RDR adviser population & Professionalism research

2012 Survey

by Bryan Atkin, Annalise Toberman, Dominika Wintersgill and Andrew Wood

A research study for the FSA

April 2013

Contents

List of tables and figures

Acknowledgements

We would like to thank the Financial Services Authority (FSA) for supporting this piece of research.

Margaret Watmough has been responsible for liaising between the FSA and RS Consulting. She has provided valuable support and guidance throughout the lifetime of this study, and has ultimately ensured an efficiently run project. We would also like to thank Margaret's colleagues Jonathan Bundy, Simon Clark and Amanda Ettridge for their valuable contributions.

John Leston, an independent consultant to the project, gave the team the benefit of his expertise at the design and analysis stages of the project.

Derek Farr, Managing Director of our fieldwork partners, Critical Research, acted as statistical consultant. He provided advice on sample evaluation, weighting, determining significance testing, the effectiveness of the sample method and calculating Confidence Intervals (CIs) for population sizing estimates.

James Hopkins, Research Director at Critical Research, led the fieldwork team. He ensured that all aspects of the interviewing ran smoothly, from the set-up and testing of the questionnaire, and answering Retail Investment Advisers' (RIAs') questions about the study, to ensuring that the data outputs were accurate and comprehensive.

Finally, we would like to thank all of the firms and RIAs that have generously given their time to participate in this research. We hope they will recognise in the findings a reflection of the retail investment advice industry as they see it today.

Any errors in the report remain the responsibility of the four authors.

The authors

Bryan Atkin, a founder Director of RS Consulting, has over 45 years in the design, implementation and reporting of major national and international projects for commercial and institutional clients. He has presented papers on research methodology to international conferences in Europe and the US and authored a number of white papers, journal articles and other published works on research methodologies and research markets. He read International History at the London School of Economics.

Andrew Wood, Research Director, leads RS Consulting's Public Policy and Regulatory Research division. He has authored many high-profile reports that have contributed to central government policy, covering aspects of the UK financial and regulatory landscape and pensions reform in the UK and worldwide. He read Modern and Medieval Languages at the University of Cambridge.

Dominika Wintersgill, Project Manager, has seven years' experience of public policy research, including projects for the Department for Work and Pension (DWP), HM Revenue & Customs (HMRC), the Office for National Statistics (ONS), the Home Office and the Department for Culture, Media and Sport. She read Culture & Society at the London School of Economics and Political Science and Cultural Studies with German at the University of East London.

Annalise Toberman, Senior Research Executive, specialises in public policy and financial research. She has contributed to several studies for the DWP, including a study assessing the cost of transferring pension pots between providers, and qualitative research into how decisions about retirement planning are made at a household level. She read Government at the London School of Economics and Political Science.

Glossary

30-month rule	A **Retail Investment Adviser** must attain an **appropriate qualification** within 30 months of starting to advise. Advisers deemed competent after 30 June 2009 did not have to meet the end-2012 deadline, but they will have to attain the appropriate qualification within 30 months of the later of 1 January 2011 or of the date they started to advise. Trainee advisers on **retail investment products,** securities and derivatives can advise under supervision if they have attained the regulation and ethics module of an appropriate qualification. Advisers who intend to both advise and deal on securities and / or derivatives cannot start this activity until they have completed all of the modules of their qualification and therefore the 30-month rule does not apply to these advisers.
Accredited body	The role of accredited body is a new role, created under the **RDR**. Accredited bodies will independently verify that advisers are meeting the RDR Professionalism requirements and will issue advisers with an annual **Statement of Professional Standing** as evidence. Accredited bodies will need to meet certain criteria to be recognised by the FSA in the first instance and will need to meet the criteria on an ongoing basis to maintain their status.
Adviser charging	The new adviser charging rules mean that product providers are banned from offering commission to **Retail Investment Advisers**, and adviser firms are banned from accepting it when they advise a UK retail client to invest in a **retail investment product**. All firms that give retail investment advice have to set their own charging structure based on the level of service they provide; disclose charges to clients upfront, using some form of price list or tariff; and disclose to and agree with the client the total adviser charge payable. The adviser must deliver an ongoing service when an ongoing adviser charge is levied, except in the case of regular payment products, where an ongoing adviser charge can be levied without an ongoing service also being delivered, but the adviser must disclose to the retail client that no ongoing personal recommendations will be provided.

Advisory Investment Management	Service whereby, rather than managing the portfolio without consulting the client, the manager will suggest courses of action which the client may or may not choose to take, or the manager will offer advice to clients when asked about particular investment decisions.
Appointed Representative (AR)	The appointed representative firm acts as an agent for the Principal firm. The Principal must be a firm that is directly authorised by the FSA. The Principal must accept full responsibility, including any liabilities that might arise for ensuring that the AR complies with the FSA's regulation. There must be a written contract between the Principal and the AR documenting this arrangement.
Appropriate Qualification (AQ)	A qualification that needs to be attained by employees such as **Retail Investment Advisers** in order to carry out certain activities. These activities are set out in Appendix 1.1.1R of the FSA's Training and Competence (TC) sourcebook. Appropriate qualifications for Retail Investment Advisers (including those advising on securities and derivatives) are set at **Qualification & Curriculum Framework** (QCF) Level 4 or above and listed in TC Appendix 4E.
Authorised Professional Firm (APF)	A firm that practises a profession regulated by a designated professional body and is subject to the rules of the designated professional body. These APFs may carry out some regulated activities, but their main business is not the financial services the FSA regulates (for example, a firm of accountants or solicitors).
Awarding body	A provider of **Appropriate Qualifications**.
Basic advice	A short, simple form of **restricted advice** that uses pre-scripted questions to identify a retail client's financial priorities and decide whether a product from within a range of low-cost saving and investment stakeholder products is suitable for them.

Capital adequacy	Starting from 31 December 2013, Personal Investment Firms will have to hold capital resources worth a specified period of their annual fixed expenditure in realisable assets such as cash. These new rules will be phased in on an increasing basis over the period to 31 December 2015 by which time they must have capital resources of at least three months' fixed expenditure, subject to a minimum of £20,000.
CF30	The designation applied by the FSA to Approved Persons carrying out regulated activities that fall under the Customer Function. CF30 covers a number of different activities, including advising on investments; advising on corporate finance business; advising on pension transfers; dealing or arranging deals in investments; advising in relation to Lloyd's syndicates; and acting in the capacity of an investment manager.
Confidence Interval (CI)	In statistics, a confidence interval is used to indicate the reliability of a particular result. A confidence interval of 95% means that there is just a 5% chance that the result could have happened by chance.
Continuing Professional Development (CPD)	Learning activities that are designed to ensure an individual's knowledge remains up to date. Structured CPD comprises activities such as seminars and conferences that use material and activities that are designed to achieve a particular learning outcome. Unstructured CPD includes reading professional publications or other activities where material is not designed to meet a particular learning outcome.
Design effect	The design effect is a measure that shows the effect of the survey design on the **confidence intervals** that apply to the survey results.
Directly Authorised (DA)	A firm that is authorised and regulated by the FSA.
Discretionary Investment Management	A service whereby the investment manager has complete authority to buy and sell investments without obtaining the client's prior approval as

	there is a mandate agreed between the manager and client to conduct such business.
Employee benefits consultant (EBC)	An adviser or firm of advisers that advises employers on employment benefits packages for their employees, including pensions and other benefits. Some EBCs also advise individual employees.
Execution only	A service whereby an investment purchase or sale is arranged without advice being provided. The client knows exactly what investment they want, from which provider and how much they will invest. The client's instructions are executed.
Fully qualified	A **Retail Investment Adviser** who holds an **RDR Appropriate Qualification** and, if required, also completed any **gap-fill** activities.
Gap-fill	Certain **appropriate qualifications** will meet the full **RDR** qualification requirement only when combined with qualification gap-fill. This gap-fill constitutes additional structured **Continuing Professional Development** (which need not be by examination), completed and verified by an **accredited body**.
Independent financial advice	Prior to the implementation of the **RDR**, to provide independent advice, a firm had to provide personal recommendations to its clients on **packaged products** from the whole market (or the whole of a sector of the market), and offer its clients the opportunity to pay by fee for the provision of such advice. Since 31 December 2012, an Independent Financial Advice firm has needed to consider a broader range of products than previously; provide unbiased and unrestricted advice based on a comprehensive and fair analysis of the relevant market; and inform its clients, before providing advice, that it provides independent advice. The broader range of products, defined as **retail investment products**, includes structured capital-at-risk products and all investment trusts.

Network	A firm which has five or more **Appointed Representatives** or whose Appointed Representatives have, between them, 26 or more individual adviser representatives.
Packaged products	These products include life policies, collective investment schemes, some investment trusts, and pensions and were the basis of the rules on independence pre-**RDR**. From 31 December 2012 this term has been replaced by **retail investment products** for the purposes of the rules on adviser charging and independence.
Paraplanner	A paraplanner does not give advice but supports an adviser through a number of activities, which may include preparing and maintaining the client file, preparing recommendations and implementing recommendations.
Personal recommendation	A recommendation that relates to a particular investment and is presented as suitable for the retail client or is based on a consideration of their personal circumstances.
Primary category	The FSA assigns authorised firms to one or more categories of regulated business, based on a combination of factors including the permissions a firm holds and customer types they service. The primary category is the category assigned to the firm based on the amount of business the firm undertakes and/or is considered to pose the greatest risks to the FSA's objectives.
Qualifications and Credit Framework (QCF)	A system for recognising skills and qualifications, operated by the Office of Qualifications and Examinations Regulation (Ofqual). The **RDR** stipulates that the level of difficulty of an **Appropriate Qualification** should be at, or above, a QCF Level 4 qualification, the vocational equivalent to the first year of an academic degree.
Retail Distribution Review (RDR)	The RDR was launched in June 2006 in response to problems in the market for retail investment advice. The RDR aims to ensure that consumers are offered a transparent and fair charging system for the advice they receive;

	consumers are clear about the service they receive; advisory firms are more stable and better able to meet their liabilities; and consumers receive advice from highly respected professionals. Most RDR-related rules took effect from 31 December 2012.
Retail Investment Adviser (RIA)	Advisers in scope of RDR Professionalism who carry out certain activities for retail clients such as advising on **retail investment products**, securities and/or derivatives.
Retail Investment Products	Post-**RDR**, the adviser charging, independence and professionalism rules refer to 'retail investment products'. In addition to the previous category of **packaged products**, the definition of 'retail investment products' now includes all investments in investment trusts, structured capital-at-risk products and other investments that offer exposure to underlying financial assets, but in a packaged form that modifies that exposure compared with a direct holding in the financial asset.
Retail Mediation Activities Return (RMAR)	A regular report that the FSA requires firms to complete that includes information about the number of individuals advising on retail investment products at the firm. Now that the **RDR** rules are in force, firms need to provide additional information, including information about adviser and consultancy charging revenue, client numbers and charging structures.
Restricted advice	Post-**RDR**, restricted advice is advice that is not **independent**, so where a firm gives advice on products from a limited number of providers or only considers certain types of products. Firms must disclose in writing and orally, before providing advice, that they provide restricted advice and explain the nature of the restriction. A firm that provides both independent and restricted advice will not be able to hold itself out as acting independently for its business as a whole.

Simple random sampling (SRS)	A sampling methodology where all population members have a known and equal chance of selection for the study.
Simplified advice	A form of **restricted advice**, simplified advice is a streamlined advice process that provides the customer with a suitable personal recommendation based on an assessment of their needs. This may be a shorter process than full advice, may involve a decision-tree, and may be limited to a more simple set of products.
Statement of Professional Standing (SPS)	Since 31 December 2012, competent **Retail Investment Advisers** have been required to hold a Statement of Professional Standing. These statements are issued by **accredited bodies** to those advisers who have passed an **Appropriate Qualification** (including completing **gap-fill** where appropriate), adhered to ethical standards and maintained their knowledge through ongoing **CPD** activity.
Statements of Principle and Code of Practice for approved persons (APER)	FSA standards of behaviour for all approved persons including **Retail Investment Advisers**. The statements include the principles to act with due skill care and diligence and to act with integrity. Examples of behaviour that would not comply are listed and include failing to pay due regard to the interests of customers. Each year, RIAs will need to declare that they comply with APER under the **RDR**.
Stratified random sampling	Sampling methodology used in this study: to ensure that all firm types were covered on a sufficient scale to permit robust, sub-segment analysis, minimum quotas were set according to the key variables (in the case of this survey, firm type and number of **Retail Investment Advisers** in the firm). Within these quotas, respondents were selected at random to be invited to participate in the survey.
Tied	Prior to the implementation of the **RDR,** tied firms could be either single tied or multi-tied. Single tie: a firm that was tied to only one provider and only recommends their products. Multi-tie: a firm that was tied to a limited number

	of providers and only recommends their products. This category has now been replaced by **Restricted** for the purposes of the rules on independence.
Wealth Manager (WM)	Advisory firm, where the client has signed an overarching agreement with a firm to have their assets and/ or investments managed on a discretionary, non-discretionary or advisory basis. For the purposes of this study, the wealth manager grouping is made up of certain FSA firm categories such as stockbrokers and investment managers, as described in the accompanying Technical Report.
Whole of market	Prior to the implementation of the **RDR,** this was a firm that provided whole of market recommendations but did not offer a fee option (and therefore could not be described as **independent**). From 31 December 2012 all firms are either independent or **restricted**.
Work-based assessment	An assessment that is an alternative to a written examination, where the adviser is visited by an assessor who observes him or her in the workplace, reviews advice files and checks competence and **CPD** records.

Technical definitions specific to this study

2010 RDR survey	The FSA's 2010 survey research, *The cost of implementing the Retail Distribution Review professionalism policy changes*, conducted by NMG Consulting.[1]
2011 RDR survey	The FSA's 2011 survey research, *Progress towards the Professionalism requirements of the Retail Distribution Review,* conducted jointly by RS Consulting Ltd and Critical Research Ltd.[2]
2012 RDR survey	The FSA's 2012 survey research covered by this report. It was conducted jointly by RS Consulting Ltd and Critical Research Ltd.
Database-build	The process used in this study to construct an **RIA database** of sufficient scale to support the survey sample design. A database-build using a similar methodology was also undertaken in the **2011 RDR survey**.
Multi-firm RIA	An **RIA** that was confirmed during the **database-build** as working as an RIA at more than one firm. The methodology of this survey is designed to estimate the number of RIA 'posts' as opposed to individual RIAs, although as short-hand throughout this report we do refer to the 'number of RIAs'.
RIA database	A database of confirmed **RIAs**, consisting of **CF30s** whose status as an RIA and whose email address were confirmed by their firm during the **database-build**.
RIA population estimate	The estimate of the total number of **RIA** posts in all regulated firms (i.e. in all firms that are part

[1] NMG Consulting (2010), *The cost of implementing the Retail Distribution Review professionalism policy changes.*

[2] Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011) *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

	of the **starting dataset**). This estimate was also calculated on a like-for-like basis in the **2010** and **2011 RDR surveys**.
Starting dataset	A database that incorporates all **CF30s** within all regulated firms that reported having at least one **RIA** in their most recent **RMAR** return, or in the case of **APFs** and **WM (S&D Only)** who are not required to complete an RMAR return, that have at least one CF30. Certain firms with CF30s were excluded from the starting dataset because they fell into **Sub-status 'P'**.
Survey exclusions	Certain firms were included in the **starting dataset** (and therefore their **RIAs** were included in the **RIA population estimate**), but had to be excluded from participation in the survey. These include certain firms currently subject to enforcement activity, as well as firms in **Sub-status 'S'**.
Sub-status	An FSA-designated firm classification. This refers to firms in liquidation; in administration; that have applied to cancel their FSA authorisation; that have applied to change their business category; that have applied to change their legal basis, or have closed to regulated business.
Sub-status 'P'	**Sub-status** categories that indicated that firms were no longer regulated firms, and so their **CF30s** were excluded from the **starting dataset**. These were: In liquidation; In administration; Applied to cancel authorisation; and Closed to regulated business.
Sub-status 'S'	**Sub-status** categories that it made it inappropriate to include such firms in the **contact database**, but their **CF30s** were still included in the **starting dataset**. These were: Applied to change business category and Applied to change legal basis.

Abbreviations and other reporting terminology

Firm types

All the firms with which participating advisers were associated were categorised into one of eight firm types. All of the firm types below were originally defined and used in the first wave of this research in 2011.[3]

The categorisations used were based upon bringing together firms with similar operating models and/or ownership structures. The full procedure adopted in assigning firms to a type is described in this year's Technical Report.[4]

IFA – DA	Independent Financial Adviser – Directly Authorised
IFA – AR	Independent Financial Adviser – Appointed Representative
Tied – AR	Tied – Appointed Representative
WM	Wealth Manager (including those advising on securities and derivatives only)
EBC	Employee Benefits Consultant
B/BS	Bank or Building Society
Life	Life Company
APF	Authorised Professional Firm

New firms

Continuing firm	Firm that existed in May 2011.
Entered firm	Firm that came into existence after May 2011.

[3] Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

[4] Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

Firm size

Firm size	The term 'firm size' refers to the size of the individual firm, or in the case of IFA – AR and Tied – AR, the size of the firm's network Size is defined in terms of number of Retail Investment Advisers (RIAs) employed by the firm or across the network.[5]
Single RIA firm	A firm with one RIA (i.e. a subset of the 'smaller firms' group). There may be more people employed by the firm in roles other than retail investment advice.
Smaller firm	A firm with one to 19 RIAs.
Larger firm	A firm with 20 or more RIAs (i.e. the medium-sized firms plus the largest firms).
Medium-sized firm	A firm with 20 to 499 RIAs.
Largest firm	A firm with 500 or more RIAs.

Wealth tiers

Lowest wealth tier	Retail clients holding less than £20,000 in personal savings and investments.
Medium wealth tiers	Retail clients holding from £20,000 to less than £250,000 in personal savings and investments.
Highest wealth tier	Retail clients holding £250,000 or more in personal savings and investments.

[5] Firm size was defined using the number of RIAs in each firm, as reported in the firm's RMAR return, but modified based on information obtained during the RIA database-build and in screening for the survey of RIAs. This process is summarised in Section 3.1.1 and detailed in full in Chapter 5 of the Technical Report.

RIA demographics

Younger RIA	RIA aged 18 to 29.
Older RIA	RIA aged 60 or over.
Lower earner	RIA with gross individual income from retail investment business of less than £40,000 a year.
High earner	RIA with gross individual income from retail investment business of more than £80,000 a year.
Highest earner	RIA with gross individual income from retail investment business of more than £125,000 a year (i.e. a subset of the 'high earners' group).
Sole trader	A business entity that legally has no separate existence from its individual owner. An RIA can be a sole trader within an AR network.
Self-employed	Refers to the RIA's definition of their own role.

RIA future intentions

Leavers	All RIAs who after 31 December 2012 were intending to retire (whether as planned or earlier than planned), leave the industry, or stop advising on retail investments and take another role in the industry (as defined in question F1 of the survey questionnaire).[6]
Early leavers	RIAs who after 31 December 2012 were intending to retire earlier than planned, leave the industry, or stop advising on retail investments and take another role in the industry (as defined in question F1 of the survey questionnaire).[7]

[6] For the full questionnaire, see Appendix B.2 of the Technical Report.

[7] This category is distinct from leavers, in that it excludes those who intend to retire *as planned*.

Intending to remain an RIA	RIAs who reported that after 31 December 2012 they would definitely remain, or were likely to remain, an RIA (as defined in question F1 of the survey questionnaire).

Other abbreviations

APER	Statements of Principle and Code of Practice for Approved Persons
AQ	Appropriate Qualification[8]
CI	Confidence Interval
CATI	Computer-aided telephone interviewing
CPD	Continuing Professional Development
FSA	Financial Services Authority
Life	Life Company
Ofqual	Office of Qualifications and Examinations Regulation
QCF	Qualifications and Credit Framework
RDR	Retail Distribution Review
RIA	Retail Investment Adviser
RMAR	Retail Mediation Activities Return

[8] In this report, we use the term AQ specifically to describe the new RDR qualification requirement for RIAs that has been in place since 31 December 2012 (see Glossary for the full definition of AQ). The adviser qualifications that were required before the RDR took effect were also described as AQs in the FSA Handbook, although in this report the term is not used to refer to these old qualification standards.

S&D only	An RIA that advises on securities and/or derivatives but not on collective investment products or other packaged products
SPS	Statement of Professional Standing

Tables and related conventions

In tables, the following conventions are used when displaying results:

- Non-italic Denotes a statistically significant difference against all excluding that subgroup.
- *Italic* *Denotes a result that is not statistically significantly different against all excluding that subgroup.*
- *[ ]* percentages based on fewer than 50 observations
- * a result of less than 0.5%
- 0 no observations
- - category not applicable

All results in tables are tested to a confidence interval (CI) of 95%. Thus, if a result in a table is shown as statistically significant, there is just a 5% chance that the difference could in fact have happened by chance. Significance testing will apply in one of two ways, depending on the data being compared in a table:

- In tables that compare subgroups of the 2012 data, statistically significant differences are shown for each subgroup, compared with all RIAs not in that subgroup.
- Tables that compare 2011 data with 2012 data show statistically significant changes from 2011 to 2012. The same robust survey methodology has been used as in the 2011 survey, which allows for an accurate comparison of results between the two waves.

In some of the survey questions a proportion of respondents answered 'don't know' or refused to answer. These are treated in one of two ways in tables:

- In most cases 'don't know' or 'refused' is treated as a valid answer and included in the reported results.
- In some cases 'don't know' answers are excluded from the base entirely, in which case this is stated below the relevant table, alongside the number of respondents excluded. This is typically the case with numeric questions, where it is necessary to exclude 'don't know' answers from the base.

In tables and report text, percentages derived from the survey analysis or associated calculations are usually rounded upwards or downwards to the nearest whole number. Where a percentage, calculated to one decimal place, is x.5% the convention is to round upwards, e.g. 56.5% is shown as 57%. Totals in tables may not therefore add exactly to 100%.

Exceptionally, percentages are shown to one decimal point where rounding up or down would be misleading or impair understanding, or where this degree of accuracy is particularly important. This is usually the case where a series of two or more smaller numbers are required to reconcile with a larger number.

Subgroup bases used in the report

The base, or number of respondents (unweighted), is shown beneath each table. Where results are based on a subset of the 1,436 RIAs interviewed, this is denoted by a small pie in the table header:

Where this pie chart appears, the black shaded area illustrates the proportion of RIA respondents (unweighted) on which the findings in the table were based.

The individual subgroup bases used in this report are listed in the table below, in descending order of frequency.

Unweighted base/ number of RIAs interviewed	Description of subgroup	Estimated size of the population of RIAs in the subgroup	Percentage of the total population of RIAs represented by the subgroup
1,436	**All RIAs**	**35,899**	**100%**
1,402	All RIAs willing to say whether they would recommend retail investment advice as a career to someone	35,100	98%
1,307	All RIAs definitely or likely to remain an RIA *	32,200	89%
1,256	All RIAs holding AQ	31,600	86%
1,153	All RIAs excluding leavers and those subject to the 30-month rule	28,200	79%
225	All RIAs who will definitely/ are likely to switch to a different type of advice service after 2012	5,500	15%
187	All RIAs likely to remain an RIA	5,400	15%
133	All RIAs awaiting results of final paper, studying or decided to take an AQ	3,800	10%
85	All RIAs competent on/ before 30/06/12 and who are awaiting results of final paper or are studying	2,500	7%
78	‘Leavers’ *	2,400	7%
76	All RIAs studying	2,100	6%
63	‘Early leavers’	2,000	6%
46	All ‘high risk’ RIAs	1,000	3%

* There is a small minority of RIAs (4%) who were neither definitely/ likely to remain in the industry, nor were ‘leavers’. These RIAs either did not know what they would do after 31 December 2012 (2%) or stated that they had other plans (2%) (see Section 4.1).

Summary

This report provides the findings of a study conducted by RS Consulting on behalf of the Financial Services Authority (FSA), to estimate the size of the Retail Investment Adviser (RIA) population and to measure progress towards the Professionalism requirements of the Retail Distribution Review (RDR). It is the second wave of a three-year programme of primary research to inform the FSA's authorisations, supervision and communications strategy for the RDR. The first wave of the report was published in December 2011.[9] A final wave of research is planned for summer 2013, which will include significant changes compared with this and previous studies, focusing on key areas of interest in the post-RDR environment.

Background and objectives

The RDR was launched in June 2006 in response to long-standing issues in the market for retail investment advice. The RDR was designed to establish standards of professionalism intended to inspire consumer confidence and build trust in the market, so that retail investment advice is recognised more as a profession. By professional standards we mean gaining and maintaining technical knowledge and, through the right behaviours, the proper application of that knowledge. Under the Professionalism requirements of the RDR, RIAs must be compliant with new standards of ethical behaviour, attain modernised qualifications and meet standards of Continuing Professional Development (CPD). Firms must ensure that advisers hold an annual Statement of Professional Standing (SPS) confirming that the adviser meets these standards.

Most of the rules arising from the RDR took effect on 31 December 2012.

The objectives of the 2012 research programme build on those of the 2011 RDR survey, including:

- To estimate the size of the population of RIAs in 2012 and compare it to the 2011 population on a like-for-like basis, in order to estimate year-on-year change.
- To track progress among the RIA population since 2011 in terms of the numbers holding, or intending to hold by the end of 2012, a Level 4 qualification including completion of any necessary gap-fill;[10] meeting the requirements on ongoing CPD; and being aware of the requirements on ethical standards.

---

[9] Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

[10] In this report, we use the term AQ specifically to describe the new RDR qualification requirement for RIAs that has been in place since 31 December 2012 (see Glossary for the full definition of AQ). The adviser qualifications that were required before the RDR took effect were also described as AQs in the FSA Handbook, although in this report the term is not used to refer to these old qualification standards.

- To inform FSA supervision and communications activity by measuring progress at total population level, and by showing how progress varies in different types and sizes of firm.

