7,106	3,019	8,048	6,025	9,930	11,007	8,122	3,350	5,863	6,244	21,334	5,519	7,523	3,615

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Appendix 5: Cost estimates – investment provider DSFs

- The table below presents the average cost estimates for DSFs on a 'per firm' basis. This data is presented on a 'per RI' basis in the charts on page 32 of this report.

Cost category	Mean cost per firm	Median cost per firm
Clarity of Serv: Time to revise firm literature	278	243
Clarity of Serv: Time to revise marketing material	10,428	5,793
Clarity of Serv: Time to revise disclosure material	10,428	5,793
Process & Disclosure: Explanation of status	175,240	124,543
Remuneration: Devise new tariff	12,166	12,166
Remuneration: Ongoing revisions	1,159	1,159
Remuneration: Revise existing tariff	1,390	1,390
Remuneration: Explaining charging basis	139,904	50,692
Systems:- Hardware, software (one-off)	7,833,333	7,500,000
Systems: Hardware, software (ongoing)	2,503,333	10,000
Professional Qualification: External	597,542	190,890
Professional Qualification: Paid leave	197,235	18,128
Mem. of Prof. Bodies: Prof. body costs	12,019	1,598

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