Research methodology

The survey was conducted primarily via an online survey initiated by invitations emailed directly to a stratified random sample of RIAs drawn from a representative database of RIAs. The invitations to advisers explained the purpose and scope of the survey and its importance, and contained a link to the web survey programmed and hosted by our research partner, Critical Research.

Invitations were issued to 5,200 RIAs between 20 August and 27 September 2012. The fieldwork period for the receipt of completed surveys concluded on 3 October 2012. A total of 1,436 completed interviews with RIAs from a total of 517 firms were achieved. All survey results have been weighted back to the total population of RIAs.

It is important to note that this is a representative survey of advisers and therefore reports their views and intentions, not those of the firms that employ them. The opinions expressed by the advisers who took part have not been cross-checked in this report with the opinions and intentions of firms.

Throughout the report, we use the term 'summer 2012' as shorthand for the more precise fieldwork period of 20 August to 3 October 2012.

The full research methodology is available in the Technical Report.[11]

Key findings

An optimistic picture overall for the introduction of the RDR

The 2012 survey clearly confirmed that the retail investment advice industry was progressing smoothly towards the RDR goal of a fully qualified, professional population of RIAs. Almost all RIAs planning to remain RIAs after December 2012 and needing to be fully qualified by the deadline expected to achieve this target. While a small proportion of RIAs intended to cease retail investment advice after December 2012, the RDR does not appear, for most, to be the key reason for leaving. Very few RIAs intending to remain, but not qualified by December 2012, were likely to fail in this objective eventually. However, a morale problem remains evident, with a sizeable, if reducing, minority of RIAs negative about recommending retail investment advice as a career to potential new entrants.

[11] Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

The population of RIAs continues to fall

The year to summer 2012 saw a reduction of 11.5% in the RIA population in the UK, to an estimated 35,899 RIAs. The rate of reduction was higher than in 2011, which saw a 7.7% fall on the previous year.[12] Although we cannot be sure of individual leavers' precise reasons for departing over the previous year, we can typically place those who have ceased being an RIA into two broad groups:

- **RIAs who left the industry of their own volition**
  In 2011, 8% of RIAs stated that they expected to cease being an RIA after 31 December 2012 because of planned or early retirement, a switch to another role within the industry, or a decision to leave the industry altogether. Some of these RIAs might have acted upon their intention by summer 2012.
- **RIAs displaced because their firm reduced the number of RIAs they employ or ceased retail investment advice altogether**
  Large falls in the RIA populations in WM, B/BS and Life accounted for much of the net decline of 4,667 in the RIA population between summer 2011 and summer 2012; we believe these falls were due in large measure to some of the largest firms in these sectors closing or downsizing their RIA divisions.

The decline in the population reflects the effect of RIAs leaving the industry much faster than the rate at which new entrants were joining, a trend that may continue into 2013 based on the findings of the survey on RIAs' intentions to remain beyond December 2012 (covered later in this summary). While we assume that some advisers leaving larger firms will have re-entered the industry with other firms, the industry does not appear, at present, to have the capacity to absorb the numbers being displaced.

To stay or to leave?

The number of RIAs may have declined, but those that remained in the population had increased certainty that they would remain an RIA after December 2012. Almost nine in ten RIAs (89%) indicated that they intended to remain RIAs after the RDR came into force on 31 December 2012. Moreover, significantly more RIAs were 'definite' in 2012 that they would remain in the industry (74%, up from 57% in 2011).

Despite this positive news, there were clear signs, however, that some RIAs either intended to leave after 31 December 2012 or were doubtful about their future as an RIA:

---

[12] The RIA population estimate of 35,899 is in fact the number of RIA 'posts': if an RIA works at multiple firms, they are counted each time. The actual number of individuals in the total population is likely to be around 2.3% lower. We do, nevertheless, refer to the 'estimated population of RIAs' as shorthand throughout this report. More details can be found in Section 3.1.2.

- **Fifteen per cent of RIAs thought they were only ‘likely’ to remain an RIA** although the reasons for lack of certainty varied. RIAs in larger firms were particularly likely to cite uncertainty about future employment as an RIA, while those in smaller firms were more likely to reveal personal doubts around whether they would want to continue as an RIA. It is probable that at least some of these RIAs will exit the industry over the next year or two.
- **Six per cent of RIAs intended to cease being RIAs for reasons other than planned retirement (‘early leavers’) after December 2012.** This is, however, a decrease of two percentage points since 2011, suggesting that there may be no increase in the rate of attrition after the RDR comes into force. Interestingly, early leavers appear to be relatively less successful: they include RIAs who were earning less than £40,000 a year from retail investment business (12% of those earning up to £40,000 were early leavers, compared with 6% overall); had fewer than average retail clients (13% of those who advised ten or fewer retail clients in the last 12 months were early leavers); and had a greater proportion of lower value retail clients (14% of RIAs with a least a third of retail clients with less than £20,000 in savings and investments were early leavers).
- **Two per cent of RIAs commented, unprompted, that, while they wanted to remain an RIA, circumstances beyond their control might make them revise their plans.** These circumstances included the effects of a continued adverse economic climate, greater competition and an unwillingness on the part of some clients to pay adviser charges.

Overall, there appears to be a shift away from Professionalism-related reasons driving the decisions of the early leavers – in 2011, 62% of early leaver RIAs had said that the RDR Professionalism requirements had been very influential in their intention to leave, whereas in 2012 this proportion had fallen to 41%.

Evolution rather than revolution from 2013

Where RIAs intended to stay in the industry, the RDR appeared to have little influence on business plans post-RDR. As was the case in 2011, a majority of these RIAs expected no change either in the products and services they were offering to retail clients, or in the volume of retail business they conducted.

A small minority of the RIAs intending to remain did, however, expect to switch from independent to restricted advice post-RDR (8%); and a further 6% of those intending to remain currently offered independent advice but were unsure what type of advice they would offer post-RDR. Some of these may have been planning to carry on offering a similar service, but because the definition of independence was changing, they accepted that they would either need to describe their service as restricted, or change their service offering to maintain their ‘independent’ status. There was far less movement in the opposite direction: only 1% of RIAs intending to remain offered another type of advice and expected to switch to independent, although again, a further 6% were unsure what they will offer.

RIAs intending to remain have progressed significantly towards attaining an Appropriate Qualification (AQ) and any required gap-fill[13]

The great majority of the RIA population intending to remain was on track to meet the qualification requirements of the RDR by the deadline of 31 December 2012. By the summer of 2012, 86% of all RIAs held a Level 4 qualification (including some still needing to complete gap-fill), with a further 4% (around 1,500 RIAs) awaiting results on their final paper and another 6% (around 2,100 RIAs) studying.

Ninety-four per cent of all RIAs expected to hold a Level 4 qualification by the end of 2012. Of the remainder, 2% expected to complete after the end-2012 deadline, 3% had decided not to take a Level 4 qualification (and therefore typically cease to be an RIA), and 1% were still unsure of their intention to do so.

Excluding RIAs subject to the 30-month rule (under which a Retail Investment Adviser deemed competent after 30 June 2009 must attain an appropriate qualification within 30 months of starting to advise)[14] and those who intended to leave the industry after 31 December 2012, just 1% of all RIAs (around 400 across the entire population) needed to meet the deadline for holding a Level 4 qualification, but expected to miss it. After the need to complete gap-fill is taken into consideration, this group increases to 500 advisers, meaning that only about 100 of all RIAs expected to hold a Level 4 qualification by the deadline, but not to have completed the required gap-fill.

We have considered the possibility that some RIAs may have been optimistic about their predictions as to when they would complete their Level 4 qualification. While we have defined 3% of RIAs (about 1,000) as being 'high risk', because they had two or more papers of their qualification left to complete and were not subject to the 30-month rule, there was a high level of confidence among these RIAs that they would, in fact, make the deadline. Probable slippage was likely therefore to be smaller than the number theoretically at 'high risk' of having their status withdrawn after 31 December 2012.

A more professional industry

A growing commitment to being part of an increasingly professional and well-qualified industry appeared to be reflected in the substantial increase since 2011 in the proportion of RIAs that were members of a professional body: 89% were now members, up from 77% in 2011. This increase may well be due in part to the important role that several professional bodies are playing as awarding bodies and as accredited bodies. The trend towards membership will probably be reinforced as intending leavers, who are less likely to be members of a professional body, exit the industry.

---

[13] The Afterword to this report provides updated findings on completion levels for the Level 4 AQ and any gap-fill, based on a shorter survey completed later in 2012.

[14] See Section 1.3.2 for more information.

At the same time, some RIAs had taken the Professionalism requirements further, with 16% of RIAs qualified above Level 4 – the vast majority of these to Level 6. RIAs in EBC and WM firms, in particular, were likely to be qualified above Level 4, particularly those with higher value clients, and they were also characterised by higher levels of income from their retail investment business.

Warning signs that CPD might be neglected after 2012?

The RDR requirements for ongoing structured and unstructured CPD did not come into force until the end of 2012. While most RIAs (66%) had completed both structured and unstructured CPD over the year before summer 2012, either at or in excess of the minimum number of hours specified under the RDR, the level at which RIAs intend to continue with CPD in 2013 and beyond may provide a sterner test for the RDR in succeeding to increase professionalism in the future.

The estimates of post-2012 CPD hours provided by RIAs suggest there may be some slippage in conforming to the new minimum requirements, or that some RIAs may do little more than the minimum, if there is no reinforcement by the FSA or the industry. The proportion of RIAs estimating that future annual CPD hours would meet the minimum specified hours after 2012 decreased from 66% to 63%. This may not, however, indicate an emerging problem after December 2012, as more than a quarter of RIAs 'did not know' how many hours they would complete and may, in the event, meet the requirement. In some firm types, particularly the largest, the proportion that confirmed they expected to complete the minimum required number of hours was lower still: in B/BS, for example, just 45% of RIAs expected to complete the minimum requirements after 2012, although the proportion unable to confirm the number of hours they anticipated completing was much higher than average for these RIAs.

Despite the reluctance of a sizeable minority to project annual CPD hours they expected to complete after December 2012, most RIAs appear to be confident they understand what is required of them in terms of CPD. In total, only 13% of RIAs (down from 18% in 2011) claimed they required further clarification on structured CPD, and those that did expected to turn primarily to their own firms and professional bodies for guidance, rather than to the FSA. The 2012 survey suggests that RIAs working in the largest firms will continue to be the most reliant on their employer to guide them through CPD requirements. The FSA, accredited bodies, trade bodies and larger firms might therefore wish to consider an increase in the level of communication around CPD, encouraging RIAs to meet the ongoing requirements under the RDR. The accredited bodies themselves have told the FSA that ongoing CPD is likely to become an area where further information is needed. Increased communications might help to avoid any assumption that the Professionalism requirements of the RDR are at an end after exams and gap-fill have been completed.

Little change in demographic profile – a longer term problem?

The lack of new entrants in the industry, especially young entrants, is underlined by the fact that the demographic profile of the population in terms of age, gender and length of experience changed little between summer 2011 and summer 2012. The industry remains predominantly male, mature in age (just 3% of RIAs are aged under 30, while 39% are aged 50 or over) and considerably experienced in providing retail investment advice (69% have been RIAs for more than 10 years). This may well pose a continuing problem as older RIAs reach retirement.

A side effect of the decline in the RIA population has been an adjustment in the profile of the population in terms of income, with a decrease in the proportion of RIAs who earn less than £40,000 from retail investment business, from 31% in 2011 to 20% in 2012. We believe this change can be attributed largely to redundancies and restructuring in the RIA population within certain firm types such as B/BS, which typically have advisers who earn less income from retail investment business, as opposed to a more general trend.

Retail investment products within the scope of the RDR continued to represent most of RIA business activity with investment, pension and annuity products, alongside Discretionary Investment Management (DIM) with personal recommendation, accounting for around three-quarters (76%) of average RIA personal income from retail client business in the year before the survey. As in 2011, there was little evidence of expected change in the source or balance of income-generating business after December 2012, nor any significant anticipated switch to business outside the scope of the RDR, with the exception that a sizeable minority (17%) expected to do more business after 2012 in individual protection.

A potential shift away from 'low value' clients

We have estimated that up to 2.65 million retail clients had been advised by the UK RIA population in the 12 months to summer 2012, of whom just over one million (38%) had been advised by an RIA in an IFA – DA firm and 750,000 (28%) by an RIA in a B/BS firm.

This estimate has been extrapolated from RIA information on the number of clients advised – an average of 74 retail clients per adviser for the RIA population as a whole – and should be treated as an 'order of magnitude' estimate rather than a precise number. Nonetheless, it provides a good indication of the scale of the retail investment advice market.

Out of the total of 2.65 million clients, early leaver RIAs were estimated to have advised 150,000 clients (6% of all clients) in the 12 months before summer 2012. Of these clients of early leavers, 57% had £75,000 or less in personal savings and investments, compared with 40% of the clients served by RIAs intending to remain. Among the advisers intending to remain, there was an anticipated small shift away from clients with £75,000 or less in personal savings and investments, with the proportion of the overall retail client base made up by this group expected to decline from 39% at the time of the survey to 31% post-RDR. This may reflect a broader concern about the willingness of smaller investors to continue to use RIAs post-RDR, and a challenge to advisers in demonstrating the value of their services to such clients.

In total, 76% of all RIAs served at least one client with £75,000 or less in personal savings and investments in 2012; in comparison, only 62% of those intending to remain said they would definitely serve that same market post-RDR, although it is notable that a sizeable minority (18%) was unsure as to whether it would do so.

Little change in likelihood of RIAs recommending a career in their own industry

Willingness to recommend retail investment advice as a career to someone else could be seen as a barometer of the confidence that existing practitioners have in the future of the industry as a whole, as distinct from their own personal expectations.

There were more RIAs that expected to recommend or strongly recommend retail investment advice as a career (increasing from 36% in 2011 to 38% in 2012) than would discourage or strongly discourage others (decreasing from 30% to 24%). The apparent slight warming of attitudes within the RIA population probably reflected the fact that some of those most negative about the industry in 2011 had left by summer 2012: but the change is nevertheless very small.

There had been a very small positive change in RIAs' views as to the impact of the RDR on their likelihood to recommend retail investment advice as a career: in 2012, 36% of all RIAs thought that the RDR had made them less likely to recommend retail investment advice as a career, compared with 39% in 2011.

Firm size and type makes a difference

Significant and consistent differences were evident between the RIAs in smaller firms with fewer than 20 RIAs (particularly IFA – DA firms) and RIAs in the largest firms with 500+ RIAs (particularly B/BS firms). RIAs in the largest firms were typically younger, less experienced, and more reliant upon their employer both in determining their future job prospects as well as in guiding them through the Professionalism requirements. This was particularly evident in the following areas:

- ***Progress towards full qualification***
  RIAs in the largest firms with 500 RIAs or more, especially B/BS and Tied – AR firms, were the furthest along the path, with RIAs in firms with fewer than 20 RIAs, typically IFA – DA firms, now lagging behind: a reverse of the situation in summer 2011. The rate of progress may reflect the fact that the largest firms had programmes in place between summer 2011 and 2012 to ensure that their RIAs were qualified by 31 December 2012 or had acted to remove those advisers who were not making sufficient progress. There is no particular firm type or size for which failure by RIAs to complete a qualification by the December 2012 deadline is likely to present a problem. However, should RIAs in single RIA firms not meet the deadline, it would have a larger impact than just an individual de-registration, as the firm itself might also need to be de-registered by the FSA. Nevertheless, we estimate that no more than 100 RIAs working for single RIA firms were in the 'high risk' category.
- ***Intention to remain an RIA***
  RIAs in the largest firms were noticeably less certain they would remain an RIA after December 2012: 61% of RIAs in B/BS firms said they would "definitely" remain an RIA, compared with 79% in IFA – DA firms. A key reason for uncertainty for RIAs in larger firms related to concern about their future employment prospects: 50% of RIAs only "likely" to remain in firms with 20+ RIAs cited future employment prospects, compared with 12% of RIAs only likely to remain in firms with fewer than 20 RIAs.
- ***Different demographic profiles***
  RIAs working across the larger firm sizes, particularly B/BS, tended to be younger and less experienced than those working in smaller firms: 74% of RIAs aged under 35 were employees of firms with more than 50 RIAs, compared with 41% of RIAs over 50 years old. RIAs in IFA – DA firms were also substantially more experienced in retail investment advice than those in B/BS firms: 46% of RIAs in IFA – DA firms had 20 or more years of experience, compared with just 19% of RIAs in B/BS firms.

- ***Differences in the number of retail clients***
  RIAs in the largest firms each had many more retail clients than RIAs in smaller firms: the average number of clients served by RIAs in firms with 500+ RIAs was 121 (and RIAs in B/BS firms served 110 clients on average). This compares with 45 clients on average for RIAs in single RIA firms and 66 clients on average for RIAs in IFA – DA firms.
- ***Continued need for information among RIAs in the largest firms***
  Although RIAs in the largest firms with 500+ RIAs appeared more confident than they were in 2011 about what they were required to do under the RDR, there is evidence that there is still a need for the FSA and others, including the professional bodies, to continue a flow of information to RIAs and firms. RIAs working in smaller firms (in particular IFA – DA) were more likely to have discussed each of the aspects of the RDR with at least some of their retail clients, perhaps reflecting the closer relationships they have with their (smaller) client bases. Correspondingly, RIAs in B/BS firms were far less likely to have discussed any aspects of the RDR with their retail clients.

1 Research objectives and background

This report provides the findings of a study conducted by RS Consulting on behalf of the Financial Services Authority (FSA), to estimate the size of the Retail Investment Adviser (RIA) population and to measure progress towards the Professionalism requirements of the Retail Distribution Review (RDR). It is the second wave of a three-year programme of primary research to inform the FSA's authorisations, supervision and communications strategy for the RDR. The first wave of the report was published in December 2011.[15]

This chapter introduces the RDR and summarises the objectives of the research programme.

1.1 The Retail Distribution Review

The market for retail investment advice has been characterised by a number of market failures.

In particular, many investment products have complex charging structures, and it is often not clear how benefits to consumers arise. Consumers purchase financial products relatively infrequently and so have little past experience to guide future decisions. Consequently, many consumers rely heavily on RIAs, through whom most retail investment products are sold. The incentives of the adviser may not have been aligned with those of the consumer, and the adviser may not have had the right technical knowledge or behaved in the right way.

The RDR was launched in June 2006 in response to these long-standing failures. The FSA's proposals aimed to ensure that:

- Consumers are offered a transparent and fair charging system for the advice they receive.
- Consumers are clear about the service they receive.
- Advisory firms are more stable, and are better able to meet their liabilities.
- Consumers receive advice from highly respected professionals.

Most of the rules arising from the Professionalism aspects of RDR took effect from 31 December 2012. There were two exceptions. Firstly, new obligations for all approved persons, including RIAs, were added to the Statements of Principle and Code of Practice for Approved Persons (APER) from 1 January 2011. Secondly, since July 2011, firms have been required to alert the FSA to competence and ethics issues that they identify amongst individual advisers.

[15] Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

1.2 RIAs and the scope of their work

The term ‘Retail Investment Adviser’ describes all individual advisers who are within scope of RDR Professionalism (as distinct from RDR Charging and Advice). Advisers in the scope of RDR Professionalism are those carrying out certain activities for retail clients. These activities include advising on retail investment products, and/ or advising and dealing in securities and/or derivatives.[16]

RIAs operate within various types of firm such as banks, stockbrokers, wealth managers, life insurance companies, independent financial advisers, and tied/ multi-tied[17] investment intermediaries.

1.3 Summary of the Professionalism requirements of the RDR

From the start of the RDR, concerns about the credibility of advisers were often at the heart of the debate, which saw an early consensus among stakeholders on the need for professional standards to be raised. The FSA believes that to raise trust and instil confidence in consumers, it is important that they receive advice from professional, respected advisers.

The RDR aimed to establish standards of Professionalism that would inspire consumer confidence and build trust in the market so that investment advice is seen as more of a profession. The FSA has sought to achieve this by requiring RIAs to comply with new standards of ethical behaviour, by modernising qualifications and raising the required qualification level, and by enhancing standards for Continuing Professional Development (CPD). The RDR has made it obligatory for firms to ensure that their RIAs hold an annual Statement of Professional Standing (SPS) confirming that they meet these standards.

It is expected that the enhanced Professionalism requirements also mean that advisers, on the whole, will be more competent than at any time in the past. As the professionalism and reputation of the adviser community increases, the FSA expects that new entrants will be attracted to the industry.

1.3.1 Appropriate qualifications and ‘gap-fill’

The RDR Appropriate Qualification (AQ) minimum Qualifications and Credit Framework (QCF) level is Level 4, the vocational equivalent to the first year of an academic degree, and the FSA has stipulated which qualifications at Level 4 and above are deemed to be AQs for the purposes of the RDR. This new Level 4 standard requires more focus on the practical application of knowledge than was demanded by the

[16] Advisers in scope of RDR Professionalism are those carrying out activities 2, 3, 4, 6, 12 and 13 in Appendix 1.1 of the TC Sourcebook within the FSA Handbook. This is available at: http://fsahandbook.info/FSA/html/handbook/TC/App/1/1.

[17] Post-RDR the term ‘restricted’ has replaced tied/ multi-tied.

previous standards. Also, in the light of feedback about the relevance of the content of AQs, more was added to the AQ syllabus on investment risk and ethics.

For some Level 4 qualifications, RIAs are required to undertake 'gap-fill' to fill the gaps between their qualification and the new qualification standard. Gap-fill activity must take the form of structured CPD. This is an activity designed to achieve a defined learning outcome using material designed to achieve that outcome − such as a lecture or a web course or other qualifications that provide the required learning outcomes. The structured CPD needed to meet RDR requirements may have been activity carried out in the past. Advisers need to have their qualification gap-fill activity verified by an accredited body, before they are deemed to be RDR-ready and able to advise.
If an adviser holds a Level 4 qualification that requires gap-fill, but has not yet completed gap-fill, they are not deemed to be fully qualified, and so are not deemed to be RDR-ready and able to advise.[18]

1.3.2 Adviser competence and the 30-month rule

Firms must ensure that advisers are competent. Competence means having the skills, knowledge and expertise needed to discharge the responsibilities of an employee's role. This includes achieving a good standard of ethical behaviour. Advisers deemed competent by their firm before or on 30 June 2009 had to achieve an RDR AQ, including any required gap-fill, by 31 December 2012.

RIAs deemed competent after 30 June 2009 did not need to meet the end-2012 deadline. Rather, they have 30 months from 1 January 2011 or, if later, 30 months from the date that they started the activity of advice, to attain an AQ. Those advising on retail investment products or advising on securities and derivatives who have attained the regulation and ethics module of an AQ can advise in the meantime, by operating as a trainee adviser under suitable supervision. Advisers who advise and deal in securities and derivatives cannot start this activity until they have completed all of the modules of their AQ.

1.3.3 Continuing Professional Development

RIAs are expected, from 31 December 2012, to conduct a minimum of 35 hours of CPD a year, of which 21 hours must comprise structured activity. All CPD must be relevant, measurable and verifiable.

1.3.4 Ethical behaviour

New standards have been added to the FSA's Statements of Principle and Code of Practice for Approved Persons (APER). For example, behaviour such as failing to pay due regard to the interests of customers does not comply with the principle to act with due skill, care and diligence.

---

[18] In the questionnaire for this study, the term 'Appropriate Qualification (AQ)' was used to refer to any Level 4 qualification listed in the FSA Handbook, even if it required gap-fill that had not been completed. The questionnaire can be found in Appendix B.2 of the Technical Report:

Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

These standards aim to support the right consumer outcomes. Accredited bodies will have their own codes, consistent with APER, and will be able to play a role in creating adviser awareness and understanding of ethical standards.

1.3.5 Statement of Professional Standing

Firms must ensure that all competent RIAs hold an annual SPS issued by an accredited body. Accredited bodies must apply to the FSA with evidence that they meet four high-level criteria to receive accredited body status. The bodies are expected to act in the public interest and to further the development of the profession. This can include helping RIAs to meet the required professional standards.

For an RIA's first SPS, the accredited body will need proof of qualifications held and a declaration from the adviser that they are adhering to ethical standards. Each year afterwards, the accredited body will receive an adviser's declaration that they are meeting professional standards requirements (both CPD and ethics). Every year at least 10% of RIAs will have their CPD records checked by the accredited body.

1.4 Objectives of this research

The FSA-commissioned 2010 study, *The cost of implementing the Retail Distribution Review professionalism policy changes,*[19] provided the first market research data on the RIA population and on progress towards compliance with Professionalism requirements.

A new, re-designed three-year research programme was commissioned in 2011 and the first results were published in December 2011.[20] The main objectives of this research were to inform the FSA's authorisations, supervision and communications strategy relating to the Professionalism requirements of the RDR.

The specific objectives of the 2012 research programme built on those of the 2011 study, including:

- To build a database of RIAs, as comprehensive as possible and representative of all RIAs and of advisory firms, which could be used with confidence in sampling for this and future FSA studies.
- To estimate the size of the population of RIAs in 2012 and compare it to the 2011 population on a like-for-like basis, in order to estimate year-on-year change.
- To track progress among the RIA population since 2011 in terms of the numbers holding, or intending to hold by the end of 2012, an appropriate Level 4 qualification

---

[19] NMG Consulting (2010), *The cost of implementing the Retail Distribution Review professionalism policy changes.*

[20] Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

and completing any necessary gap-fill; meeting the requirements on ongoing CPD; and, being aware of the requirements on ethical standards.

- To inform FSA activity by detailing progress at total level, and by showing how progress varies in different types and sizes of firm.
- To provide a useful commentary on survey findings to inform the FSA's communications with RIAs and with advisory firms.

This report presents results of this second wave of the three-year research programme. A final wave is planned for summer 2013.

2 Research design and methodology

This chapter summarises the way the research was designed and conducted. A detailed description of the methodology, survey weighting procedures and confidence levels for the survey data is contained in the separate Technical Report.[21]

2.1 Producing a database of Retail Investment Advisers (RIAs)

The objectives of the study, and the approach taken to the methodology, were very similar for the 2011 and 2012 survey waves. The objectives necessitated a survey design and sampling methodology that was based on undertaking a representative survey of individual RIAs, as opposed to the firms that employ them.

The Financial Services Authority (FSA) did not, however, have a database of RIAs, from which to draw a random sample. The available FSA databases were:

- **The CF30 individuals database:** a database of individuals registered as having CF30 status. RIAs constitute a large proportion of CF30s but they are not identified as such in the database. The database identifies each CF30's firm, but provides no contact details for the individual CF30s.
- **The CF30 firms database:** a database of firms employing individuals with CF30 status, usually providing the name and email address of a contact at the firm, and detailing the firm's self-reported number of CF30s.
- **The Retail Mediation Activities Return (RMAR) database:** a database containing information submitted by regulated firms, including information on the firm's self-reported number of individuals that advise on retail investments.

With the assistance of the FSA, the three databases were combined and cleaned into a single 'starting dataset', consisting of all CF30s within almost all regulated firms that reported having at least one RIA in their most recent RMAR return.[22] The starting dataset consisted of a total of **6,045 firms** and **62,609 CF30s** associated with those firms.

Certain firms were included in the starting dataset, but had to be excluded from the survey. These primarily included certain firms currently subject to enforcement activity, as well as firms with no contact details available. A survey contact database was created, which excluded all such firms: it consisted of a total of **5,844 firms** with **61,285**

[21] Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

[22] Certain firms meeting these criteria were excluded from the starting dataset, if they were marked in the FSA's database as being in liquidation, administration, closed to regulated business or applying to cancel their FSA authorisation.

CF30s. This meant that 97% of all firms in the Retail Distribution Review (RDR) population and 98% of all CF30s at those firms could be included in the research.

All of the 5,844 firms in the contact database were sent an email invitation, supported by a personalised message from the Head of Investment Intermediaries at the FSA. The invitation requested firms to validate which of the CF30-registered individuals listed for their firm were currently RIAs, and to provide contact details for these individuals only.[23]

Contacts in each firm were provided with a web-link within the email, unique to their firm, which enabled them to supply the requested details directly into a web survey framework.[24] Provision was also made for firms with more than 50 CF30s to complete details by email response rather than by using the web-link.

Initial invitations were sent on 25 July and 2 August 2012. Non-responders were re-contacted by two email reminders and/ or telephone calls between 8 and 21 August 2012.

The database was crystallised for the purpose of sampling for this project on 27 September 2012. By this date, the database contained 20,161 confirmed RIAs from a total of 3,499 firms. A further 9,986 CF30s were confirmed as not being RIAs. Table 2.1 summarises responses received, by firm type, at the point the database was crystallized.

Table 2.1 Responses to the database-build on 27 September 2012

Firm type	Confirmed as RIA	Confirmed as not RIA	Contact details but unknown RIA status
IFA – DA	8,927	827	87
IFA – AR	2,098	79	30
Tied – AR	2,223	17	0
WM	2,769	7,011	14
EBC	166	73	4
B/BS	3,659	1,873	2
Life	92	9	0
APF	227	97	0
Total	**20,161**	**9,986**	**137**

The database was used as the sampling frame for the survey of RIAs, as reported in Section 2.2.

[23] See Appendix A.1 of the Technical Report for the introductory letter sent to firms.

[24] The web survey script is available in Appendix A.2 of the Technical Report.

2.2 RIA survey sample design and targets

In the 2011 RDR survey, a stratified design for survey sampling was implemented. Quota targets had been set to ensure that results could be compared across different firm types and sizes. For many firm types, combining firm sizes was necessary in order to provide a viable basis for sampling and, ultimately, data analysis. This resulted in a design based on 12 sampling 'cells' for which completed interview quota targets were set individually. In order to replicate the success of this approach, in 2012 the overall target sample size of 1,000 was designed to be comparable to the number of interviews achieved in the 2011 survey (1,042).

Table 2.2 shows the target distribution of interviews set during fieldwork.

Table 2.2 Initial quota targets set, in comparison to responses to the 2011 RDR survey

Firm type and size cell	Total responders to 2011 survey	Initial quota targets for 2012 survey
IFA – DA (0-1)	60	70
IFA – DA (2-9)	65	50
IFA – DA (10-19)	132	145
IFA – DA (20+)	88	65
IFA – AR	120	90
Tied – AR	100	80
WM (1-19)	54	55
WM (20+)	93	135
EBC	58	75
B/BS	125	95
Life	32	50
APF	109	90
Total	**1,042**	**1,000**

2.3 Sampling procedure and data collection

The survey was intended to be conducted primarily by online survey, although the design also allowed for a proportion of interviews to be undertaken by computer-assisted telephone interviewing (CATI) if needed, for example to boost the number of interviews completed in cells with small database populations.

Email invitations to participate, again with a personalised message from the FSA's Head of Investment Intermediaries, were sent directly, in three batches, to 5,200 RIAs between 20 August and 27 September 2012. At each stage, samples were drawn from the database of RIAs, for each cell in a multi-cell, stratified sample design. The invitations contained a unique web-link to the survey, which allowed each RIA's answers to be matched with their firm's details held in the database.[25]

Batch 1, which used a random (1 in N) sampling method, was employed to assess response rates by sample design cell. Batch 2 used a differential sampling procedure, designed to ensure sufficient invitations were sent to achieve the targeted number of interviews within each cell. Batch 3 was intended to focus specifically on key cells that were still short of the quota target.

After all initial invitations had been sent, email reminders were sent to RIAs who had not yet responded, and telephone 'chaser' calls were made, selectively, to boost response in cells that were still short of the target.

Data collection activity was concluded on 3 October 2012. Throughout this report, we use the term 'summer 2012' as shorthand for the more precise fieldwork period of 20 August to 3 October 2012.

2.4 Questionnaire development

A questionnaire was agreed with the FSA. It was based on the questionnaire used in the main 2011 RDR survey, with a minority of questions removed and a number of additional questions added: all of the key metrics used for reporting in 2011 were repeated in 2012. Identical questions were asked, and explanations provided, across the online and CATI versions.

Where questions were asked in both the 2011 and 2012 RDR surveys, results can be compared directly across the two surveys.[26]

The full web questionnaire appears in Appendix B.2 of the Technical Report.

2.5 Achieved interviews

A total of 1,436 completed interviews with RIAs from 517 firms were achieved, well in excess of the initial target of 1,000. This has enabled us to analyse the answers in most firm type categories with even greater confidence than allowed for in the initial sample design.

Of the 1,436 interviews, 1,286 were completed online and 150 by CATI. The CATI interviews were used:

- To accommodate RIAs willing to participate by phone but not online.
- To help reach quota targets for cells where online questionnaire completes were falling short.

---

[25] The invitation to advisers can be found in Appendix B.1 of the Technical Report.

[26] Although many of the topic areas in the 2010 RDR survey were repeated in the 2011 survey, results cannot be compared directly, because the two studies used different methodologies and the questionnaire was significantly re-written in 2011.

Table 2.3 shows the number of interviews achieved, alongside the number of firms represented. The interview targets that had been set before fieldwork (from Table 2.2) are shown for comparison purposes.

Table 2.3 Final distribution of achieved interviews, compared with targets set during fieldwork, and number of firms represented

	Distribution of RIA interviews		
Firm type and size cell	**Initial quota targets**	**Total number of interviews achieved**	**Total number of firms represented**
IFA – DA (0-1)	70	116	116
IFA – DA (2-9)	50	120	111
IFA – DA (10+)	145	306	100
IFA – AR	90	114	16
Tied – AR	80	98	4
WM	55	327	74
EBC	75	63	12
B/BS	95	137	15
Life	50	39	3
APF	90	116	66
Total	**1,000**	**1,436**	**517**

As was the case in 2011, Wealth Managers advising on securities and derivatives only have been included as part of the Wealth Manager category (the entire population of these RIAs is now estimated at fewer than 100).

The number of interviews conducted in the Life firm type is small. It is a highly concentrated sector, comprising an estimated total of 119 RIAs in 14 firms. Although results for Life companies are shown in tables in this report, these are not, typically, statistically significant.

2.6 Weighting of results

All survey results have been weighted back to the total population of RIAs to account for differential response and eligibility rates by sample design cell.

As the final distribution of interviews was, deliberately, not in exact proportion to the total population of RIAs, in order to target minimum sample sizes in all cells, completed interviews in each of ten weighting cells were assigned a relative weight.[27] This adjusted for the fact that the distribution of interviews was not exactly aligned with that of the total population of RIAs.

Weights used in analysis are shown in Table 2.4.

Table 2.4 Cell definitions used for weighting purposes; the percentage of the total RIA population accounted for by the interviews conducted; and the weights assigned to interviews in each cell

Firm type and size cell	**Number of RIAs**	**Percentage of RIAs**	**Interviews achieved**	**Number of interviews after weighting**	**Weight**
IFA – DA (1)	2,214.5	6.2%	116	88.6	0.76364
IFA – DA (2-9)	8,730.3	24.3%	120	349.2	2.91017
IFA – DA (10+)	4,483.9	12.5%	306	179.4	0.58614
IFA – AR (all)	5,539.0	15.4%	114	221.6	1.94354
Tied – AR (all)	4,012.2	11.2%	98	160.5	1.63768
WM (all)	2,927.0	8.2%	327	117.1	0.35805
EBC (all)	423.7	1.2%	63	16.9	0.26900
B/BS (all)	6,812.0	19.0%	137	272.5	1.98894
Life (all)	118.6	0.3%	39	4.7	0.12164
APF (all)	638.1	1.8%	116	25.5	0.22002
Total	**35,899.3**	**100.0%**	**1,436**	**1,436**	

The weighting approach adopted adjusts the actual sample size of 1,436 to an ‘effective’ sample size for the study of 832; it is this latter figure that was used when calculating confidence intervals (CIs) in the estimation of sampling errors, and thus in indicating whether a finding is statistically significant or not. In this report we have focused mainly on results that are statistically significant at the 95% confidence level (see the reporting conventions, which appear before the Summary of this report).

[27] The cells used for weighting were not identical to the 12 sampling cells.

3 The population of Retail Investment Advisers

This chapter examines the estimated population of Retail Investment Advisers (RIAs) in the summer of 2012 and evaluates the change in that population since 2011. We also profile the RIA population, in demographic and other terms, to give context to the survey results.

3.1 Estimated RIA population in summer 2012

There were an estimated 35,899 RIAs operating in an estimated 5,851 regulated firms in the UK in summer 2012, as Table 3.1 shows.

It is important to bear in mind that this figure of 35,899 RIAs is a research-based estimate; the methodology and assumptions used to generate it are described in Section 3.1.1. The estimated population has a margin of error of +/- 1,195 meaning we can be 95% confident that the true population figure lies within the range 34,704 to 37,094.

Table 3.1 Estimated RIA population in 2012, by firm type

Firm type	**Estimated RIA population (2012)**	**Error margin *at 95% confidence interval (CI)***	**Percentage of RIA population (2012)**	**Estimated number of firms with any RIAs**
IFA – DA	15,429	+/- 638 (4%)	43%	5,075
IFA – AR	5,539	+/- 503 (9%)	15%	53
Tied – AR	4,012	+/- 392 (10%)	11%	5
WM	2,927	+/- 150 (5%)	8%	396
EBC	424	+/- 48 (11%)	1%	17
B/BS	6,812	+/- 565 (8%)	19%	46
Life	119	+/- 15 (13%)	*	14
APF	638	+/- 53 (8%)	2%	245
Total	**35,899**	**+/- *1,195* (3%)**	**100%**	**5,851**

Table 3.1 also provides an estimate of the population of RIAs within each of the individual firm types in this study. As with all research of this nature, the margin of error associated with these subgroup breakdowns is greater than that for the total population. Notwithstanding the caveat on accuracy, there is a clear and substantial difference in the relative size of each firm type. Over three-quarters of the RIA population is employed in just three firm types: IFA – DA (43% of the population), B/BS (19%) and IFA – AR (15%). By contrast, EBC, Life and APF together represent only around 3% of the RIA population.

3.1.1 How the RIA population was calculated

The methodology we used to calculate the RIA population is detailed in the Technical Report.[28] This section summarises that methodology.

We used as our starting point the latest Retail Mediation Activities Return (RMAR), which is a regular report that the Financial Services Authority (FSA) requires firms to complete, which includes information about the number of RIAs at the firm. This information was enhanced and extended by other data available to the FSA on firms that make no return to the RMAR.[29]

These starting point data about the number of RIAs in each firm were subject to further amendment as a result of data reported by firms in the database-build we conducted, wherever these data confirmed or implied a number of RIAs at variance with the number reported in the RMAR. In practice, the following rules were applied:

- Where firms confirmed for each of their CF30s whether they were an RIA or not, then the number of RIAs indicated by the firm was used.
- Where firms confirmed for only some of their CF30s whether or not they were an RIA, the number of RIAs indicated by the RMAR data was modified if the information provided by the firm was sufficient to demonstrate that the RMAR data were inaccurate.

Next, it was assumed that, on average, the variance recorded by the firms who responded to the database-build was representative of the variance for all firms from the same firm type/ size cell, and the starting point figure for all non-responding firms was adjusted by that average proportion.

Finally, this estimated number of RIAs by firm type and size derived from the preceding steps was adjusted further during screening for the RIA survey, based on the percentage of firm-confirmed RIAs who, when contacted, told us they were not RIAs. A screen-out rate was calculated separately for each of the firm type/ size cells and the total population estimate for that cell was subsequently reduced by that percentage.

The 2012 population estimate and confidence intervals (CI) derived from the above process are subject to the following assumptions and constraints:

- The information provided to us by firms, through the database-build, on the number of RIAs is accurate.
- The CF30 database, supplied in June 2012, contains all RIAs. The database-build took place between 25 July and 27 September 2012. If new RIAs entered the population between June and September 2012, these are not included in the estimated 2012 population.

---

[28] Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

[29] CF30 data were used for APFs; modified CF30 data were used for WM (S&D only) firms. The process adopted is described in the Technical Report.

The 2012 survey was created using exactly the same population sizing approach as the 2011 survey, and consequently the estimated populations can be compared on a like-for-like basis, as Section 3.2 will examine.

3.1.2 Number of RIA posts vs. number of individuals

The RIA population estimate of 35,899 is in fact the number of RIA 'posts' rather than the number of individuals as, in practice, RIAs working in more than one firm are counted on each occasion. The same is true of the 2011 population estimate of 40,566.

The survey methodology allowed us to 'track' the extent to which individual RIAs were employed as RIAs in more than one organisation. This is shown in Table 3.2. Of all confirmed RIAs in 2011, 1.59% could be matched to individuals reported by more than one firm. In 2012 this figure had increased to 2.30%. Applied to the estimated 2012 population of 35,899 RIA posts, this means the actual number of individuals in the total population is approximately 35,073.

Table 3.2 Number of RIA posts compared with number of individual RIAs in the population in 2011 and 2012

	2011	**2012**
Estimated number of RIA posts	40,566	35,899
Percentage of all confirmed RIA posts that were 'repeat occurrences' of RIAs	1.59%	2.30%
Estimated number of RIA individuals	39,920	35,073

Throughout this report, we have used the term 'estimated population of RIAs' rather than number of RIA posts.

3.2 Estimated change in the RIA population from 2010 to 2012

The 2012 Retail Distribution Review (RDR) survey was created using exactly the same population sizing approach as the 2011 survey, and consequently the estimated populations can be compared on a like-for-like basis. The comparison shows that the estimated RIA population has fallen from 40,566 to 35,899, a decrease of 11.5% since summer 2011.

The 2010 RDR survey, by NMG Consulting, also estimated the total population of RIAs,[30] and this estimate was revised in 2011 to allow a like-for-like comparison with the 2011 survey. The 'like-for-like' estimated RIA population in 2010 was 43,937. The estimated population across all three years is shown in Table 3.3.

Table 3.3 Comparing the estimated RIA population in 2010, 2011 and 2012

Year	RIA population	Percentage change from previous year
2010	43,937	n/a
2011	40,566	-7.7%[31]
2012	35,899	-11.5%

Table 3.3 shows that the rate of decline in the RIA population accelerated from 7.7% between summer 2010 and summer 2011, to 11.5% between summer 2011 and summer 2012, representing a total contraction of 18.3% since summer 2010.

Although we cannot be sure of advisers' precise reasons for departing (since we do not interview RIAs who have left the industry as part of this survey), we can place the leavers into two broad groups:

- Those who have left the industry of their own accord.
- Those that have left because their firm reduced the size of their RIA division, or closed it entirely. We note, however, that a proportion of such advisers may have re-entered the industry with other firms, and if they did this between June and September 2012, they are not included in the population.

It is useful to examine the decrease in the RIA population between 2010 and 2012 by firm type. This is shown in Table 3.4. While the number of RIAs in some firm types (IFA – DA and Tied – AR) has remained relatively constant, in three firm types the population has fallen significantly between 2011 and 2012: these are Life (down by 89%), WM (down by 28%) and B/BS (down by 21%).

[30] NMG Consulting (2010), *The cost of implementing the Retail Distribution Review professionalism policy changes*.

[31] In the 2011 RDR survey report, the percentage change from 2010 to 2011 was reported as being -7.9%, because the small group of advisers in WM firms advising on securities and derivatives only were excluded from the 2011 population when making the comparison. The reasons for this are described in the Technical Report to this study.

Table 3.4 The size of the RIA population from 2010 to 2012, by firm type

Firm type	Estimated RIA population 2010	2011	2012	% change (2011 to 2012)
IFA – DA	17,132	15,299	15,429	*+1%*
IFA – AR	6,722	6,397	5,539	*-13%*
Tied – AR	3,797	3,920	4,012	*+2%*
WM	4,434	4,044	2,927	-28%
EBC	516	478	424	*-11%*
B/BS	8,918	8,658	6,812	-21%
Life	1,210	1,041	119	-89%
APF	995	730	638	*-13%*
Total	**43,937**	**40,566**	**35,899**	**-11.5%**

As Table 3.1 showed, the margin of error associated with these firm subgroup breakdowns is greater than that for the total population, and so the scale of decline in firm type population sizes shown in Table 3.4 should be treated with caution. Nevertheless, it is reasonable to conclude that the large fall in the WM, B/BS and Life RIA populations is due in part to some of the largest firms in these sectors having closed or downsized their RIA divisions. While the information provided by individual firms in this research must be treated as anonymous, evidence collected from them as part of the database-build does support this picture.

3.3 Profile of the RIA population

In the remainder of this chapter we profile the summer 2012 population of 35,899 RIAs, based upon the results of the RIA survey. Where relevant, it compares the 2012 population profile with that of summer 2011.

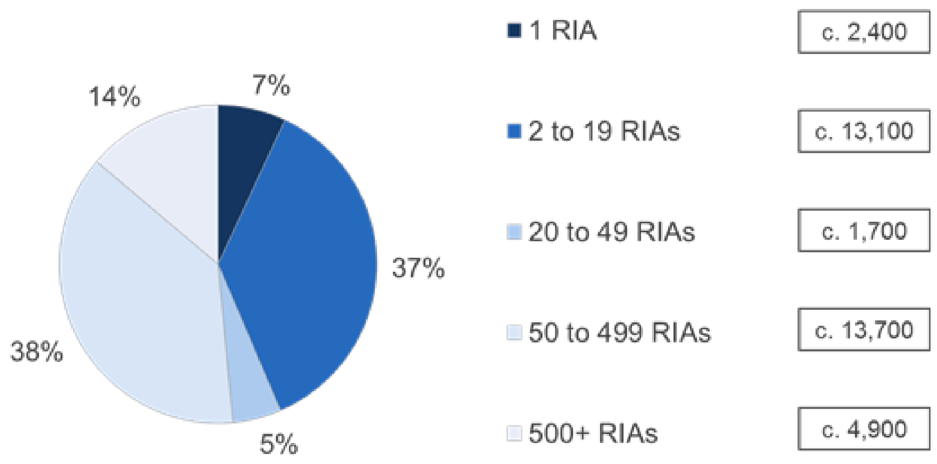
Understanding the demographic profile of the RIA population will help to contextualise the results that appear in later chapters of this report, in particular in terms of the way RIAs had responded to the Professionalism and other aspects of the RDR.

3.3.1 Firm size

Throughout this report, we define firm size in terms of the number of RIAs working in a particular firm and not the total number of employees in that firm.

Figure 3.1 illustrates the distribution of firm sizes across the RIA population in summer 2012. The approximate number of firms within each size band is shown in the square boxes. Over a third of all RIAs (37%) worked in firms with between 2 and 19 RIAs, and over a third (38%) worked in firms with 50 to 499 RIAs.

Figure 3.1 RIAs by firm size, defined in terms of number of RIAs



Firm size. Base: *All RIAs (1,436)*

As we would expect, firm size was strongly correlated with firm type. For example, RIAs in the B/BS and Tied – AR sectors were exclusively employed at larger firms (20 RIAs or more), whereas most RIAs working IFA – DA firms were working in smaller firms (under 20 RIAs). Table 3.5 shows the distribution of all RIAs by firm type and size.

Table 3.5 Distribution of all RIAs, by firm type and size

All RIAs, by firm type and size (all percentages sum to 100% - cells that contain more than 10% of all RIAs are highlighted in bold for emphasis)									
	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	Total
1 RIA	6	0	0	*	0	0	0	*	7
2 to 19 RIAs	**32**	1	0	2	*	0	*	1	37
20 to 499 RIAs	5	**15**	9	6	1	7	*	*	43
500+ RIAs	0	0	2	0	0	**12**	0	0	14

Firm type and size. Base: *All RIAs (1,436)*

Overall, 7% of all RIAs worked in single RIA firms (almost exclusively in the IFA – DA category, with a fraction of 1% in the WM and APF categories). This represents a small, but not insignificant, decrease from 9% of all RIAs in 2011. Looking at results another way, 14% of all IFA – DA RIAs worked in single RIA firms.

Although the percentage of RIAs working in single RIA firms has decreased since 2011, RIAs in single RIA firms were more likely than average to have entered the retail investment business since summer 2011: 8% of RIAs in single RIA firms, compared with 2% overall, were in firms that had entered the retail investment market between summer 2011 and summer 2012. This appears to suggest that there has been a greater ‘turnover’ of single RIA firms (more ‘Entered’ firms and more firm departures) than among other sizes of firm.

Where relevant, this report will draw out significant results relating to RIAs working in single RIA firms. These were of particular interest to the FSA, because if an RIA in a single RIA firm were not to meet the requirements of the RDR, this would mean that their firm could not operate in the retail investment advice sector after 31 December 2012.

3.3.2 Demographic profile of RIAs: age and tenure

In the 2011 RDR survey, we reported that the RIA population was characterised by maturity both in terms of age, and also length of experience in the industry. Notwithstanding the fall in the size of the RIA population, this overall picture remained largely the same in 2012.

Table 3.6 shows that only a very small minority of RIAs (3%) were aged under 30, with a majority (58%) aged between 30 and 49. Almost four in ten (39%) RIAs were aged over 50.

The age profile of the RIA population varied greatly between different firm types and sizes. RIAs working in WM and B/BS firms tended to be younger (73% and 84% respectively were under 50, compared with 61% overall), while RIAs working in IFA – DA firms were the most mature, with only 50% of RIAs aged under 50.

Table 3.6 RIA population age, by firm type and size

	All RIAs, by firm type and firm size (column percentages)										
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
18-29	1	*4*	*1*	9	*7*	*7*	*[0]*	*4*	1	5	3
30-49	49	*53*	*60*	*64*	*54*	77	*[64]*	44	48	65	58
50-59	38	*28*	*32*	21	*31*	16	*[26]*	40	38	24	30
60+	12	*15*	*7*	*7*	*8*	0	*[10]*	*11*	13	7	9

H2 Which age band do you fall into? Base: All RIAs (1,406), excl. Refused (30); IFA – DA (532) excl. Refused (10), IFA – AR (111) excl. Refused (3), Tied – AR (97) excl. Refused (1), WM (316) excl. Refused (11), EBC (61) excl. Refused (2), B/BS (135) excl. Refused (2), Life (39), APF (115) excl. Refused (1); 1-19 (637) excl. Refused (18), 20+ (769) excl. Refused (12)

Table 3.7 shows that firms with 50 RIAs or more remained the major source of employment for younger RIAs in 2012, as they had been in 2011: 74% of RIAs aged below 35 were employees in firms with more than 50 RIAs (73% in 2011), compared with just 41% of RIAs over 50 years old (48% in 2011).

Table 3.7 Firm size, by age category

All RIAs (column percentages)				
Firm size	**Under 35 years**	**35-49 years**	**50 years and over**	**Total**
1 to 49 RIAs	26	*45*	59	48
50 to 499 RIAs	*43*	*40*	*34*	38
500+ RIAs	31	*14*	7	14

Firm size. Base: All RIAs (1,406) excl. Refused (30); under 35 (206), 35 to 49 (648), 50 years and over (552)

RIAs' length of experience in the industry is closely correlated with their age. The majority of RIAs (69%) had been a Retail Investment Adviser for more than ten years by summer 2012. RIAs in WM and B/BS firms, reflecting their younger age profiles, also had less experience, as illustrated in Table 3.8. Overall, RIAs in IFA – DA firms were not only the most mature, but also the most experienced, with 79% having been an RIA for over ten years.

Table 3.8 Years of experience as RIA, by firm type and size

	All RIAs, by firm type and firm size (column percentages)										
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
Less than two years	3	*7*	*4*	*8*	*10*	*4*	*[10]*	*4*	3	6	5
Three to ten years	18	*21*	*21*	*31*	*21*	50	*[26]*	*25*	18	32	26
11 to 20 years	*33*	*31*	*40*	*31*	*29*	*27*	*[23]*	*35*	*34*	*31*	32
More than 20 years	46	*40*	*35*	*31*	*40*	19	*[41]*	*36*	44	32	37

H5 How long have you been a Retail Investment Adviser? Base: All RIAs (1,415), all excl. Refused and don't know (21); IFA – DA (537) excl. Refused and don't know (5), IFA – AR (112) excl. Refused and don't know (2), Tied – AR (97) excl. Refused and don't know (1), WM (319) excl. Refused and don't know (8), EBC (62) excl. Refused and don't know (1), B/BS (135) excl. Refused and don't know (2), Life (39), APF (114) excl. Refused and don't know (2); 1-19 (646) excl. Refused (9), 20+ (769) excl. Refused (12)

In summary, RIAs' age and experience profile had not changed greatly since 2011. There had been a slight reduction in the proportion of younger, less experienced RIAs. In summer 2012 only 5% of RIAs had less than two years of experience, while in summer 2011 this proportion was slightly higher at 7%. While this reduction was not statistically significant, it does appear to reflect other findings: B/BS and WM are disproportionately likely to have younger, less experienced RIAs, and they have also experienced large population decreases in the past year.

It is reasonable to conclude that younger, less experienced RIAs have been disproportionately affected by downsizing in B/BS and WM, even though this has not made a considerable difference to the overall make-up of the RIA population.

As was the case in 2011, when 85% of RIAs were male, the RIA population remained male dominated: 88% of RIAs were male in summer 2012, not a statistically significant change.

3.3.3 Demographic profile of RIAs: income

The industry had a broad spectrum of income levels from retail investment business. Overall, 20% of RIAs earned less than £40,000 a year from retail investment business, 50% earned between £40,000 and £80,000, while 30% earned over £80,000. We did not ask RIAs what proportion of their total income this accounted for, but we are aware that many RIAs had other (non-retail investment related) sources of income, including individual protection and mortgages (see Section 3.3.4).

Levels of income from retail investment business differed significantly by firm type: RIAs working at IFA – DA and WM firms enjoyed higher earnings from retail investment business than RIAs from other firm types. Almost two in five (38%) RIAs in IFA – DA firms and just over a third (34%) in WM firms earned over £80,000 from retail investment business, as shown in Table 3.9 (although the latter figure is not statistically significant).

Table 3.9 Income from retail investment business, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Proportion earning less than £40,000	*18*	*25*	7	*21*	*[14]*	*24*	*[22]*	34	20
Proportion earning over £80,000	38	*30*	18	*34*	*[37]*	*23*	*[22]*	20	30

H3 Into which of the following bands does your gross individual income from retail investment business fall? Base: All RIAs (1,130) excl. Refused (306); IFA – DA (426) excl. Refused (116), IFA – AR (105) excl. Refused (9), Tied – AR (85) excl. Refused (13), WM (211) excl. Refused (116), EBC (49) excl. Refused (14), B/BS (120) excl. Refused (17), Life (37) excl. Refused (2), APF (97) excl. Refused (19)

Income levels were, unsurprisingly, partially correlated with age and experience, with more experienced RIAs earning more from retail investment business. Only 4% of RIAs aged under 30 earned more than £80,000, compared with 33% of RIAs aged 60 or over.

In summer 2012 there were significantly fewer RIAs earning under £40,000 a year from retail investment business than there were in summer 2011. To some extent this could be attributed to a combination of fewer younger RIAs in the population and the reduction of the RIA population in B/BS due to redundancies and restructuring. In summer 2012 20% of RIAs earned less than £40,000 from retail investment business, compared with 31% in summer 2011.

Regulated products and services under the RDR – investment products, pensions and annuities, and Discretionary Investment Management where a personal recommendation is made – accounted, on average across all RIAs, for a mean of 76% of total personal income from retail client business. This has changed very little since 2011, as Table 3.10 illustrates.

Of the non-RDR products and services offered by RIAs, individual protection, as in 2011, accounted for the largest percentage of total personal income on average: 12% in 2012.

Table 3.10 also shows the proportion of RIAs offering each service at all in 2012.

Table 3.10 Share of total personal retail business in last 12 months, by survey wave

All RIAs (column percentages) Mean percentage of retail advice business offered among all RIAs Products and services outside the scope of RDR shaded in grey			
	2011	**2012**	**Offering at all in 2012**
Investments	*41*	*42*	97
Pensions	*21*	*22*	80
Annuities	*6*	*6*	72
Discretionary Investment Management (DIM) with personal recommendation	*6*	*6*	16
Total RDR	***74***	***76***	**100**
Individual Protection	15	12	82
DIM with no personal recommendation	*2*	*3*	10
Mortgages	3	2	29
Execution Only	*1*	*1*	14
Other products	*1*	*1*	6
Not stated	*4*	*5*	-

A1 Which of the following products do you personally offer to retail clients? A4 Thinking about the last 12 months, approximately what percentage, by value of your individual income from retail client business, comes from each of the following? Base: All RIAs 2011 (1,042); Base: All RIAs 2012 (1,436)

3.3.4 Type of advice offered

A majority of RIAs personally provided independent financial advice (65%), as Table 3.11 shows. The proportions of RIAs offering independent or 'restricted' advice remained unchanged between summer 2011 and summer 2012.

Table 3.11 Type of advice offered personally by RIAs, by survey wave

All RIAs, by survey wave (column percentages)		
	2011	**2012**
Independent Financial Advice	*64*	*65*
Not independent ('restricted') advice	*35*	*35*
Don't know	*1*	0

A6a On what basis do you personally provide investment advice within your firm? Base: All RIAs 2011(1,042); Base: All RIAs 2012 (1,436)

Thirty-five per cent of RIAs offered 'restricted advice' (or, rather, a type of non-independent advice in a pre-RDR environment): most offered multi-tied (15%) or single-tied (11%) advice, with 9% of RIAs offering whole of market advice. The type of advice personally offered by an RIA was primarily driven by firm type, as shown in Table 3.12. Only 6% of RIAs in Tied – AR firms and 11% of RIAs in B/BS offered independent financial advice, compared with the majority of RIAs in most other firm types.

Table 3.12 Type of advice offered personally by RIAs, by firm type

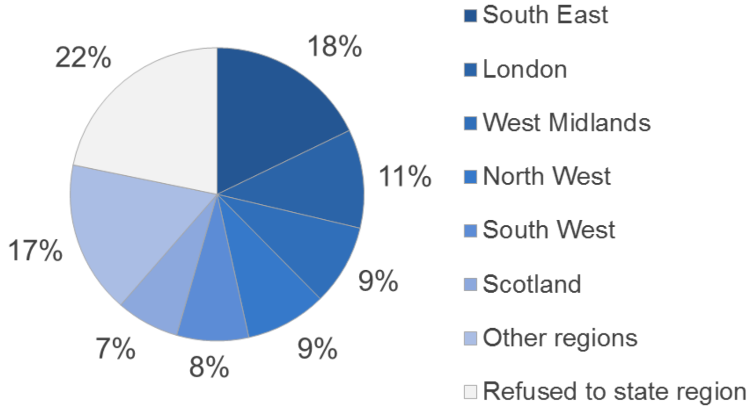
All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Independent Financial Advice	98	87	6	51	92	11	*[15]*	94	65
Other (restricted)	2	13	94	49	8	89	*[85]*	6	35
of which									
Multi-tied	*0*	7	82	6	*0*	24	*[3]*	*0*	15
Single Tie	*0*	*0*	*6*	*10*	*0*	46	*[82]*	*0*	11
Whole of market	2	*6*	*6*	34	*8*	19	*[0]*	*6*	9

A6a On what basis do you personally provide investment advice within your firm? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

3.3.5 Geographical location of RIAs

Figure 3.2 shows the breakdown of RIAs by region, based on where they themselves worked. A high proportion of RIAs preferred not to state a region (22%); since we cannot make assumptions about their geographical location, they are recorded as a separate category. Otherwise, the figure shows that just under a third (29%) of RIAs were located in London or the South East, with the remainder spread across other regions.

Figure 3.2 Geographical location of RIAs



H6 In which of the following regions do you work? Base: All RIAs (1,436)

RIAs from larger firms were more likely than those from smaller firms to be located in London, as shown in Table 3.13. Overall, 28% of RIAs in WM firms worked in London, compared with 11% overall, while a majority of RIAs from Tied – AR firms (65%) were based outside London or the South East, compared with 49% overall.

Table 3.13 Geographical location of RIAs, by firm type and size

All RIAs, by firm type and firm size (column percentages)											
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
London	7	*8*	*0*	28	*13*	22	*[0]*	5	7	14	11
South East	22	*18*	*11*	8	*19*	*18*	*[10]*	*25*	22	16	18
Other regions	*49*	*55*	65	35	*43*	*41*	*[74]*	*58*	*49*	*49*	49
Refused to state region	*23*	*18*	*24*	29	*25*	*19*	*[15]*	12	*23*	*21*	22

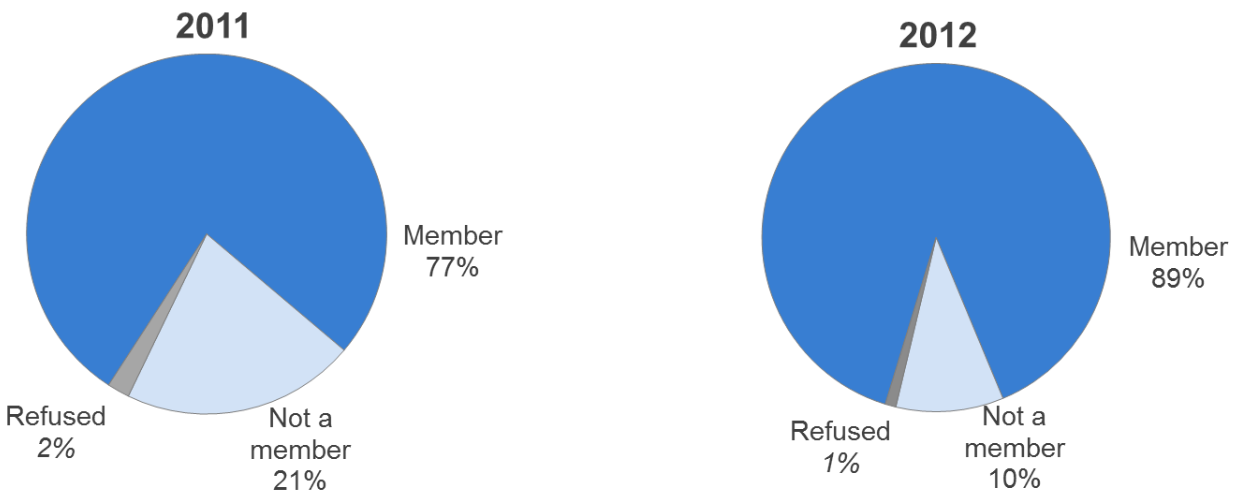
H6 In which of the following regions do you work? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116); 1-19 (655), 20+ (781)

3.3.6 Membership of a professional body

Membership of professional bodies in the investment advice sector could be seen as a possible indicator of commitment to a career in the retail investment advice industry. As awarding bodies, some professional bodies are a major route through which RIAs could attain an RDR Accredited Qualification (AQ), although RIAs did not need to be a member of a particular body to attain or study for a Level 4 qualification provided by that body. Where the professional body is also an accredited body, it will play an additional, important role in supporting RIAs in maintaining required standards through verification of ongoing Continuing Professional Development (CPD) and of ethical standards.

In summer 2012, the vast majority (89%) of RIAs were members of a professional body. This represents an increase of 12 percentage points since 2011, as Figure 3.3 shows. This increase could be attributed to RIAs' commitment to attaining a Level 4 qualification and Statement of Professional Standing (SPS). It is worth noting that in summer 2011 a third (34%) of non-members were intended 'early leavers', suggesting that a higher proportion of non-members than members may have left the industry since summer 2011.

Figure 3.3 Professional body membership, by survey wave



E1 Are you a member of any of the following professional bodies (LIST OF BODIES SHOWN TO RESPONDENT)?
Base: All RIAs 2012 (1,436); All RIAs 2011 (1,042)

Professional body membership was consistently high across firm types, with no significant variations, as illustrated in Table 3.14.

Table 3.14 Professional body membership, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	Total
Member of any professional body	*89*	*86*	*91*	*92*	*91*	*89*	*[85]*	*92*	89
Not a member	*10*	*13*	*7*	6	*8*	*10*	*[15]*	*7*	10
Prefer not to answer	*1*	*1*	*2*	*2*	*2*	*1*	*[0]*	*1*	1

E1 Are you a member of any of the following professional bodies (LIST OF BODIES SHOWN TO RESPONDENT)? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

The likelihood of being a professional body member correlated with an individual RIA's income from retail investment business. As Table 3.15 shows, only 80% of lower income RIAs were members of a professional body, compared with almost all RIAs (97%) earning over £125,000 a year from retail investment business.

Table 3.15 Professional body membership, by income from retail investment business

All RIAs, by income from retail investment business (column percentages)					
	Up to £40k	>£40k-£80k	>£80k-£125k	>£125k	Total
Member of any professional body	80	*88*	*93*	97	89
Not a member	19	*12*	6	3	10
Prefer not to answer	*1*	*	*2*	*	1

E1 Are you a member of any of the following professional bodies (LIST OF BODIES SHOWN TO RESPONDENT)?); Base: All RIAs (1,436); up to £40k (238), £41-£80k (541), £81-£125k (197), more than £125k (154)

3.3.7 Competent adviser status and the 30-month rule

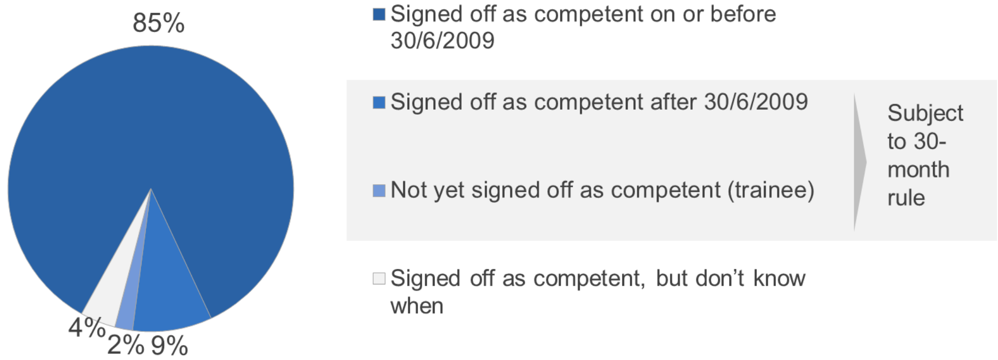
As we outlined in Section 1.3.2, advisers deemed competent by their firm on or before 30 June 2009 had to achieve an RDR AQ, including any required gap-fill, by 31 December 2012. RIAs deemed competent after 30 June 2009 did not need to meet the end-2012 deadline. Rather, they have 30 months from 1 January 2011 or, if later, 30 months from the date that they started the activity of advice, to attain an AQ.

Thus it is important to record whether an RIA is subject to this '30-month rule', when assessing whether or not they have met the requirements of the RDR.

In summer 2012, most RIAs were not subject to the 30-month rule. In total 85% of RIAs reported having been signed off as competent on or before 30 June 2009 and as a result needed to become fully qualified before the 31 December 2012 deadline. As illustrated in Figure 3.4, only 11% of RIAs were subject to the 30-month rule, either because they were signed off as competent after 30 June 2009 or had not yet been signed off as competent.

An additional 4% of RIAs could not state when they were signed-off: they could potentially have been covered by the 30-month rule, although we cannot know this for certain. For analysis purposes we have excluded these RIAs from the 30-month rule group, and assumed that they do in fact need to meet the RDR deadline.[32]

Figure 3.4 RIAs subject to the 30-month rule



A16 Of the following, which best describes your position? H5 How long have you been a Retail Investment Adviser?
Base: All RIAs (1,436)

RIAs subject to the 30-month rule were less experienced, and they also tended to be younger, as shown in Table 3.16. A large majority of the RIAs subject to the 30-month rule were aged under 30.

---

[32] In the 2011 survey we relied solely on an RIA's self-reported status to establish when an RIA was first deemed competent. In 2012, it became apparent that this question was being interpreted in two differing ways: some correctly interpreted it as referring to when they were first deemed competent; but others assumed that it referred to their current employer only. To minimise error in the 2012 survey analysis we have assumed that any RIA with more than five years' experience (i.e. any RIA who began working as an RIA in summer 2007 or before) is not subject to the 30-month rule, even if their survey answer suggested that they were.

Table 3.16 RIAs subject to the 30-month rule, by age

All RIAs, by age (column percentages)					
	18 – 29	**30 – 49**	**50 – 59**	**60+**	**Total**
Subject to 30-month rule	77	*12*	5	1	11

A16 Of the following, which best describes your position? H5 How long have you been a Retail Investment Adviser? Base: All RIAs (1,436); 18-29 (55) 30-49 (795), 50-59 (423), 60+ (128)

Alongside the younger age profile of RIAs subject to the 30-month rule, RIAs earning the least from retail investment business were more likely to be subject to the rule, as shown in Table 3.17.

Table 3.17 RIAs subject to the 30-month rule, by income from retail investment business

All RIAs, by income from retail investment business (column percentages)					
	Up to £40k	**>£40k-£80k**	**>£80k-£125k**	**>£125k**	**Total**
Subject to 30-month rule	23	*11*	3	3	11

A16 Of the following, which best describes your position? H5 How long have you been a Retail Investment Adviser? Base: All RIAs (1,436); up to £40k (238), £41-£80k (541), £81-£125k (197), more than £125k (154)

3.4 Summary and conclusions

There were an estimated 35,899 RIAs operating in the UK in summer 2012, a fall of 11.5% since 2011. Although we cannot be sure of advisers' precise reasons for departing, we can typically place the leavers into two broad groups:

- Those who have left the industry of their own accord: in 2011, 8% of RIAs stated that they expected to cease being an RIA for one reason or another after 31 December 2012, and some of these might have acted upon their intention by summer 2012.
- Those that have left because their firm reduced the size of their RIA division, or closed it entirely: in particular, a large fall in the WM, B/BS and Life RIA populations was due in part to some of the largest firms in these sectors having closed or downsized their RIA divisions. We recognise, however, that a proportion of such advisers may have re-entered the industry with other firms.

RIAs' age and experience were closely linked to the type of firm they worked at. Those working in larger firms, particularly B/BS, tended to be younger and less experienced, while those working in smaller firms, in particular IFA – DA firms, were more experienced, with 79% having been an RIA for over ten years (compared with just 46% in B/BS).

There were few changes in the demographic profile of RIAs between 2011 and 2012, with the main notable change being a decrease in the proportion of RIAs earning less than £40,000 a year from retail investment business. This could be attributed in part to redundancies and restructuring in the RIA population working in certain firm types that generate less income per adviser from retail investment business.

An estimated 11% of RIAs were subject to the 30-month rule, and thus did not need to meet the end-2012 RDR Professionalism deadline. As we will show in Section 6.2, many of these RIAs already held an AQ.

A growing commitment to being part of an increasingly professional and well-qualified industry appeared to be reflected in the substantial increase since 2011 in the proportion of RIAs that were members of a professional body. This increase is also likely to be due to the important role that several professional bodies are playing as awarding bodies and as accredited bodies.

As was the case in 2011, investment, pension and annuity products, alongside Discretionary Investment Management (DIM) with personal recommendation, all of which come within the scope of the RDR, accounted for three-quarters of average RIA personal income from retail investment business in the year prior to the survey.

The following sections will explore how these demographic characteristics had an impact on aspects of RDR Professionalism, such as RIAs' likelihood of attaining a Level 4 qualification.

4 Intention to remain a Retail Investment Adviser after 31 December 2012

By 31 December 2012, Retail Investment Advisers (RIAs) who were assessed as competent on the 30 June 2009 needed to have obtained a Level 4 Appropriate Qualification (AQ) to remain an RIA, and within 60 days of this date their firm required independent verification (in the form of a Statement of Professional Standing (SPS)). The SPS confirms that the adviser has attained the AQ, including qualification gap-fill where needed, and has complied with ethical standards.

Advisers who were not required to meet the end of 2012 qualification deadline (those subject to the 30-month rule) should obtain an SPS once they are deemed competent by their firm.

This chapter explores whether RIAs, knowing these details about the Retail Distribution Review (RDR), expected to remain an RIA after 31 December 2012. It also profiles the small proportion of RIAs intending to leave the industry. Chapters 6 and 7 of this report will examine RIA's adherence to these standards.

4.1 Overview of RIAs' intentions

In summer 2012, 89% of RIAs reported that they would definitely or likely remain an RIA after 31 December 2012 when asked *'Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012?'*

Table 4.1 compares likelihood of remaining by firm type. RIAs working in EBC, WM and APF firms were significantly more likely to be definite in their intention to remain post-December 2012 (87%, 84% and 84% respectively said they would *definitely* stay, compared with 74% overall). In contrast, those working in B/BS firms expressed significantly less certainty regarding their intentions, with only 61% saying they would *definitely* remain an RIA, and a higher proportion saying they were only *likely* to remain (25%, compared with 15% overall).

Table 4.1 Intentions after 31 December 2012, by firm type

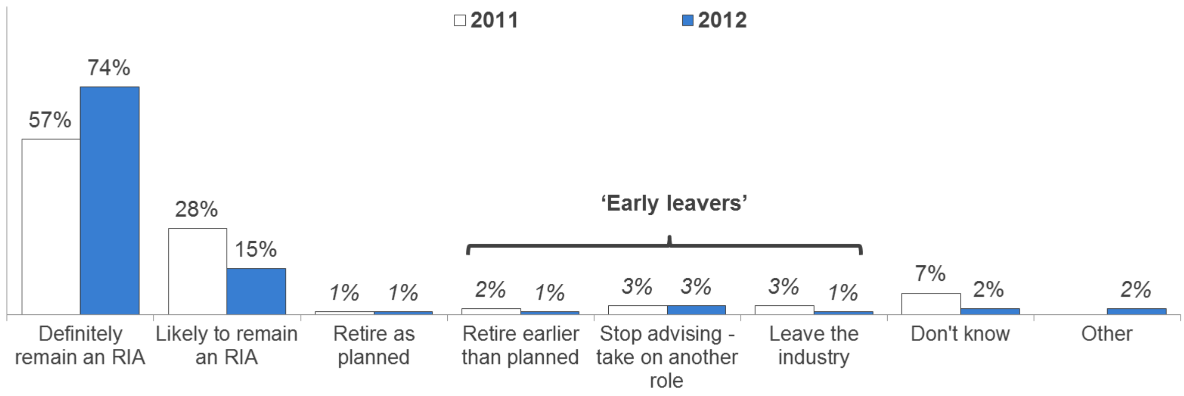
All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Definitely remain an RIA	79	*75*	*70*	84	87	61	*[69]*	84	74
Likely to remain an RIA	11	*15*	*18*	*10*	*11*	25	*[21]*	*9*	15
Definitely or likely	***90***	***90***	***88***	**94**	**98**	***86***	***[90]***	***93***	**89**
Retire – as planned	*1*	*2*	*1*	*	*0*	*0*	*[8]*	*1*	1
Retire – earlier than planned	*1*	*0*	*5*	*1*	*0*	*1*	*[0]*	*0*	1
Stop advising on retail investments and take another role	*3*	1	*1*	*	*2*	*7*	*[3]*	*3*	3
Leave the industry	*1*	*2*	*1*	*1*	*0*	*2*	*[0]*	*3*	1
Other	*1*	*3*	*0*	*2*	*0*	*4*	*[0]*	*1*	2
Don't know	*2*	*4*	*3*	*2*	*0*	*2*	*[0]*	*0*	2

F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Although similar proportions of RIAs said they would definitely or be likely to remain an RIA after 31 December 2012 in both summer 2011 and in summer 2012 (85% and 89% respectively), there was greater certainty among RIAs in 2012. Significantly more RIAs were definite that they would remain in the industry in 2012, with three-quarters (74%) saying they would *definitely* remain, compared with just 57% in 2011. As Figure 4.1 illustrates, fewer RIAs now said that they were only *likely* to remain (15%, down from 28% in 2011) and significantly fewer RIAs said they did not know what they would do after 31 December 2012 (2%, down from 7% in 2011).

It is possible that some RIAs who had doubts about their future within the profession in 2011 had left the industry by summer 2012, and those that remained now had greater certainty about their future role, perhaps thanks in part to increased clarity about the requirements and implications of the RDR.

Figure 4.1 Intentions after 31 December 2012, by survey wave



F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs 2011(1,042); Base: All RIAs 2012 (1,436)

Perhaps surprisingly, given the apparent reduction in uncertainty around some RIAs' intentions, the small group of RIAs that we have termed 'early leavers' had not shrunk in size significantly compared with 2011. Early leavers are RIAs who intend to retire earlier than planned (just over 1%), stop advising and take on another role (just over 3%) or leave the industry (just over 1%). This 6% of all RIAs defined as early leavers in 2012 compares with 8% of all RIAs in 2011.

In 2012 as in 2011, the early leavers were mostly more mature RIAs that were currently earning less from retail investment business. This group is examined further in Section 4.4. The extent to which the RDR may have impacted their decision to leave is assessed in Chapter 12: it will show that in 2012, RDR-related reasons appeared to be a less compelling influence upon the decisions of the early leavers not to remain an RIA or to leave the industry. In 2011, 62% of early leavers had said that the RDR Professionalism requirements had been very influential in their decision to leave, whereas in 2012 this had fallen to 41%.

While the group of early leavers had shrunk from 8% to 6% of all RIAs, in 2012 a new, small group of RIAs had emerged: 2% of all RIAs now categorised their intentions as 'other', suggesting a more nuanced intention. Typically these RIAs' answers suggested that they would attempt to remain an RIA if commercially viable to do so, but a range of uncertainties around the future prospects of their role as an adviser meant that this might not be possible:[33]

> *'I would certainly hope to remain a Retail Investment Adviser as part of my role as an IFA. However, as I rarely deal with higher net worth individuals I am very concerned as to the willingness (or ability) of many of my clients to pay fees. Whilst some mindsets may change in the years ahead as the perception of having to pay fees upfront for advice evolves, my biggest concern is that along with many other small firms, I may not be able to continue my career in the industry purely on the basis of being able to maintain a viable business. I firmly believe the new regime will put off many clients from seeking professional advice, and I may have to consider leaving the industry.'*
>
> IFA – DA

> *'If I find that it is no longer possible to make a healthy profit I will leave the industry.'*
>
> IFA – AR

> *'Fees may put off many smaller clients.'*
>
> IFA – AR

> *'I can't see that all clients will want to pay fees.'*
>
> B/BS

> *'I believe the economics of the IFA model and a higher level of competition from restricted advisers, which the public will find confusing, will dilute the amount of business available.'*
>
> IFA – DA

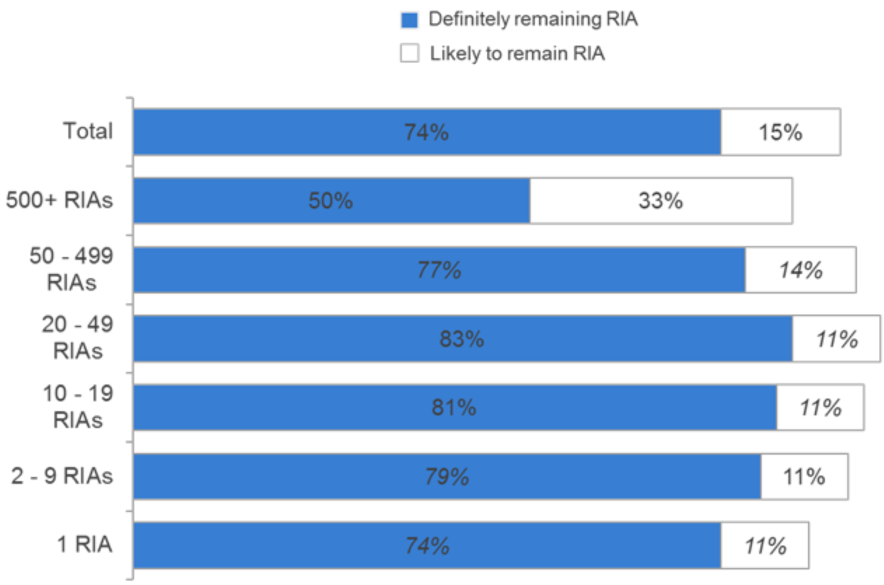
> *'I will stay in the industry if I can, but there might be a significant drop in regulated advisers, and I seriously worry the decision to stay in this role will not be mine.'*
>
> IFA – DA

[33] The RIAs giving 'other' as their answer were asked to specify their current thinking about what they would do after December 2012. Similarly, those answering 'likely to remain' were asked why they were not definite in their intention to remain, as reported in Section 4.2.1. Consequently, there are no verbatim responses from RIAs intending definitely to remain in the industry as to why that is: in other words, the quotations here and in Section 4.2.1 do not present a balanced view of the thinking of all RIAs.

4.2 RIAs intending to remain an RIA

Figure 4.1 shows that three-quarters (74%) of RIAs intended *definitely* to remain an RIA after 31 December 2012, with a further 15% *likely* to do so. However, as Figure 4.2 shows, RIAs in different sized firms varied in their intentions. Overall, RIAs in the largest firms were the least certain about their future: only 50% said they would definitely remain an RIA, with a further 33% 'likely' to remain. Those working in medium-sized firms were most definite: 83% of RIAs working in firms with between 20 and 49 RIAs and 77% of RIAs with between 50 and 499 RIAs said they would definitely remain an RIA. Possible reasons for this pattern of response are examined in Section 4.2.1.

Figure 4.2 Intentions after 31 December 2012, by firm size



F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436); 500+ RIAs (102), 50-499 RIAs (554), 20-49 RIAs (125), 10-19 RIAs (234), 2-9 RIAs (280), 1 RIA (141)

Likelihood of remaining an RIA also declined with age: just 57% of RIAs aged 60 or above said they would definitely remain RIAs after 31 December 2012. In contrast, 87% of RIAs aged 18 to 29 did so: although young RIAs were also more likely to work in larger firms where there was generally less certainty about remaining (this is explored further in Section 4.2.1). Similarly, RIAs earning the most through retail investment business were more likely to remain an RIA: 87% of RIAs earning £125,000 or more a year said they would definitely remain an RIA, compared with 63% of those earning less than £40,000, as shown in Table 4.2.

Table 4.2 Intentions after 31 December 2012, by income from retail investment business

All RIAs, by income from retail investment business (column percentages)

	Up to £40k	**>£40k-£80k**	**>£80k-£125k**	**>£125k**	**Total**
Definitely remain an RIA	63	*72*	*80*	87	74
Likely to remain an RIA	*18*	19	8	8	15
Definitely or likely to remain an RIA	81	*91*	*88*	95	89

F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436); up to £40k (238), £41-£80k (541), £81-£125k (197), over £125k (154)

RIAs who were members of a professional body were also more likely to say they would definitely remain an RIA after 31 December 2012: 78% did so, compared with only 44% of RIAs who were not members of any professional bodies.

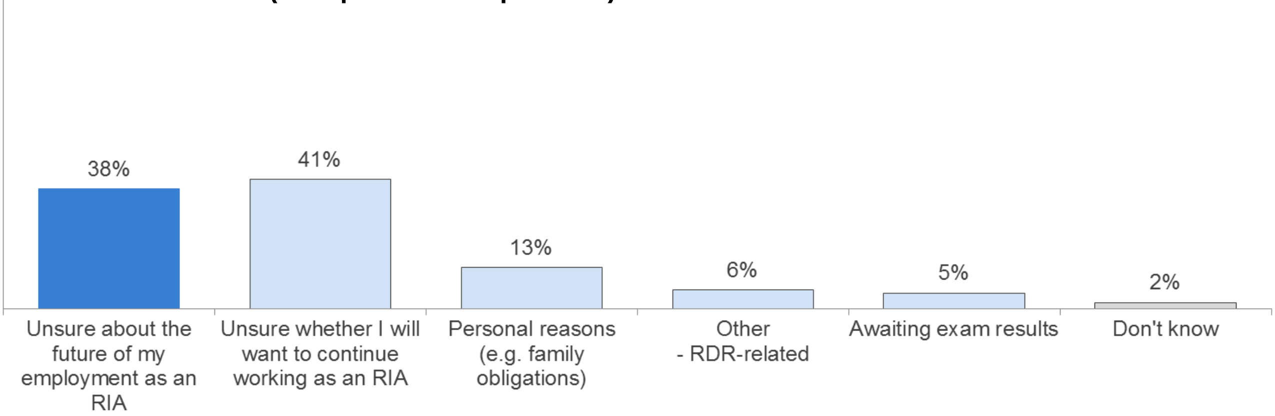
4.2.1 RIAs likely to remain an RIA

Figure 4.1 shows that, overall, 15% of RIAs were only *likely* to remain an RIA. As we have already seen in this chapter, these RIAs were more likely to work in larger firms, especially in B/BS firms. Individuals earning less from their retail investment business were more likely than average to say they were only likely to remain an RIA. .

We sought to shed light on why they were not certain of remaining an RIA, by asking this group of RIAs why they were only *likely* to remain an RIA after 31 December 2012. There were two main sources of uncertainty, as shown in Figure 4.3: lack of certainty about their future employment as an RIA or personal doubts around whether they wanted to continue as an RIA. In each case around two-fifths of the RIAs only likely to remain cited one of these reasons.

Figure 4.3 Reasons for possible uncertainty around continuing as an RIA among those only 'likely' to remain

(Multiple answers possible)



F1b Why do you say you are likely to rather than definitely remain a Retail Investment Adviser? Base: All RIAs likely to remain (187)

The few RIAs who gave other reasons for the lack of certainty (6% of this group, or 1% of all RIAs) mentioned RDR-related factors, such as the fact that they were doubtful as to whether their clients would be willing to pay fees for advice after 31 December 2012:

> *'I am unsure as yet as to how RDR will impact on the willingness of ordinary people to continue to seek advice once they have to pay an upfront and/ or ongoing charge for their advice. At the moment reviews are 'free' but we will be making a specific charge in the future, and I am unsure that people will want to pay it.'*
>
> WM

> *'We feel there will be less opportunity out there with regard to the type of clients we can give advice to, so companies may make cut-backs.'*
>
> B/BS

Firm size drove the distinction as to whether the basis for uncertainty was employment prospects or personal choice, as Table 4.3 shows. RIAs unsure about the future of their employment tended to work in larger firms: 50% of those in firms with 20 or more RIAs cited employment uncertainties, compared with 12% of RIAs in smaller firms. Conversely, RIAs who were unsure whether they would want to remain in an RIA role tended to work in smaller firms: 64% of those in firms with fewer than 20 RIAs, compared with 31% in larger firms with 20 or more RIAs and only 21% in firms with 500 or more RIAs.

Table 4.3 Reasons for uncertainty about continuing as an RIA, by firm size

All RIAs, by firm size (column percentages)			
	1 - 20	**20+**	**Total**
Unsure about the future of my employment as an RIA	12	50	38
Unsure whether I want to continue working as an RIA	64	31	41
Personal reasons	*13*	*13*	13
Other RDR-related reason	*6*	*7*	6
Awaiting results of final paper	*8*	*3*	5
Don't know	*1*	*3*	2

F1b Why do you say you are likely to rather than definitely remain a Retail Investment Adviser? Base: All RIAs likely to remain (187); up to 20 (71), 20+ (116)

While small base sizes did not allow for detailed subgroup analysis by firm type, RIAs working in IFA – DA firms were more likely to say that they were unsure whether they would want to continue working as an RIA (65%, compared with 41% overall), with those in B/BS more likely to be unsure of the future of their employment (68%, compared with 38% overall).

4.3 'Early leavers': RIAs that intend to cease retail advice

In response to the question, *'Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012?',* RIAs were defined as 'early leavers' if they gave one of the following answers:

- *'I will retire – earlier than planned.'*
- *'I will stop advising on retail investments and take another role within the industry.'*
- *'I will leave the industry.'*

Figure 4.1 shows that 6% of all RIAs (c. 2,000 advisers) indicated that they intended to stop advising after 31 December 2012, and thus become early leavers. This group of 'early leavers' did not include the 1% of RIAs who said they would retire as planned. Early leavers were not asked when, after the end of 2012, they expected to leave.

Table 4.4 breaks down these early leavers by firm type, demonstrating that, while there was, generally, little variation by firm type, RIAs working in WM firms were significantly less likely to be early leavers.

Table 4.4 Early leavers, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Retire earlier than planned/ Stop advising on retail investments and take another role within the industry/ Leave the industry	*6*	*3*	*7*	2	*2*	*10*	*[3]*	*6*	6

F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

A strong indicator of an early leaver appeared to be lack of membership of a professional body. RIAs who were members of a professional body were much less likely to be an early leaver than RIAs who were not members: just 4% of members were in the early leaver group compared with 22% of non-members.

As Table 4.5 shows, RIAs earning least from retail investment business were significantly more likely to say they plan to leave early (12%), compared with RIAs in higher income brackets, in particular RIAs earning over £125,000 a year, of whom only 2% were in the early leaver group.

Table 4.5 Early leavers, by income from retail investment business

All RIAs, by income from retail investment business (column percentages)					
	Up to £40k	**>£40k-£80k**	**>£80k-£125k**	**>£125k**	**Total**
Retire earlier than planned/ Stop advising on retail investments and take another role within the industry/ Leave the industry	12	*5*	*5*	2	6

F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436); up to £40k (238), £41-£80k (541), £81-£125k (197), over £125k (154)

RIAs serving fewer clients and serving clients with less in personal savings and investments were also more likely to be early leavers. Thirteen per cent of RIAs who advised ten or fewer retail clients in the last 12 months were in the 'early leaver' group, and 14% of RIAs with a least a third of retail clients with less than £20,000 in savings and investments were also in this group (Section 5.2 will explore the retail client base by value of personal savings and investments in detail).

Finally, age was a weaker indicator of an early leaver: none of the early leavers were under 30, and 5% of those from 30 to 49 were early leavers. This figure increased to

6% of those between 50 and 59 and to 11% of those over 60. It should be noted, however, that none of these individual figures is statistically significant when compared with the overall 6% figure, despite the overall trend.

4.3.1 RIAs likely to stop advising and take on another role

Table 4.6 examines the small minority (3%, or c. 1,100 advisers) of RIAs who said they intended to stop advising after 31 December 2012 and take on another role. RIAs who planned to take on another role were more common in B/BS firms (7%); and less likely to work in IFA – AR (1%) or WM firms (less than 0.5%). They were also more likely not to hold a Level 4 qualification (11%), and tended to earn less than £40,000 a year from retail investment business (9%).

Table 4.6 RIAs planning to take other roles after 31 December 2012, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Stop advising on retail investments and take another role within the industry	*3*	1	*1*	*	*2*	*7*	*[3]*	*3*	3

F1 Given everything you currently know about the RDR, which of the following best describes your current thinking regarding what you will do after 31 December 2012? Base: All RIAs (1,436), IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Most of the 3% of RIAs in this group planned to take a non-CF30 role, such as becoming a paraplanner; a protection or mortgage adviser; a client relationship manager; an introducer to another adviser/ product provider; or a compliance consultant.

4.4 Summary and conclusions

Almost nine in ten RIAs (89%) intended to remain RIAs after the RDR came into force on 31 December 2012. There was a significant increase in RIAs' certainty of remaining: significantly more RIAs were definite in 2012 that they would remain in the industry (74%, compared with 57% in 2011).

Despite this positive news, there were clear signs, however, that some RIAs either intended to leave after 31 December 2012 or were doubtful about their future as an RIA:

- Six per cent of RIAs intended to cease being RIAs for reasons other than planned retirement ('early leavers') after December 2012. This is, however, a decrease of two percentage points since 2011, suggesting that there may be no increase in the rate of attrition, beyond what might be considered 'normal' after the RDR comes into force. Interestingly, early leavers appear to be relatively less successful: they include RIAs who were earning less than £40,000 a year from retail investment business; had fewer than average retail clients (18% advised 10 or fewer clients compared with 7% of RIAs intending to remain RIAs); and had a greater proportion of lower value retail clients (21% of their clients had less than £20,000 in investments and savings, compared with 11% of the clients of RIAs intending to remain RIAs).

- While significantly fewer RIAs said they did not know what they would do after 31 December 2012 (2%, down from 7% in 2011), a new group of 2% of RIAs emerged in 2012, stating that they would remain an RIA only if it were commercially viable in the light of factors such as the economic climate, competition and some clients' possible unwillingness to pay fees.
- Of the 15% of RIAs only 'likely' to remain an RIA, those in larger firms were particularly likely to cite uncertainty about future employment as an RIA; and those in smaller firms were more likely to reveal personal doubts around whether they would want to continue as an RIA.

5 Retail client base

This chapter examines Retail Investment Advisers' (RIAs') estimates of the size of their own retail client base in the 12 months prior to summer 2012, and provides an estimate of the total number of retail clients advised over that period.

The chapter also examines how the retail client profile breaks down in terms of wealth – specifically the amount that clients had to invest or save – and how that profile was expected to change after 31 December 2012.

Finally, by combining these pieces of information together, we will assess how the total number of clients served in each wealth tier might change post-Retail Distribution Review (RDR).

This topic, which is not directly related to Professionalism, is new to the 2012 survey. It provides background to findings in subsequent chapters, which will examine how many retail clients are served by specific groups of RIAs, such as those that expected to complete their Accredited Qualification (AQ) after December 2012.

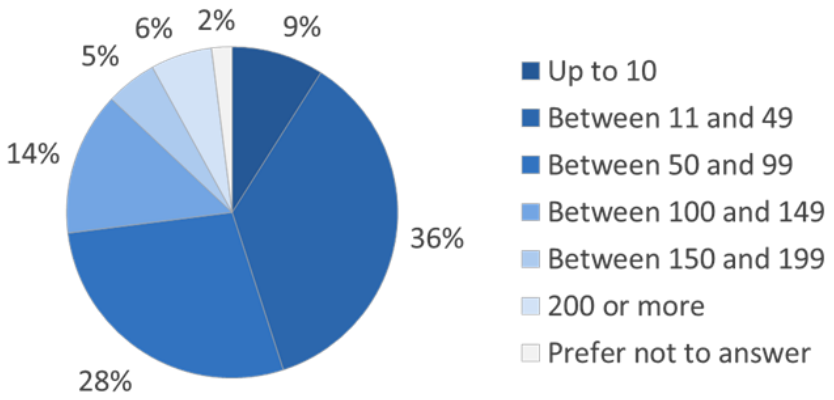
5.1 Number of retail clients advised in the last 12 months

This section examines the number of retail clients advised in the last 12 months on average by RIAs (Section 5.1.1), and in total in the UK (Section 5.1.2). It also looks specifically at how many of these RIAs were advised by intended 'early leavers' (Section 5.1.3).

5.1.1 Average number of retail clients advised in the last 12 months

We estimate that the average number of retail clients to whom RIAs had personally provided investment advice in the 12 months prior to summer 2012 was 74. Behind that figure lies a great deal of variation in the number of clients served by different types of RIA. Figure 5.1 analyses the number of clients advised in the last 12 months. It shows that the majority of RIAs (64%) had provided investment advice to between 11 and 99 clients. At the extremes, however, almost one in ten (9%) had provided advice to ten or fewer clients, and 6% had provided advice to 200 clients or more.

Figure 5.1 Number of retail clients advised in the last 12 months



A3a To how many retail clients have you personally provided investment advice in the last 12 months?

Base: All RIAs (1,436)

Table 5.1 demonstrates how the size of an RIA's retail client base largely reflects firm type. RIAs that had the fewest retail clients worked in IFA - AR firms, with an average of 55 retail clients advised in the last 12 months. Unsurprisingly, RIAs working in B/BS firms were more likely to have advised 100 or more clients in the last year: 49% advised 100 or more retail clients, compared with 25% overall. On average RIAs in B/BS firms advised 110 retail clients.

Table 5.1 Number of retail clients advised in the last 12 months, by firm type

All RIAs, by firm type (column percentages, means)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Up to 10	*9*	*10*	8	*12*	*8*	5	*[41]*	*15*	9
11-99	70	80	*69*	48	*56*	44	*[49]*	*68*	64
100 or more	19	11	*19*	36	*24*	49	*[10]*	15	25
Prefer not to answer	*2*	*0*	*3*	*4*	*13*	*2*	*[0]*	*3*	2
Mean number of clients advised	66	55	64	*87*	*76*	110	*[42]*	*60*	74

A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

The number of retail clients advised in the last 12 months also shows a correlation with firm size. RIAs working in the firms with the largest numbers of RIAs also tended to advise more retail clients (RIAs in firms with 500 RIAs or more, of which B/BS formed the greatest proportion, had advised a mean of 121 retail clients), while RIAs in single RIA firms had advised the fewest (an average of 45 retail clients), as shown in Table 5.2.

Table 5.2 Number of retail clients advised in the last 12 months, by firm size

All RIAs, by firm size (column percentages, means)							
	1	**2 to 9**	**10 to 19**	**20 to 49**	**50 to 499**	**500+**	**Total**
Up to 10	16	*9*	*7*	*10*	*9*	2	9
11-99	77	*67*	*69*	*71*	*68*	39	6
100 or more	6	*22*	*22*	17	20	58	25
Prefer not to answer	*	*3*	*2*	*3*	*2*	*1*	2
Mean number of clients advised	45	68	*70*	*63*	68	121	74

A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436); 1 (141), 2 to 9 (280), 10 to 19 (234), 20 to 49 (125), 50 to 499 (554), 500+ (102)

RIAs who were members of a professional body also tended to advise significantly more clients than non-members: on average members had 76 clients, compared with an average of 57 clients among non-members.

As Table 5.3 illustrates, there were some significant differences in retail client distribution based on RIAs' geographical location, with RIAs working in the South East having advised the most clients on average (mean 90).

Table 5.3 Number of retail clients advised in the last 12 months, by geographical location

All RIAs, by location (column percentages)				
	London	**South East**	**Other regions**	**Total**
Up to 10	*13*	2	*9*	9
11-99	*63*	*62*	*67*	65
100 or more	*21*	34	*23*	25
Prefer not to answer	*3*	*1*	1	2
Mean number of clients advised	*70*	90	*72*	74

A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436), London (190), SE (234), Other (690). 'Refused to state region' subgroup not shown.

5.1.2 Total number of retail clients advised in the last 12 months

Using information provided by each RIA on the number of retail clients they had advised in the past 12 months, we have created an estimate of the total number of retail clients advised in the UK by the RIA population as a whole in the 12 months prior to summer 2012. Our estimate should be treated as a broad indication only, for three main reasons:

- RIAs were asked to classify the total number of retail clients they had advised to a pre-coded range from the options shown in Figure 5.1. To create an estimated total number of retail clients advised, we assumed a value equivalent to the mid-point of each range[34] to represent the actual number of retail clients advised by each RIA.
- In total 2% of all RIAs refused to answer this question. We have assumed that the client distribution of the 2% of RIAs who did not answer is the same as those that did answer.
- If an individual retail client was advised by more than one client, they would have been double-counted.

Table 5.4 shows this estimated maximum number of clients advised in the UK, breaking the figure down by firm type. In total, we estimate that RIAs advised a maximum of 2.65 million retail clients in the previous 12 months, with just over one million (38% of the total) advised by IFA – DA RIAs. Almost a third of retail clients (28%) were advised by a B/BS adviser; this is, perhaps, unsurprising given the very high average number of clients that RIAs in this category advised.

Table 5.4 Estimated maximum total number of retail clients advised in the last 12 months, by firm type

All RIAs, by selected firm type (total number of clients; row percentages)

	IFA – DA	**IFA – AR**	**TIED – AR**	**WM**	**B/ BS**	**Other**	**Total**
Estimated maximum number of retail clients advised	1,010,000	300,000	260,000	260,000	750,000	80,000	2,650,000
Estimated distribution of clients by firm type	38%	11%	10%	10%	28%	3%	100%

A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), B/BS (137), Other (218)

Table 5.5 breaks down the same information by region, showing the estimated maximum number of retail clients advised by region. The estimated total number of retail clients advised in each region *excludes* the clients of RIAs that refused to state their region (22% of all RIAs refused to do so). As the proportion of RIAs not

[34] The value of 225 was used for the '200+ retail clients' category.

answering is unusually high, it means that we cannot make assumptions about their or their clients' geographical location, and so they are excluded from the regional breakdowns. The actual total number of retail clients in each region is therefore likely to be somewhat higher.

Table 5.5 Number of retail clients advised in the last 12 months, by geographical location

	All RIAs, by location (total number of clients)				
	London	**South East**	**Other regions**	**Refused to state region**	**Total**
Estimated maximum number of retail clients advised	270,000	590,000	1,260,000	530,000	2,650,000

A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436), London (190), SE (234), Other (690), refused to state region (322)

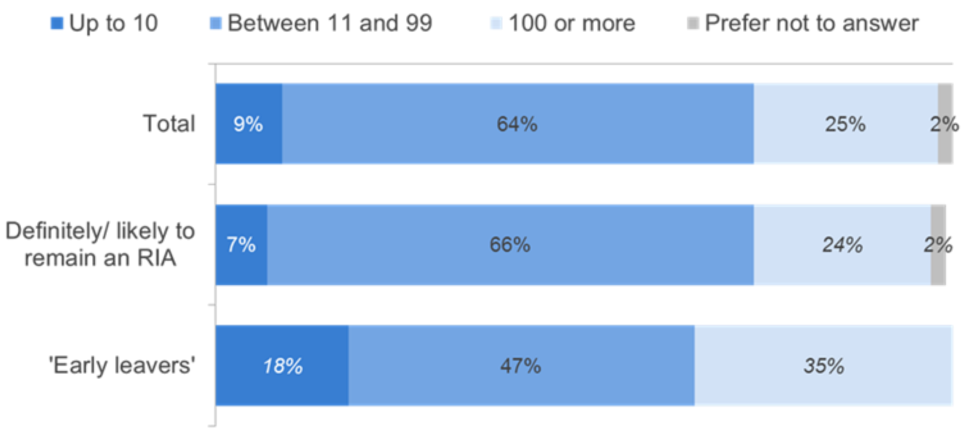
5.1.3 The average and total number of retail clients advised by early leavers

In Section 4.3, we showed that 6% of all RIAs (c. 2,000 advisers) had indicated that they intended to stop advising after 31 December 2012 for reasons other than planned retirement, a group we have termed collectively as 'early leavers'.

In total, these early leavers were estimated to have advised a total of 150,000 clients in the 12 months prior to summer 2012. As Figure 5.2 shows, early leavers had a slightly different distribution of retail clients from the RIAs definitely or likely to remain after 31 December 2012, even though the average number of clients advised by this group – 77 – did not differ significantly from the overall mean of 74. Indeed, early leavers were 6% of the RIA population, and they served 6% (150,000) of the retail clients served by all RIAs.

Early leavers were more likely to have provided investment advice to ten or fewer retail clients in the last 12 months (likely to reflect the IFA – DA and IFA – AR firms in this group), or to more than 100 clients (reflective of the high proportion of B/BS and Tied – AR among early leavers).

Figure 5.2 Number of retail clients advised in the last 12 months, by intention after 31 December 2012



A3a To how many retail clients have you personally provided investment advice in the last 12 months? Base: All RIAs (1,436); All RIAs definitely or likely to remain (1,307), early leavers (63)

5.2 Profile of the retail client base in the last 12 months, by value of personal savings and investments

RIAs were asked to assign their clients into different groups, based on the value held in personal savings and investments (or 'wealth tier'). Table 5.6 shows how RIAs' total retail client base over the previous 12 months broke down into each of these wealth tiers: it excludes results from the 8% of advisers who were unable to estimate this breakdown. It shows that just over a tenth (12%) of RIAs' retail clients were in the lowest wealth tier with less than £20,000 in personal savings and investments. Remaining clients were spread fairly evenly across the other wealth tiers (just under a third of all retail clients held personal savings and investments of between £20,000 and £75,000; a third held over £75,000 to under £250,000; and just over a quarter were in the highest wealth tier with £250,000 or more).

Once again, the proportion of clients in each wealth tier was strongly correlated with firm type. RIAs in Tied – AR firms advised the highest proportion of clients in the lowest wealth tier (22%), while RIAs in WM firms advised the highest proportion of clients in the highest wealth tier (52% of WM retail clients had £250,000 or more to save or invest). The widest spread of different value clients was held by B/BS RIAs, who had a higher than average proportion of retail clients in both the highest and lowest wealth tiers.

Table 5.6 Profile of the retail client base in the last 12 months, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Less than £20k	9	*11*	22	5	*[6]*	*14*	*[35]*	*7*	12
Between £20k and £75k	*28*	*30*	43	15	*[21]*	*28*	*[37]*	*22*	29
Over £75k to under £250k	39	39	26	*28*	*[43]*	22	*[21]*	36	33
£250k or more	23	20	9	52	*[30]*	36	*[7]*	*35*	26

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. Base: All RIAs (1,303), excl. don't knows (133); IFA – DA (489), excl. don't knows (53), IFA – AR (106) excl. don't knows (8), Tied – AR (94) excl. don't knows (4), WM (302) excl don't knows (25), EBC (49) excl. don't knows (14), B/BS (125) excl. don't knows (12), Life (36) excl. don't knows (3), APF (102) excl. don't knows (14)

There was some relationship between firm size and the respective value of their client base, although this was less clear cut, as Table 5.7 shows. If we examine the clients in the highest wealth tier (with £250,000 or more), the highest proportion of these was to be found in firms with 20 to 49 RIAs (38%), but not in the largest firms. We believe this reflects the high concentration of WM and EBC firms across medium-sized firms. Retail clients in the lowest wealth tier were spread across all firm sizes, although the greater proportion of lowest wealth tier clients found in the largest organisations (19%, compared with 12% overall) probably reflects the high proportion of Tied – AR and B/BS RIAs in this firm size.

Table 5.7 Profile of the retail client base in the last 12 months, by firm size

All RIAs, by firm size (column percentages)							
	1	**2 to 9**	**10 to 19**	**20 to 49**	**50 to 499**	**500+**	**Total**
Less than £20k	*13*	9	*9*	*8*	*12*	19	12
Between £20k and £75k	*34*	*27*	*26*	20	*27*	40	29
Over £75k to under £250k	*34*	40	*36*	*34*	30	28	33
£250k or more	20	*24*	*29*	38	31	13	26

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. Base: All RIAs (1,303), excl. don't knows (133); 1 (129) excl. don't knows (12), 2 to 9 (250) excl. don't knows (30), 10 to 19 (212) excl. don't knows (22), 20 to 49 (108) excl. don't knows (17), 50 to 499 (514) excl. don't knows (40), 500+ (90) excl. don't knows (12)

Section 5.1 demonstrated that RIAs who were intended early leavers had served an estimated maximum of 150,000 retail clients in the 12 months prior to summer 2012.

Table 5.8 examines what proportion of these clients fall within each wealth tier. Overall, the RIAs who said they were definitely remaining or likely to remain in their role as an RIA after 31 December 2012 had a greater proportion of higher net worth retail clients, with over a quarter (27%) of clients in the highest wealth tier, compared with 15% among early leavers. Similarly, early leavers were almost twice as likely to serve clients with less than £20,000 in personal savings and investments (21% of early leavers' retail clients had less than £20,000 in savings and investments, compared with 11% of those RIAs definitely or likely to remain an RIA).

Table 5.8 Profile of the retail client base in the last 12 months, by value of personal savings and investments

All RIAs, by intention after 31 December 2012 (column percentages)			
	All RIAs definitely or likely to remain an RIA	**Early leavers**	**Total**
Less than £20k	*11*	21	12
Between £20k and £75k	*29*	36	29
Over £75k to under £250k	34	*28*	33
£250k or more	27	*15*	26

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. Base: All RIAs (1,303) excl. don't knows (133); All RIAs definitely or likely to remain an RIA (1,187) excl. don't knows (120), early leavers (59) excl. don't knows (4)

Table 5.9 shows the estimated maximum total of retail clients served in each wealth tier, again split by likelihood of remaining an RIA. In total, an estimated maximum of 90,000 retail clients with up to £75,000 in personal savings and investments were advised in the 12 months before summer 2012 by RIAs who intend to leave the market after 31 December 2012. Of this total, 30,000 retail clients were in the lowest wealth tier with less than £20,000 in personal savings and investments.

Table 5.9 Estimated maximum number of clients served in the last 12 months in each wealth tier, by likelihood of remaining an RIA

All RIAs' retail clients, by RIAs' intention after 31 December 2012			
	All RIAs definitely or likely to remain an RIA	**Early leavers**	**Total[35]**
All wealth tiers	**2,380,000**	**150,000**	**2,650,000**
Less than £20k	260,000	30,000	320,000
Between £20k and £75k	670,000	60,000	770,000
Over £75k to under £250k	810,000	40,000	870,000
£250k or more	640,000	20,000	690,000

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. Base: All RIAs (1,303) excl. don't knows (133); All RIAs definitely or likely to remain an RIA (1,187) excl. don't knows (120), early leavers (59) excl. don't knows (4)

5.3 Profile of the retail client base after December 2012, by value of personal savings and investments

As well as asking RIAs about their current split of clients by wealth tier, we also asked those RIAs that said they were definitely or likely to remain an RIA whether they expected to see their client base changing after the RDR is implemented.

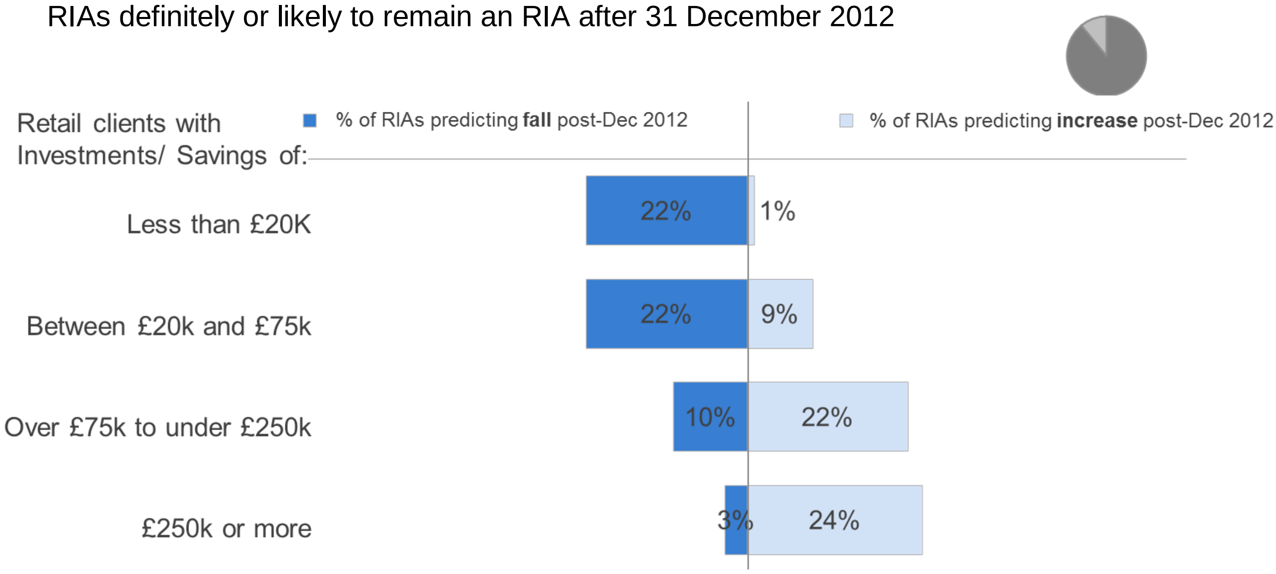
Figure 5.3 shows the proportion of all such RIAs that predicted a fall, or an increase, in the proportion of clients within each wealth tier. Broadly, the predicted trend was towards advising a greater proportion of clients in the higher wealth tiers within their overall client portfolio. Thus, if we look specifically at clients with less than £20,000 in personal savings and investments, just 1% of RIAs planning to remain an RIA expected to advise a greater proportion of retail clients in this lowest wealth tier after 31 December 2012, while a little more than a fifth (22%) predicted that they would advise a lower proportion of clients from this wealth tier. A similar pattern of declining

[35] Since a minority of RIAs (5%) were neither definitely/ likely to remain in the industry, nor were early leavers, the total number of clients for these two categories does not add up to the total for all RIAs.

importance in overall client profile was claimed for clients with between £20,000 and £75,000 in savings and investments.

In contrast, 22% of RIAs expected to advise a greater proportion of clients with between £75,000 and £250,000 in personal savings and investments, with 24% predicting an increase in the proportion of clients with £250,000 or more in personal savings and investments.

Figure 5.3 Predicted changes in the retail client base post-December 2012, among RIAs definitely or likely to remain an RIA after 31 December 2012



A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. F3b Thinking again about the retail clients you personally advise, what percentage do you expect to fall into each of the following personal Savings & Investment holding categories after 31 December 2012? All RIAs definitely or likely to remain an RIA (1,047) excl. don't knows (260)

Taking this analysis one stage further, it is possible to compare the summer 2012 retail client profile of RIAs definitely or likely to remain (as already described in Table 5.8), with their predicted client profile after 2012. This is shown in Table 5.10. After 31 December 2012, these RIAs expected the proportion of retail clients in the lowest wealth tier with less than £20,000 in personal savings and investments to fall from 11% to 7%, while at the same time they expected to advise a slightly higher proportion of retail clients with £250,000 or more in savings and investments, with a projected increase of six percentage points in this highest wealth tier.

Table 5.10 Mean proportion of clients falling into each wealth tier, currently and expected after 2012, among RIAs definitely or likely to remain an RIA after 31 December 2012

	All RIAs definitely or likely to remain an RIA (column percentages)	
	Client base summer 2012	**Client base after 31/12/2012**
Less than £20k	11	7
Between £20k and £75k	28	24
Over £75k to under £250k	34	36
£250k or more	27	33

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. F3b Thinking again about the retail clients you personally advise, what percentage do you expect to fall into each of the following personal Savings & Investment holding categories after 31 December 2012? All RIAs definitely or likely to remain RIA (1,047) excl. don't knows (260)

5.4 Proportion of RIAs serving each wealth tier at all, now and after 31 December

In Sections 5.2 and 5.3, we examined the proportion of RIAs' total client base, and how it was expected to change post-RDR. To complete the picture, this section examines what proportion of RIAs had any clients at all in each wealth tier in the 12 months before summer 2012, and how this was expected to change post-RDR.

In summer 2012, a little more than half of RIAs (55%) had served at least one retail client with less than £20,000 in personal savings and investments and three-quarters (76%) of RIAs had served at least one retail client with up to £75,000 in savings and investments in the year to summer 2012. RIAs were most active in serving the '£75,000 to £250,000 group'. The full breakdown is given in Table 5.11, which highlights in bold the proportion of RIAs serving clients with up to £75,000. There were some differences by firm type, with RIAs from WM firms less likely to serve all but the highest wealth tier. In contrast, almost all RIAs in Tied – AR firms had served clients with up to £75,000 in savings and investments.

Table 5.11 Proportion of RIAs serving each wealth tier at summer 2012, by firm type and size

All RIAs, by firm type and firm size (column percentages)											
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
All serving less than £20k	*54*	*59*	82	31	32	*50*	*[67]*	*48*	*55*	*55*	55
All serving £20-£75k	*78*	*83*	95	52	*64*	64	*[80]*	*70*	79	73	75
All serving up to £75k	***78***	***83***	**95**	**52**	***64***	**64**	***[90]***	***70***	**79**	**73**	**76**
All serving £75k-£250k	87	*90*	92	68	*76*	71	*[69]*	*77*	*86*	*81*	83
All serving £250k or more	*80*	*79*	*67*	87	*73*	*70*	*[46]*	*78*	*80*	*75*	77
Don't know	*10*	*7*	*4*	*8*	22	9	*[8]*	*12*	*10*	*8*	9

A3b Thinking about the retail clients you personally advise, what percentage falls into each of the following personal Savings & Investment holding categories? Please do not include any retail clients that you advise on mortgages, protection or other products if you do not also advise them on investments. Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116); 1-19 (655), 20+ (781)

Focusing just on RIAs definitely or likely to remain in the industry, Table 5.12 illustrates the proportion of RIAs expecting to advise at least one retail client in each of the specified wealth tiers *after* 31 December 2012. Across all firm types just 62% of these RIAs expected to have any clients with £75,000 or less in savings and investments after 2012, compared to 76% of all RIAs who currently served this market in 2012. As was the case with the current client mix, RIAs from WM firms were the least likely to say they planned to have any clients in the lower value tiers.

Table 5.12 Proportion and total number of RIAs serving each wealth tier after 31 December 2012, by firm type and size; and minimum number of RIAs likely to serve each tier

	All RIAs definitely or likely to remain an RIA, by firm type and firm size (column percentages; minimum no. RIAs serving each wealth tier in brackets)										
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total (# RIAs)**
All serving less than £20k	*38*	*38*	62	15	18	*33*	*[40]*	*39*	*38*	*37*	37 (11,900)
All serving £20-£75k	68	*71*	75	34	45	46	*[71]*	*61*	68	57	62 (19,800)
All serving up to £75k	**68**	***72***	**75**	**34**	**45**	**46**	***[74]***	***61***	**68**	**57**	**62 (19,800)**
All serving £75k-£250k	80	*79*	*72*	58	*73*	62	*[69]*	*73*	79	70	74 (23,600)
All serving £250k or more	*75*	*78*	60	*79*	*73*	*77*	*[51]*	*76*	*75*	*74*	75 (23,800)
Don't know	*18*	*16*	*24*	*19*	*26*	*17*	*[20]*	*17*	*18*	*19*	18 (5,900)

F3b Thinking again about the retail clients you personally advise, what percentage do you expect to fall into each of the following personal Savings & Investment holding categories after 31 December 2012? Base: All RIAs definitely or likely to remain (1,307); IFA – DA (489), IFA – AR (102), Tied – AR (87), WM (308), EBC (62), B/BS (117), Life (35), APF (107); 1-19 (593), 20+ (714)

In looking at the numbers of advisers expecting to serve particular client groups, it is worth considering the proportion of advisers that said they would definitely not serve certain groups after December 2012. Table 5.13 shows that 45% of advisers would definitely not serve clients with less than £20,000 in personal savings and investments. This is the same as the proportion of current RIAs that did not serve this lowest wealth tier in 2012 (also 45%). If some of the 18% of RIAs who could not answer do in fact serve this tier after 2012, then up to 55% (or 17,800) of the RIAs intending to remain will serve these clients, the same proportion as were doing so at the time of the survey.

Similarly, while 19,800 RIAs expected to serve clients with up to £75,000 in savings and investments, if the 18% of RIAs who could not answer do in fact serve these clients after 2012, then 80% of RIAs remaining will serve them, representing 25,700 advisers in total.

Table 5.13 Proportion and total number of RIAs serving each wealth tier after 31 December 2012; and minimum number of RIAs likely to serve each tier

All RIAs definitely or likely to remain an RIA (row percentages & minimum no. RIAs serving each wealth tier)				
	Will definitely serve	**Will definitely NOT serve**	**Don't know if will serve**	**Minimum number of RIAs serving**
Less than £20k	37	45	18	11,900
Between £20k and £75k	62	20	18	19,800
Up to £75k	62	20	18	19,800
Over £75k to under £250k	74	8	18	23,600
£250k or more	75	7	18	23,800

F3b Thinking again about the retail clients you personally advise, what percentage do you expect to fall into each of the following personal Savings & Investment holding categories after 31 December 2012? Base: All RIAs definitely or likely to remain (1,307); IFA – DA (489), IFA – AR (102), Tied – AR (87), WM (308), EBC (62), B/BS (117), Life (35), APF (107); 1-19 (593), 20+ (714)

5.5 Summary and conclusions

We estimate the average number of retail clients to whom RIAs had personally provided investment advice in the 12 months prior to summer 2012 at 74. Behind that figure lies a wide variation in the number of clients served by different types of RIA. In the year to summer 2012, around two-thirds of RIAs (64%) had provided investment advice to between 11 and 99 clients. RIAs in IFA – DA, IFA – AR and Tied – AR firms had the fewest clients on average (between 55 and 65 retail clients), with RIAs in B/BS typically serving many more (110 retail clients on average).

By grossing these figures up across all firm types, we estimate, broadly, that up to 2.65 million retail clients had been advised in total by RIAs in the UK in the 12 months to summer 2012: most by either an IFA – DA (just over one million clients, or 38% of the total) or a B/BS adviser (28% of all clients).

In total, early leavers were estimated to have advised a total of 150,000 clients in the 12 months prior to summer 2012. Of these, a high proportion (90,000) comprised clients with £75,000 or less in personal savings and investments.

Of those RIAs that expected to remain in the industry, there was a small expected shift away from clients with up to £75,000 in personal savings and investments. In total 76% of all RIAs served at least one client with £75,000 or less in personal savings and investments in 2012; in comparison, only 62% of those expecting to remain said they would definitely serve that same market post-RDR, although it is notable that a sizeable minority (18%) was unsure as to whether they would do so.

6 Progress towards attaining a Level 4 qualification

At the core of the Professionalism requirements of the Retail Distribution Review (RDR) is the need for all advisers to attain an RDR Appropriate Qualification (AQ). The RDR AQ minimum Qualifications and Credit Framework (QCF) level is Level 4, the vocational equivalent to the first year of an academic degree, and the Financial Services Authority (FSA) has stipulated which qualifications at Level 4 and above are deemed to be AQs for the purposes of the RDR.

Retail Investment Advisers (RIAs) deemed competent by their firm before or on 30 June 2009 were required to achieve an RDR AQ by 31 December 2012. RIAs who were deemed competent after 30 June 2009 did not need to meet the end-2012 deadline. Rather, they have 30 months from 1 January 2011 or, if later, 30 months from the date that they started the activity of advice to attain an AQ. Section 3.3.7 of this report showed that this '30-month rule' applied to 11% of all RIAs.

This chapter examines the progress of all advisers towards attaining a relevant Level 4 qualification in summer 2012, and also separates out the 89% who were required to meet the 31 December 2012 deadline, and the 11% who were subject to the 30-month rule.

For some Level 4 qualifications, RIAs are required to undertake 'gap-fill' to fill the gaps between their qualification and the new qualification standard. This chapter does *not* take into account whether or not an RIA had completed any necessary gap-fill: this will be examined in Chapter 7.

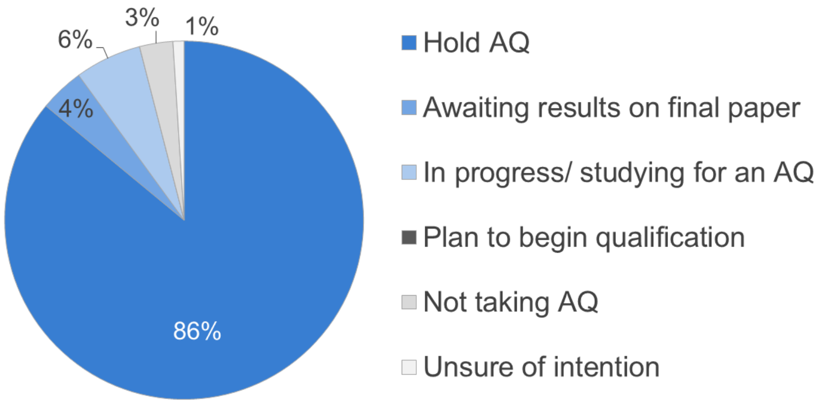
This chapter also examines the qualification level achieved (which could be above Level 4) and the forecasts of RIAs without a Level 4 qualification as to when they expected to attain it in the run up to the 31 December 2012 deadline.

Finally, this chapter will explore the intentions of RIAs who were at risk of missing the deadline, and of those who did not intend to take an AQ.

6.1 Qualification status as at summer 2012

As shown in Figure 6.1, by summer 2012 almost all RIAs (96%) either held a Level 4 qualification, or were awaiting results of their final paper or were studying towards a Level 4 qualification.

Figure 6.1 RIAs' qualification status at summer 2012



B1 Do you already hold at least one Appropriate Qualification listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B6 What plans, if any, have you made to attain an Appropriate Qualification? Of the following, which best describes your situation? Base: All RIAs (1,436)

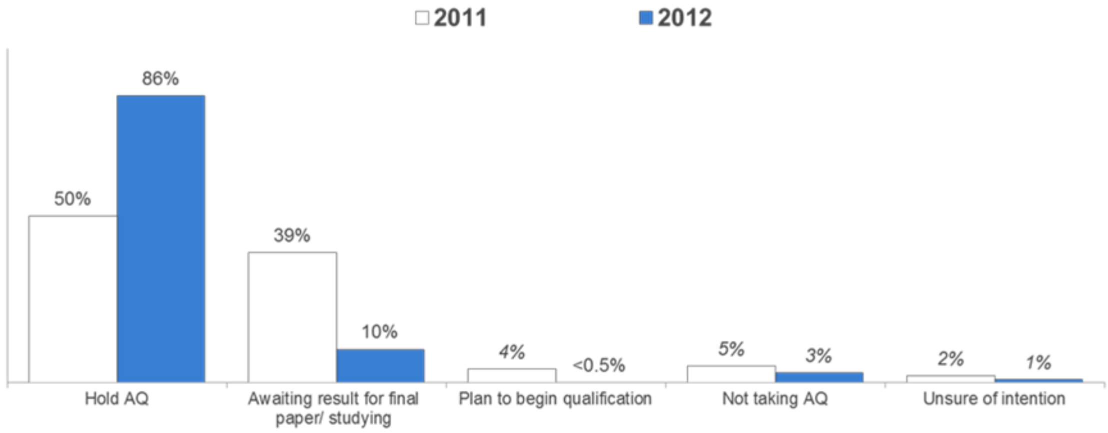
Broadly speaking, qualification status varied by firm size and type; this is explored in subsequent sections of this chapter. In particular, while 86% of RIAs already held a Level 4 qualification or above, much of this chapter will focus on the remaining 14% which, at the time of interview in summer 2012, had not yet completed a Level 4 qualification.

Six per cent of RIAs were still studying for a qualification, and a further 4% were awaiting results on their final paper. A few RIAs (1%) were unsure as to whether they would take a Level 4 qualification at all, or had decided against taking one (3%).

Figure 6.2 shows RIAs' progress in attaining a Level 4 qualification, irrespective of gap-fill, since summer 2011. Unsurprisingly, the proportion already holding a qualification had increased significantly – from just 50% in 2011 to 86% in 2012. Correspondingly, the proportion of RIAs who were studying had decreased significantly over the course of a year (from 39% to 10%). This suggests that most of the RIAs who were studying in 2011 now held a Level 4 qualification.

Similarly, while 4% of RIAs still planned to begin their qualification in 2011, there were almost no RIAs left in this group by summer 2012. Although it is possible that some might have left the industry, we might assume that most of these had begun their Level 4 qualification by summer 2012.

Figure 6.2 RIAs' qualification status, by survey wave



B1 Do you already hold an Appropriate Qualification so that you will continue to be able to advise on retail investment products after 31 December 2012? Please answer yes, even if you still need to start or complete gap-fill. B6 What plans, if any, have you made to attain an Appropriate Qualification? Base: All RIAs 2011 (1,042); All RIAs 2012 (1,436)

6.2 RIAs who already hold a Level 4 qualification

As at summer 2012, 86% of RIAs held a Level 4 qualification, regardless of gap-fill requirements. Within this overall average, the proportion of RIAs holding a Level 4 qualification differed by firm type, as shown in Table 6.1: RIAs in EBC, B/BS and WM firms were significantly more likely to hold a Level 4 qualification (97%, 92% and 91% held a qualification respectively). In contrast, RIAs working in IFA – DA firms were significantly less likely to hold a Level 4 qualification.

Table 6.1 Level 4 qualification completion, by firm type

	All RIAs, by firm type (column percentages)								
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Completed Level 4 qualification	81	*84*	93	91	97	92	*[85]*	*84*	86

B1 Do you already hold an Appropriate Qualification so that you will continue to be able to advise on retail investment products after 31 December 2012? Please answer yes, even if you still need to start or complete gap-fill. Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Since EBC, B/BS and WM firms were predominantly larger firms, it is perhaps unsurprising that RIAs in larger firms generally were also more likely to have attained a Level 4 qualification. Table 6.2 shows, for example, that RIAs in firms with 50 to 499 RIAs were significantly more likely to hold a Level 4 qualification (91%) than RIAs in firms with one to nine RIAs (79%).

Table 6.2 Level 4 qualification completion, by firm size

All RIAs, by firm size (column percentages)							
	1	**2 to 9**	**10 to 19**	**20 to 49**	**50 to 499**	**500+**	**Total**
Completed L4 qualification	*79*	79	*84*	*89*	91	*87*	86

B1 Do you already hold an Appropriate Qualification so that you will continue to be able to advise on retail investment products after 31 December 2012? Please answer yes, even if you still need to start or complete gap-fill. B6 What plans, if any, have you made to attain an Appropriate Qualification? Base: All RIAs (1,436); 1 (141), 2 to 9 (280), 10 to 19 (234), 20 to 49 (125), 50 to 499 (554), 500+ (102)

Overall, 90% of RIAs who were members of a professional body had attained a Level 4 qualification, compared with just 50% of those who were not. This is to be expected since, although it is not obligatory for an RIA to join a professional body in order to receive the independent verification of their professional standards, doing so does appear to show a level of commitment to a future career as an RIA. In Section 4.3 we also saw that non-members were more than five times more likely to be 'early leavers' than members.[36]

Finally, the likelihood of holding a Level 4 qualification was strongly related to the likelihood of an RIA remaining in the industry. As Table 6.3 shows, RIAs who said they would definitely remain in their role after 31 December 2012 were significantly more likely to hold a Level 4 qualification (92%) than all other groups, with only 52% of early leavers holding a Level 4 qualification.

[36] Section 3.3.6 also examines the characteristics of professional body members versus non-members in more detail.

Table 6.3 Level 4 qualification completion, by likelihood of remaining an RIA

	All RIAs, by likelihood of remaining an RIA (column percentages)			
	Definitely remain	Likely to remain	Early leavers	Total
Completed L4 qualification	92	76	52	86

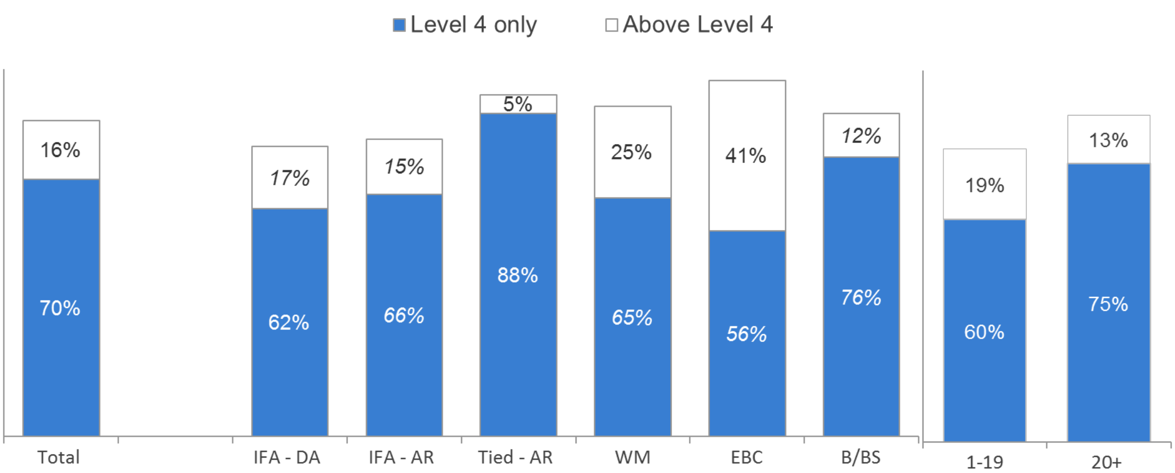
B1 Do you already hold an Appropriate Qualification so that you will continue to be able to advise on retail investment products after 31 December 2012? Please answer yes, even if you still need to start or complete gap-fill. B6 What plans, if any, have you made to attain an Appropriate Qualification? Base: All RIAs (1,436); Definitely remain (1,120), Likely to remain (187), Early leavers (63)

6.2.1 Qualification level achieved

The RDR may have encouraged RIAs to go beyond the most basic qualification. Some RIAs who already had a Level 4 qualification at summer 2012 in fact had more than one appropriate qualification (21%), and 16% of the total were qualified above Level 4. Of that 16%, almost all (98%) were qualified to Level 6, the small remaining proportion being qualified to Level 5 only.

Figure 6.3 shows how the proportion of RIAs qualified above Level 4 breaks down by firm type and size. RIAs in EBC and WM firms were significantly more likely to hold a qualification above Level 4, as were RIAs from firms with fewer than 20 RIAs. Only 5% of RIAs in Tied – AR firms were qualified above Level 4.

Figure 6.3 RIAs who held a qualification above Level 4



B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification. Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116), 1-19 (655), 20+ (781)

The likelihood of holding a qualification above Level 4 was only very loosely related to an RIA's level of experience: Table 6.4 shows that, although RIAs with ten or fewer years of experience were slightly less likely than those with 11 or more years of experience to hold a Level 5 or 6 qualification, this difference was not statistically significant.

Table 6.4 RIAs who held a qualification beyond Level 4, by length of tenure

	All RIAs, by length of tenure (column percentages)				
	<2 years	**3-10 years**	**11-20 years**	**>20 years**	**Total**
Qualified above Level 4	*12*	*13*	*17*	*17*	16

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification. Base: All RIAs (1,436); <2 years (71), 3-10 years (356), 11-20 years (444), >20 years (544)

Age, on the other hand, did bear a stronger relationship with the likelihood of being qualified above Level 4. Table 6.5 shows that younger RIAs (under 35) were significantly less likely than RIAs in older age groups to have a qualification above Level 4, as at summer 2012.

Table 6.5 RIAs who held a qualification beyond Level 4, by age

	All RIAs, by age (column percentages)			
	Under 35	**35-50**	**50+**	**Total**
Qualified above Level 4	9	*16*	*17*	16

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification. Base: All RIAs (1,436); under 35 (206), 35-50 (648), 50+ (552)

Similarly, RIAs earning more from their retail investment business were more likely to be qualified above Level 4. As shown in Table 6.6, over a quarter (27%) of RIAs earning more than £125,000 annually from their retail investment business were qualified beyond Level 4, compared with just 6% of those earning £40,000 or below.

Table 6.6 RIAs who held a qualification beyond Level 4, by income from retail investment business

	All RIAs, by income from retail investment business (column percentages)				
	Up to £40k	**>£40k-£80k**	**>£80k-£125k**	**>£125k**	**Total**
Qualified above Level 4	6	12	*21*	27	16

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification. Base: All RIAs (1,436); up to £40k (238), >£40k-£80k (541), >£80k-£125k (197), >£125k (154)

Taking these characteristics together, it was the older, more experienced RIAs with a relatively high income from their retail investment business who were more likely to be qualified beyond Level 4. Finally, the more highly qualified RIAs also tended to have higher value clients: over a fifth (23%) of RIAs who said that at least a third of their client base had £250,000 or more in personal savings and investments held a qualification above Level 4, as shown in Table 6.7.

Table 6.7 RIAs who held a qualification beyond Level 4, by value of retail client base

	All RIAs, by value of retail client base (column percentages)				
	At least a third of clients have savings and investments of…				
	<£20k	**£20k-£75k**	**>£75k-£250k**	**£250k+**	**Total**
Qualified above Level 4	7	7	*18*	23	16

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification. Base: All RIAs (1,436); <£20k (113), £20k-£75k (432), >£75k-£250k (617), >£250k (317)

6.3 RIAs awaiting results for the final paper, studying or planning to study for a Level 4 qualification

As at summer 2012, one in ten RIAs were either awaiting results of their final paper (4%) or studying for a Level 4 qualification (6%). By summer 2012 almost no RIAs were still planning to start a qualification (this group had represented 4% of all RIAs in summer 2011). Table 6.8 shows that RIAs in IFA – DA firms were most likely to be still studying (9%), and RIAs in Tied – AR firms least likely (1%).

Table 6.8 RIAs' current qualification status, by firm type

	All RIAs, by firm type (column percentages)								
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Awaiting results of final paper	*4*	*5*	*4*	*2*	*0*	*4*	*[0]*	*6*	4
Studying	9	*6*	1	*5*	*3*	*3*	*[3]*	*4*	6

B1 Do you already hold an Appropriate Qualification so that you will continue to be able to advise on retail investment products after 31 December 2012? Please answer yes, even if you still need to start or complete gap-fill. B6 What plans, if any, have you made to attain an Appropriate Qualification? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

RIAs still studying or awaiting final results as at summer 2012 were significantly more likely to be relatively new to their role than RIAs overall: 30% of RIAs with two years' experience or less were in this group, compared with 10% overall. Similarly, 19% of RIAs earning £40,000 or less a year from their retail investment business were still studying or awaiting results of their final paper.

6.3.1 Expected Level 4 qualification completion date

By the end of 2012, 94% of all RIAs expected to hold a Level 4 qualification. Of the remainder, 2% expected to complete after the end-2012 deadline, 3% had decided not to take a Level 4 qualification, and 1% were still unsure of their intention to do so.

To ensure that predicted attainment dates were as accurate as possible, RIAs were asked whether they had taken into account the possible need to re-sit an exam, when predicting their attainment date. Eighty-eight per cent of all RIAs who were awaiting final results or still studying said they had done so. Although the remaining 12% said that they had not done so, only two of the RIAs interviewed (a fraction of 1% of all RIAs) changed their predicted attainment date as a result.[37]

Table 6.9 shows predicted completion dates by firm type. RIAs in Tied – AR, WM, EBC and B/BS were not only more likely to have already attained a Level 4 qualification, they were also more likely to expect to complete before the December deadline. Fewer RIAs (91%) in IFA – DA firms expected to complete a qualification on time.

[37] All results in this report are, however, RIAs' originally-predicted attainment dates, in order to make the results comparable to 2011, when RIAs were not asked this additional question.

Table 6.9 Expected date of attaining a Level 4 qualification, by firm type

All RIAs, by firm type (cumulative column percentages)

	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	Total
Already complete	81	*84*	93	91	97	92	*[85]*	*84*	86
September 2012	82	*86*	*93*	*91*	97	93	*[85]*	*85*	87
December 2012	91	*93*	98	*97*	98	98	*[87]*	*93*	94
After December	94	*95*	*98*	99	100	99	*[90]*	*93*	96
Unsure of intention	*2*	*1*	*0*	*0*	*0*	*0*	*[3]*	*1*	1
Intend not to take Level 4	*4*	*4*	*2*	*1*	*0*	1	*[8]*	*5*	3
Don't know when will complete	*	*1*	*0*	*	*0*	*1*	*[0]*	*1*	*

B11 By when do you expect to complete your qualification? B12 In estimating the date by when you expect to complete your qualification, have you taken into account the possible need to re-sit any examination? B12a If you did need to re-sit any examination, by when would you expect to complete your qualification? Base: All RIAs (1436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Given that RIAs in Tied – AR, WM, EBC and B/BS were more likely to expect to complete a Level 4 qualification by 31 December 2012, and RIAs in IFA – DA firms less likely, we might expect to see that RIAs in larger firms were more optimistic about being qualified on time. This expectation was confirmed: 98% of RIAs in firms with 500 RIAs or more had already completed or predicted a completion date on or before December 2012, compared with 91% of RIAs in single RIA firms and 89% of RIAs in firms with two to nine RIAs, as Table 6.10 shows.

Table 6.10 Expected date of attaining a Level 4 qualification, by firm size

All RIAs, by firm size (cumulative column percentages)							
	1	**2 to 9**	**10 to 19**	**20-49**	**50 to 499**	**500+**	**Total**
Already complete	*79*	79	*84*	*89*	91	*89*	86
September 2012	*82*	80	*84*	*89*	92	*91*	87
December 2012	*91*	89	*93*	*97*	96	98	94
After December	*92*	*94*	*96*	*97*	*97*	99	96
Unsure of intention	*2*	*2*	*0*	*0*	*	*0*	1
Intend not to take Level 4	*5*	*4*	*4*	*3*	*2*	*1*	3
Don't know when will complete	*2*	*	*	*0*	*1*	*0*	*

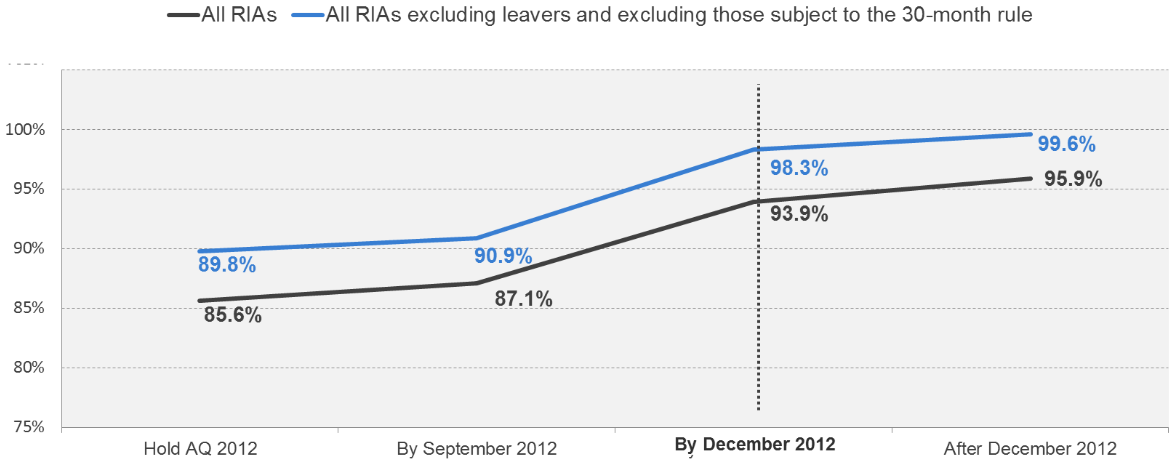
B11 By when do you expect to complete your qualification? B12 In estimating the date by when you expect to complete your qualification, have you taken into account the possible need to re-sit any examination? B12a If you did need to re-sit any examination, by when would you expect to complete your qualification? Base: All RIAs (1,436); 1 (141), 2 to 9 (280), 10 to 19 (234), 20 to 49 (125), 50 to 499 (554), 500+ (102)

Overall, 2% of all RIAs (c. 700 RIAs, who had advised a maximum of 20,000 retail clients in the last 12 months) expected to attain a Level 4 qualification after December 2012.

As we indicated in the introduction to this chapter, some of these RIAs were subject to the 30-month rule, and therefore did not need to meet the December 2012 deadline. In addition, a small proportion of RIAs intended to leave the industry after 31 December 2012. In Figure 6.4, the blue line shows the predicted date of attainment of a Level 4 qualification, this time calculated as a percentage of all RIAs excluding leavers and those subject to the 30-month rule. If we exclude both of these groups, 1.3% of the remaining RIAs (c. 400 RIAs, who had advised a maximum of 10,000 retail clients in the last 12 months) needing to meet the deadline still expected to attain the Level 4 qualification after 2012.

Figure 6.4 also shows that almost all (99.6%) of those who do need to attain an AQ expected eventually to do so, with less than half of one per cent (0.4%, or 100 advisers) unsure as to when they would attain the Level 4 qualification.

Figure 6.4 Predicted date of Level 4 qualification attainment, excluding leavers and those subject to the 30-month rule

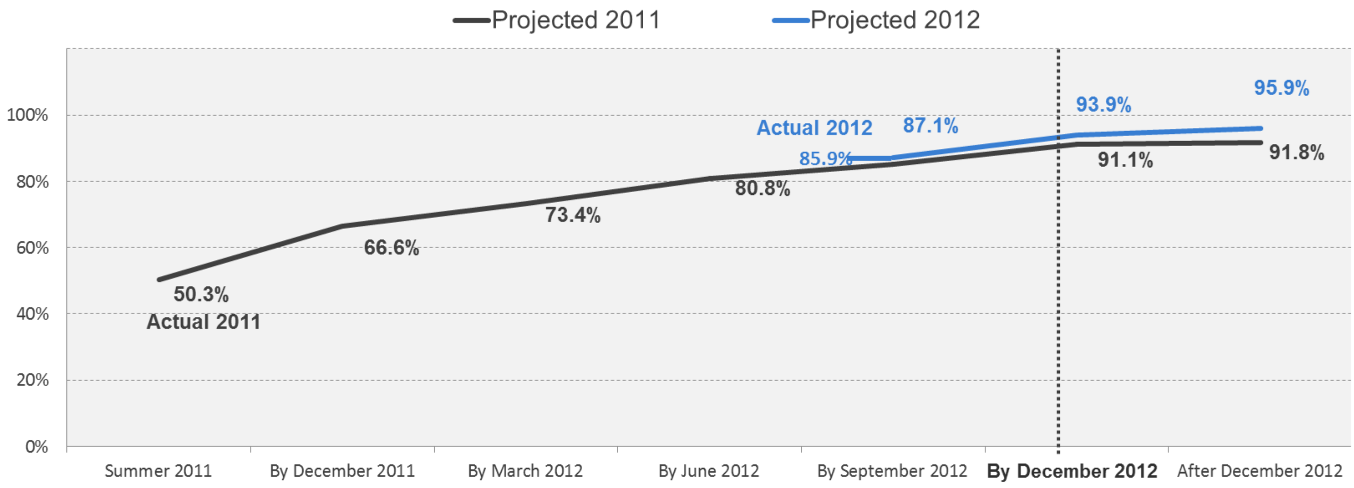


B1 Do you already hold at least one Appropriate Qualification listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B11 By when do you expect to complete your qualification? Base 2012: All (1,436); all excl. leavers and those subject to the 30-month rule (1,198). Results in this figure shown to one decimal place to aid comparison between results.

6.3.2 Comparison of expected Level 4 qualification attainment date in summer 2011 and summer 2012

Figure 6.5 examines how well 2011-predicted completion dates match with RIAs' updated predictions in summer 2012. The black line shows their predicted progress in 2011, and the blue line overlays their revised predictions in 2012. The substantial increase in the proportion of RIAs holding a qualification was almost exactly in line with RIAs' 2011 predictions, suggesting that RIAs' predictions for completion made in summer 2012 are probably also realistic.

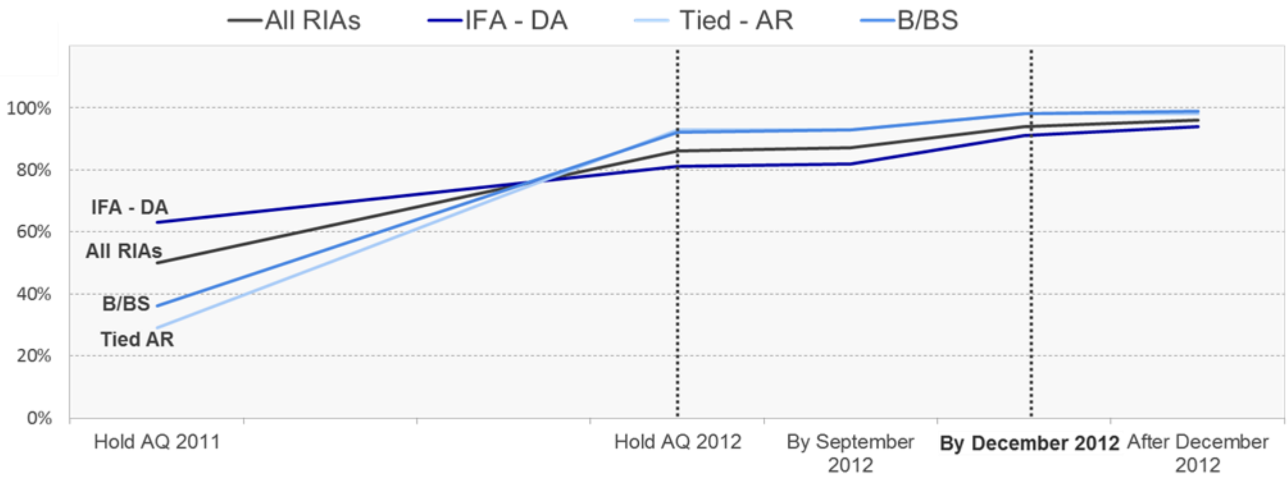
Figure 6.5 Predicted date of Level 4 qualification attainment, by survey wave



B1 Do you already hold at least one Appropriate Qualification listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B11 By when do you expect to complete your qualification? B12. In estimating the date by when you expect to complete your qualification, have you taken into account the possible need to re-sit any examination? B12a If you did need to re-sit any examination, by when would you expect to complete your qualification? Base: All RIAs 2011 (1,042); All RIAs 2012 (1,436)

In Figure 6.6, we can see how progress has varied by firm type. RIAs in IFA – DA firms were slightly ahead of the 50% average in 2011, with 63% holding a Level 4 qualification, but as at summer 2012 they had fallen behind RIAs in other firm types. Conversely, in summer 2011, Tied – AR and B/BS firms were considerably behind the curve: only 29% of RIAs in Tied – AR and 36% in B/BS firms had attained a qualification. A year on, 93% of RIAs in Tied – AR and 92% of RIAs in B/BS had completed a Level 4 qualification.

Figure 6.6 Predicted date of Level 4 qualification attainment, by firm type



B1 Do you already hold at least one Appropriate Qualification listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B11 By when do you expect to complete your qualification? Base 2012: All (1,436); IFA – DA (542); Tied – AR (98); B/BS (137)

6.4 'High risk' RIAs with two or more papers to complete

We define 'high risk' RIAs as those who are not subject to the 30-month rule and had two or more papers of their Level 4 qualification left to complete as at summer 2012, potentially making it more difficult for them to attain a Level 4 qualification before the deadline of 31 December 2012.

Three per cent of RIAs fell into this 'high risk' category. This represents around 1,000 RIAs, having advised between them a maximum of 50,000 retail clients in the 12 months before summer 2012. There were no intended leavers in this group.[38]

Given the relatively small number of RIAs that formed this high-risk group, it is difficult to define them reliably, but some broad tendencies can be noted. In terms of firm type, RIAs in the high-risk group were slightly more likely to work in an IFA – DA or IFA – AR firm (5% across all IFAs) and significantly less likely to work in a B/ BS (1%). Similarly, only 1% of RIAs in firms with 500 or more RIAs had two or more papers left to sit, as Table 6.11 shows.

[38] The group excludes the 3% of RIAs who did not intend to take an AQ and the 1% who were undecided: these groups are examined in Sections 6.6 and 6.7.

Table 6.11 RIAs with two or more papers to complete, by selected firm type and size

All RIAs, by firm type and size (column percentages)	IFA – DA	IFA – AR	B/BS	1-19	20+	500+	Total
2 or more papers left	*4*	*5*	1	*4*	*2*	1	3
All RIAs studying	9	*6*	*3*	9	4	3	6

B1 Do you already hold at least one AQ listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B6 What plans, if any, have you made to attain an AQ? Of the following, which best describes your situation? B10b How many modules/ exams do you have left to successfully complete? Base 2012: All (1,436); IFA – DA (542), IFA – AR (114), B/BS (137); 1-19 (655), 20+ (781), 500+ (102)

RIAs in this group were more likely – although not significantly so – to earn less than £40,000 a year from their individual retail investment business (7% of RIAs in this income bracket were high risk). They also tended to advise fewer retail clients (5% had advised fewer than 50 retail clients in the last 12 months) and had a higher proportion of lower value retail clients (5% of RIAs with at least a third of their retail clients with savings and investments worth less than £20,000 were high risk). These findings are shown in Table 6.12.

Table 6.12 RIAs with two or more papers to complete, by selected categories

All RIAs, by income, number of clients and type of client (column percentages)	Earn up to £40k	Earn >£40k	<50 retail clients	50+ retail clients	Over 1/3 of retail clients with savings & investments of <£20k	Over 1/3 of retail clients with savings & investments of £250k+	Total
2 or more papers left	7	*2*	5	*2*	*5*	1	3
All RIAs studying	12	*4*	9	*5*	*8*	3	6

B1 Do you already hold at least one AQ listed in the FSA Handbook so that you will continue to be able to advise on retail investment products after 31 December 2012? B6 What plans, if any, have you made to attain an AQ? Of the following, which best describes your situation? B10b How many modules/ exams do you have left to successfully complete? Base 2012: All (1,436); up to £40k (238), >£40k (892), < 50 clients (654), 50+ clients (744), <£20k clients (113), £250k clients (317)

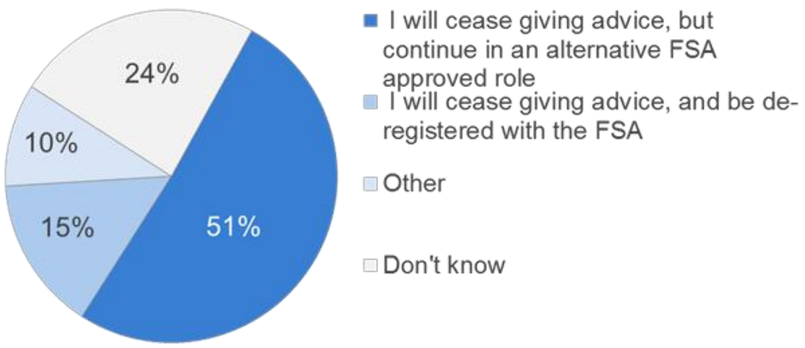
Even within this small high-risk group, two thirds of RIAs said that they still expected to attain a Level 4 qualification by December 2012. Around a quarter expected to complete after the deadline, while around one in ten “did not know” when they would complete.

6.5 Intentions of those who may not attain a Level 4 qualification by the deadline

RIAs who were awaiting results on their final papers or who were still studying, and who were not subject to the 30-month rule, were asked what they would do, after 31 December 2012, if they were unable to attain a Level 4 qualification on time. These RIAs were around 2,800 in number.

As shown in Figure 6.7, around half of these RIAs (51%) would expect to cease giving advice if they did not meet the deadline, but would continue in an alternative FSA approved role. A further 15% would anticipate de-registering with the FSA altogether. Advisers may decide to take these two actions on a temporary basis (until they do attain an AQ) or on a permanent basis. The 10% of RIAs who gave an “other” intention typically insisted that they would complete their Level 4 qualification before the December deadline. Twenty-four per cent of the RIAs did not know what they would do, should they not complete on time.

Figure 6.7 Intentions of RIAs not subject to 30-month rule, if they do not achieve their Level 4 qualification by 31 December



C7 You mentioned that you don’t think you will complete your level 4 qualification by 31 December 2012. What do you intend to do from this date while you complete this qualification? If you do not complete your Level 4 qualification by 31 December 2012, what do you intend to do from this date while you complete this qualification? Base: All competent on/ before 30/06/12 and who are studying/ awaiting results (85)

6.6 RIAs undecided about taking a Level 4 qualification

Only 1% of RIAs (c. 300) were unsure whether or not to take a Level 4 qualification. This indecision was somewhat linked to firm size: 2% of RIAs in smaller firms were in this group, compared with less than half a per cent of RIAs in firms with 20 RIAs or more.

A total of 6% of RIAs who were not members of a professional body were also uncertain, compared with fewer than half a per cent of those who were members, reflecting the lower commitment to RDR Professionalism that has been noted among non-members elsewhere in this report.

RIAs undecided about taking a Level 4 qualification tended to advise fewer retail clients: no RIA that had advised 50 or more retail clients in the previous 12 months was undecided.

6.7 RIAs not intending to take a Level 4 qualification

Three per cent of RIAs (c. 1,000) did not intend to take a Level 4 qualification. Almost all (90%) of these were leavers (either retiring as planned or early leavers). The others were unsure as to their intention to remain in the industry after 2012.

A significantly higher proportion of RIAs in firms with fewer than 20 RIAs had decided not to take a qualification (4%, compared with 2% in firms with 20 or more RIAs). Correspondingly, 4% of RIAs in both IFA – DA and IFA – AR firms were not intending to take a Level 4 qualification, compared with just 1% in B/BS.

Membership of a professional body was again a factor, with 16% of non-members intending not to take a Level 4 qualification.

Finally, age also appeared to play a major role: 11% of all RIAs aged 60 or above were not intending to take a qualification, compared with just 1% of those aged 35-50.

6.8 Summary and conclusions

As at summer 2012, 86% of RIAs held a Level 4 qualification regardless of gap-fill, with a further 4% awaiting results on their final paper. This was very much in line with predictions made by RIAs in summer 2011 regarding their attainment dates.

RIAs' apparent accuracy in predicting their attainment dates in 2011 also gives us confidence that their summer 2012 predictions that 94% of all RIAs would attain their Level 4 qualification by December 2012, with a further 2% completing after December 2012, were also accurate. Around half of the 2% completing after December 2012 were either subject to the 30-month rule or intended to leave the industry after 31 December 2012. If we exclude both of these groups, just 1% of all RIAs (c. 400 RIAs) needing to meet the deadline still expected to complete after December. This group of advisers will be in a position where their firm will need to withdraw their status and re-apply to the FSA when the RIA has completed their qualification.

We have recognised that, despite RIA confidence in completion on time, slippage is possible in the study timetable and/ or caused by a need to re-take failed papers. We have defined 3% of RIAs (c. 1,000) as being 'high risk', because they had two or more papers of their qualification left to complete and were not subject to the 30-month rule.

Overall 16% of RIAs were qualified above Level 4 – the vast majority of these to Level 6. RIAs in EBC and WM firms were most likely to be qualified above Level 4, particularly those with higher value clients, and those that earned a relatively high sum from their retail investment business.

7 Progress towards attaining gap-fill

Under the Professionalism standards of the Retail Distribution Review (RDR), the Financial Services Authority (FSA) has stipulated that the minimum required Appropriate Qualification (AQ) level is Level 4, and has also stipulated which qualifications at Level 4 and above are deemed to be AQs for the purposes of the RDR.

For some 'legacy' Level 4 qualifications, Retail Investment Advisers (RIAs) may need to undertake 'gap-fill' to plug the gaps between their qualification and the modernised qualification standard. This gap-fill consists of additional structured Continuing Professional Development (CPD), which need not be by examination, which, for RIAs not subject to the 30-month rule, must have been completed and independently verified by an accredited body by 31 December 2012.

If an adviser holds a Level 4 qualification that requires gap-fill, but has not yet completed gap-fill, they are not deemed to hold an AQ, and so are not deemed to be RDR-ready and able to advise.

The FSA has published guidelines for qualification gap-fill in the form of a template[39] that sets out learning points as potential knowledge gaps.

This chapter examines RIAs' progress towards completing their AQ, including these gap-fill requirements.[40]

7.1 Gap-fill status

Overall 76% of RIAs were fully qualified as at summer 2012, in that that they held a Level 4 qualification and had either completed gap-fill (just under 54%), or their qualification did not require gap-fill (just under 23%, totalling 76% after rounding). Of the remainder:

- 10% of RIAs held a Level 4 qualification but still needed to complete gap-fill.
- 8% did not yet hold a Level 4 qualification but the qualification they were working towards did not need gap-fill or they had completed it already.
- 2% did not yet hold a Level 4 qualification but the qualification they were working towards did require gap-fill *and* they needed to fulfil these gap-fill requirements.
- The remaining RIAs were those identified in Section 6.1 as either not taking an AQ (3%) or unsure of their intentions (1%).

---

[39] See the FSA Handbook http://fsahandbook.info/FSA/html/handbook/TC/App/7.

[40] In this Chapter we do not compare the summer 2012 results with those of the 2011 RDR survey. In 2012, the specific qualifications that RIAs told us that they held have been validated as needing gap-fill or not against information in the FSA Handbook: thus we can be confident in the results obtained. In 2011, we were reliant upon RIAs' self-reported classification as to whether they held, or were studying for, a Level 4 qualification requiring gap-fill.

This information is broken down in more detail in Table 7.1. In sum, 12% of all RIAs still needed to complete gap-fill.[41]

Table 7.1 Gap-fill status

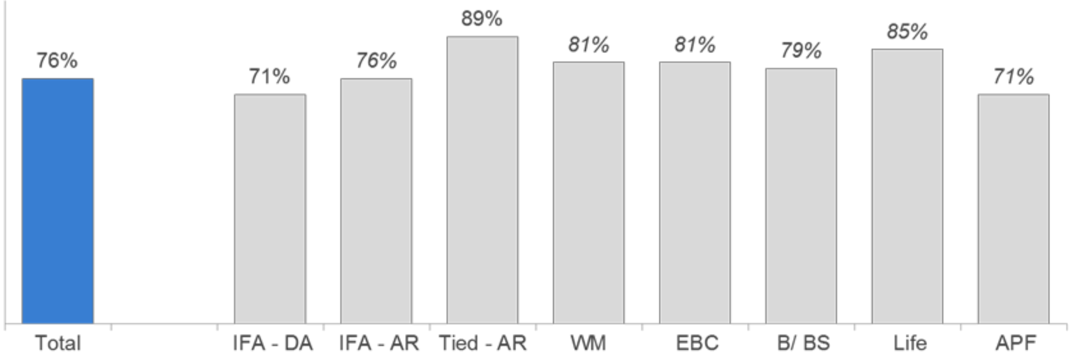
Gap-fill status of all RIAs (column percentages; Categories where gap-fill must still be completed denoted by ‡)		
Qualification status	**Gap-fill status**	
Hold Level 4 and any gap-fill is completed …	… qualification does not require gap-fill	23
	… completed gap-fill	54
Hold Level 4 but not completed gap-fill…	… gap-fill required and started ‡	8
	… gap-fill required but not started yet ‡	1
	… gap-fill required but didn't know gap-fill was needed ‡	*
Awaiting result for final paper/ studying/ plan to begin...	… and qualification does not require gap-fill	8
	… completed gap-fill	1
	… gap-fill required and started ‡	2
	… gap-fill required but didn't know gap-fill was needed ‡	*
Unsure of intention		1
Intending not to take qualification		3

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification? C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436)

Qualification status including gap-fill differed by firm type, as shown in Figure 7.1. RIAs in Tied – AR firms were furthest ahead in qualification (89%), while only 71% of RIAs in IFA – DA firms were fully qualified.

[41] Note that in this section, as in most sections of this report, results are rounded to the nearest 1%. Consequently individual figures may not sum exactly, as a result of this rounding.

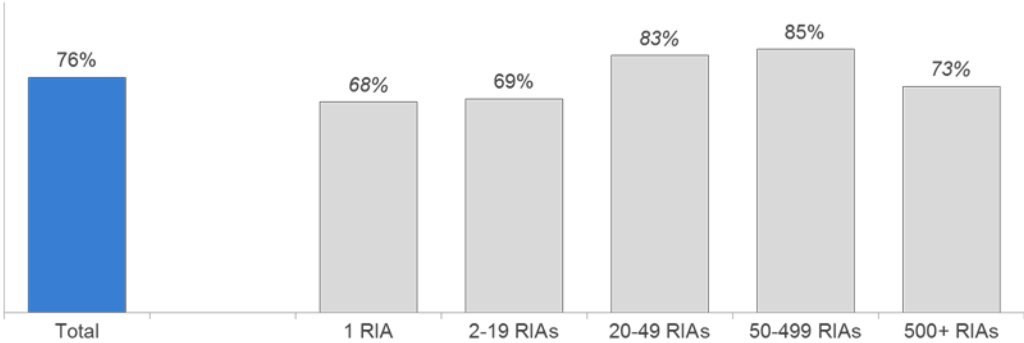
Figure 7.1 Fully qualified RIAs, by firm type



B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification? C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Given that RIAs in Tied – AR firms were furthest ahead, and RIAs in IFA – DA firms furthest behind in terms of achieving full qualification, it is perhaps not surprising that RIAs in firms with greater numbers of advisers, particularly firms with 50 to 499 RIAs, were further ahead in becoming fully qualified (85%), than RIAs in smaller firms of two to 19 RIAs (69%) and single RIA firms (68%). These differences by firm size are shown in Figure 7.1 below.

Figure 7.2 Fully qualified RIAs, by firm size



B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification?C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you- are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436); 1 (141), 2-19 (514), 20-49 (125), 50-499 (554), 500+ (102)

Several other factors appeared to impact upon whether RIAs were fully qualified as at summer 2012. Age, shown in Table 7.2, was an important factor, with less than half (49%) in the 60 plus group having completed a Level 4 qualification including gap-fill, compared with over three-quarters of RIAs in the other age groups.

Table 7.2 Fully qualified RIAs, by age

All RIAs, by age (column percentages)

	18-29	**30-49**	**50-59**	**60+**	**Total**
Hold Level 4 qualification with gap-fill	*75*	81	*78*	49	76

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification?C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you- are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436); 18-29 (55), 30-49 (799), 50-59 (424), 60+ (128)

Eighty per cent of RIAs who were members of a professional body were fully qualified, in contrast to 44% of RIAs who were non-members, in line with the findings we have shown elsewhere in this report.

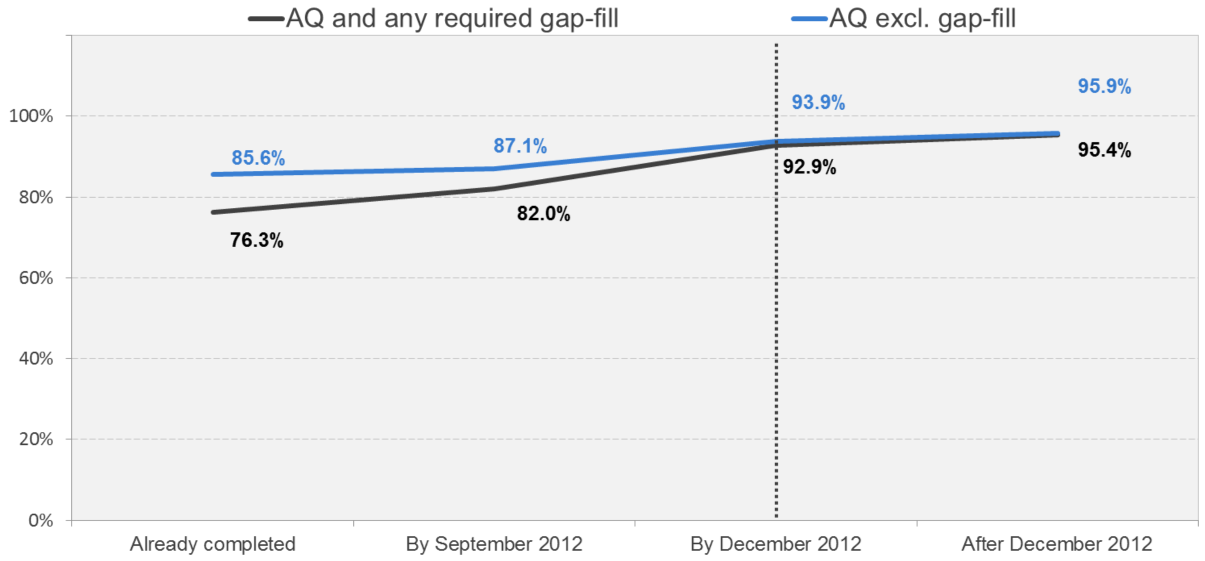
Eighty-four per cent of RIAs who said they were *definitely* remaining an RIA after 31 December had completed a Level 4 qualification and any necessary gap-fill; only 62% of RIAs *likely* to remain in the role were fully qualified, suggesting that this latter group were hesitant to commit to meeting all the new requirements. Only 43% of early leavers were fully qualified.

Finally, RIAs earning less were less likely to be fully qualified, with only three-fifths (60%) of RIAs earning £40,000 or less a year from retail investment business having completed a qualification including gap-fill, compared with 81% of those earning more than £125,000.

7.2 Projected completion date for AQ, including gap-fill requirements

Based on their summer 2012 plans, 92.9% of RIAs expected to be fully qualified – i.e. have completed all Level 4 qualification examinations and any required gap-fill – by 31 December 2012. This is closely in line with the percentage expecting to have attained a Level 4 qualification regardless of gap-fill by that date (93.9%). This is despite an almost ten percentage point difference between the two in summer 2012. Figure 7.3 shows that gap-fill completion is expected to ‘catch up’ with Level 4 attainment by 31 December 2012 (in Figure 7.3, percentages are shown to one decimal place, to allow very close figures to be compared).

Figure 7.3 Predicted date of Level 4 qualification, including and excluding any required gap-fill



B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification? C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436). Results in this figure shown to one decimal place to aid comparison between results.

RIAs in larger firms were significantly more optimistic about completing their AQ including any required gap-fill by December 2012 than those in smaller firms (96% in firms with 20 RIAs or more, compared with 89% in firms with one to 19 RIAs). The most optimistic RIAs were those in Tied – AR (98%), EBC (98%) and WM (95%) firms. RIAs in IFA – DA firms (90%) were least confident about completing their AQ and any required gap-fill by the December deadline.

Table 7.3 projects the number of RIAs expected to attain a Level 4 qualification, and to complete their AQ including any required gap-fill, *after* December 2012. In total, 700 RIAs expected to attain their Level 4 qualification after December 2012, increasing to 900 after the requirement to complete gap-fill is taken into account. If we exclude those subject to the 30-month rule, 400 RIAs expected to attain their Level 4 qualification after December 2012, increasing to 600 after completion of gap-fill is taken into account. Finally, if we also exclude leavers, 400 of the remaining RIAs expected to attain their Level 4 qualification after December 2012, increasing to 500 after completion of gap-fill is taken into account. If this situation is realised, the firms employing these 500 RIAs will need to withdraw their approved person status until they are qualified.[42]

Table 7.3 Number and percentage of all RIAs likely to attain Level 4, and to complete AQ and any gap-fill, after December 2012

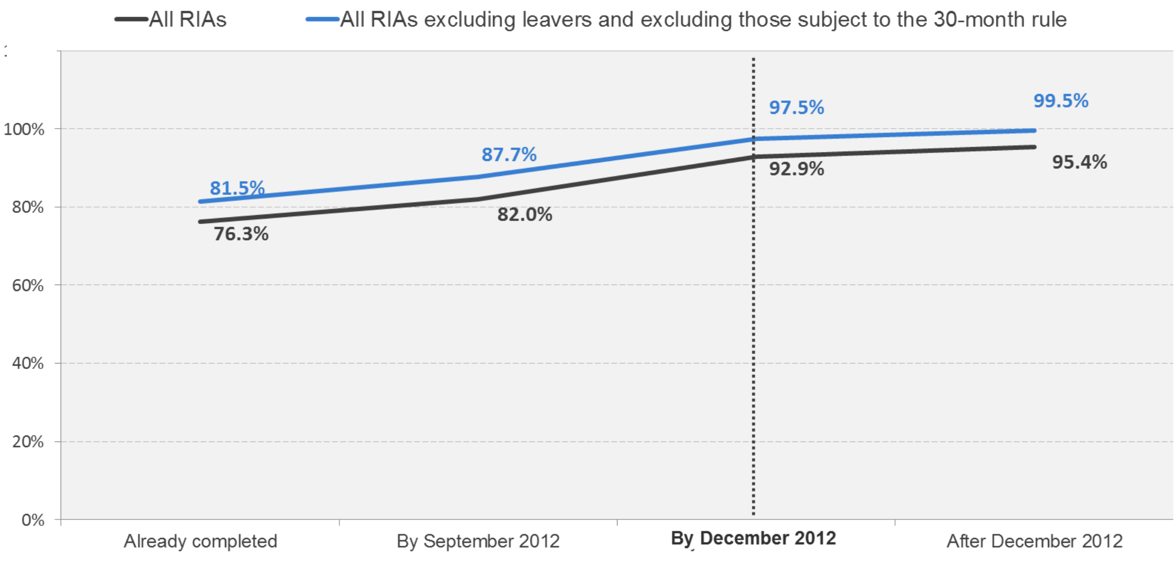
All RIAs (absolute numbers (total percentages))			
	All RIAs	**Not subject to 30-month rule**	**Not subject to 30-month rule & not leaver**
Will attain Level 4 after Dec 2012	700 (2.0%)	400 (1.2%)	400 (1.0%)
Will complete AQ incl. any required gap-fill after Dec 2012	900 (2.5%)	600 (1.5%)	500 (1.3%)

B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification? C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436)

In Figure 7.4, the blue line shows the predicted date of completion of a Level 4 qualification including any required gap-fill, this time calculated as a percentage of all RIAs excluding leavers and those subject to the 30-month rule. By December 2012 almost all RIAs (97.5%) that needed to be fully qualified expected to be so, with 99.5% expecting to become qualified eventually and just half of one per cent (0.5%, or 100 advisers) unsure as to when they would complete.

[42] If single RIA firms did not qualify by the deadline, an entire firm would effectively need to be de-registered. However, less than 1% of RIAs in single RIA firms (<100 RIAs) needed to qualify by December 2012 but expected to qualify after this date.

Figure 7.4 Predicted date of Level 4 qualification attainment including gap-fill, for all RIAs, and for all excluding leavers and those subject to the 30-month rule

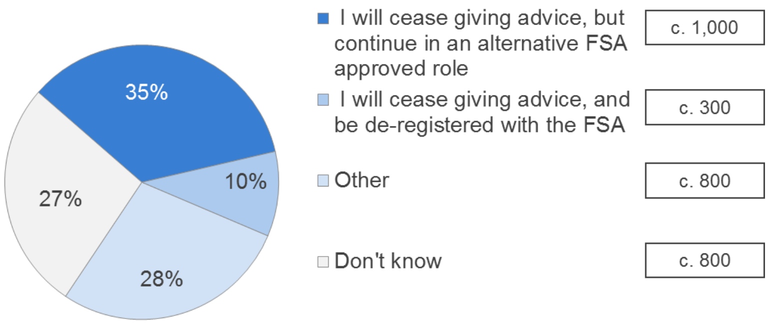


B2 Of the following qualification providers, with which one or ones do you hold an Appropriate Qualification? C1a/b Does the Appropriate Qualification for which you are awaiting results for the final paper/ that you hold require gap-fill? C2 The following qualification that you hold/ for which you are awaiting results for the final paper/ that you are studying towards/ that you are planning to study towards requires gap-fill. Which of the following best describes your position with regard to gap-fill for this Appropriate Qualification? Base: All RIAs (1,436); all excl. leavers and those subject to the 30-month rule (1,198). Results in this figure shown to one decimal place to aid comparison between results.

7.3 Intentions of those who may not complete gap-fill by the deadline

RIAs yet to complete gap-fill were asked what they would do, after 31 December 2012, if they were unable to complete their gap-fill requirements on time. Figure 7.5 shows that a third (35%) of these RIAs expected to continue in an alternative FSA role, with a further 10% saying they would de-register with the FSA while they completed their studies. A high proportion (55%) was, however, either uncertain about what they would do if they did not complete their gap-fill on time or gave an ‘other’ answer, in the main insisting that they *would* complete by 31 December 2012.

Figure 7.5 Intentions of RIAs still to complete gap-fill, if they do not do so by 31 December



C8 You mentioned that you don't think you will complete your gap fill requirements by 31 December 2012, what do you intend to do from this date while you complete this? If you do not complete your gap-fill requirements by 31 December 2012, what do you intend to do between this date and gap-fill completion? Base: All competent on/ before 30/06/12 and requiring gap-fill (112)

7.4 Summary and conclusions

Overall, by summer 2012, 76% of RIAs were fully qualified, i.e. they held a Level 4 qualification and had either completed gap-fill, or their qualification did not require gap-fill.

By 31 December 2012, 93% of RIAs expected to be fully qualified – i.e. have completed all Level 4 qualification examinations and any required gap-fill. This is closely in line with the percentage expecting to have attained a Level 4 qualification regardless of gap-fill by that date (94%). In effect, gap-fill completion was expected to 'catch up' with Level 4 attainment by 31 December 2012.

We believe the findings show that progress towards completing gap-fill was reliably 'on track'. In practice it should be noted that it would be very unlikely for an RIA to fail to complete gap-fill, since this is generally achieved through attendance at a course or through some other form of structured learning; non-completion might be caused by an RIA failing, for whatever reason, to attend for the necessary full day.

8 Continuing Professional Development

From 31 December 2012 the Retail Distribution Review (RDR) requires all Retail Investment Advisers (RIAs) to engage in at least 35 hours of Continuing Professional Development (CPD) annually, of which at least 21 hours has to be ‘structured’ CPD.

All RIAs were asked, as part of the survey, how many hours of structured and unstructured CPD they had completed in the previous 12 months, and how much they planned to do after 31 December 2012. They were not told specifically about these new RDR requirements prior to answering these questions.

This chapter analyses how much CPD RIAs conducted in the year to summer 2012 when our survey was conducted, and how much CPD had been planned for after the RDR rules came into force on 31 December 2012.

8.1 CPD completed in the year to summer 2012

Two-thirds (66%) of all RIAs had, in the year to summer 2012, completed 21 or more hours of structured CPD and 35 or more hours of total CPD, the minimum that is now required under the RDR. RIAs who already held a Level 4 qualification were more likely to have completed the minimum CPD hours: 69% had done so, compared with only 50% of RIAs who did not hold a Level 4 qualification. This is shown in Table 8.1. Twelve per cent of RIAs indicated that they were not meeting RDR requirements, albeit that these were not yet in force, while over a fifth (22%) could not estimate the number of hours they had spent on CPD.

Table 8.1 CPD completed in year to summer 2012, by qualification status

All RIAs, by Level 4 qualification status (column percentages)			
	Hold Level 4	**Do not hold Level 4**	**Total**
Completed 21 or more hours of structured CPD and 35 or more hours of total CPD	69	50	66
Completed 21 or more hours of structured CPD but less than 35 hours of total CPD	*	7	1
Completed 35 or more hours of total CPD but less than 21 hours of structured CPD	*7*	*8*	7
Not completed either 21 or more hours of structured CPD or 35 or more hours of total CPD	3	8	4
Don't know how many hours have been spent on CPD	*21*	*27*	22

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs (1,436); Hold Level 4 (1,256), do not hold Level 4 (180)

Although we cannot draw any firm conclusions about those RIAs unable to estimate time spent on CPD, it is likely that at least a proportion of them had completed the minimum required number of hours, and that the figure of 66% underestimates the proportion of RIAs who had completed the minimum in the year to summer 2012.

Since summer 2011, there had been an increase in the proportion of RIAs completing the required CPD hours under the RDR: from 58% to 66% in 2012, as illustrated in Table 8.2. This could be explained partially by RIAs allocating some of their CPD hours to studying for a Level 4 qualification or to gap-fill.

Table 8.2 CPD hours completed in the year to summer 2011 and to summer 2012

All RIAs, by survey wave (column percentages)		
	2011	**2012**
Completed 21 or more hours of structured CPD and 35 or more hours of total CPD	58	66

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs 2011 (1,042); All RIAs 2012 (1,436)

Table 8.3 shows some minor differences by firm type in regards to the amount of CPD conducted, with RIAs in B/BS firms (55%) less likely to have completed the required minimum under the RDR compared with the average of 66% overall. RIAs in B/BS firms were also more likely not to know how many hours they had spent on CPD (35% compared with 22% overall). In contrast, 75% of RIAs from IFA – DA firms had already been conducting the required minimum of CPD hours, with only 13% unable to estimate the amount of hours spent on CPD.

Table 8.3 CPD completed in year to summer 2012, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Completed 21 or more hours of structured CPD and 35 or more hours of total CPD	75	*63*	*54*	*65*	*71*	55	*[59]*	*72*	66
Completed less than the required minimum	*12*	*15*	*11*	*12*	*13*	*10*	*[26]*	*17*	12
Don't know how many hours have been spent on CPD	13	*22*	34	*22*	*16*	35	*15*	11	22

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

The differences in the amount of CPD conducted were more pronounced between RIAs working in different sizes of firm, as shown in Table 8.4. RIAs in smaller firms, including single RIA firms, were more likely to have completed the required minimum CPD hours, with 75% having done so, compared with only 48% of RIAs in the largest firms. Additionally, 43% of RIAs in the largest firms were unable to estimate the number of hours spent on CPD in the previous 12 months. This could mean that RIAs working in the largest firms, such as B/BS, relied more on their employers to guide them through CPD requirements and were less aware both of the requirements and of their own CPD activity.

Table 8.4 CPD completed in year to summer 2012, by firm size

All RIAs, by firm size (column percentages)							
	1	**2 to 9**	**10 to 19**	**20 to 49**	**50 to 499**	**500+**	**Total**
Completed 21 or more hours of structured CPD and 35 or more hours of total CPD	75	76	75	*63*	*62*	48	66
Completed less than the required minimum	*16*	*12*	*11*	*12*	*13*	*10*	12
Don't know how many hours have been spent on CPD	9	12	14	*25*	*25*	43	22

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs (1,436); 1 (141), 2 to 9 (280), 10 to 19 (234), 20 to 49 (125), 50 to 499 (554), 500+ (102)

Table 8.5 illustrates the breakdown of hours spent on structured and unstructured CPD in the previous 12 months. RIAs able to estimate their CPD hours had spent, on average, 59 hours on structured and 43 hours on unstructured CPD in the previous 12 months.

Table 8.5 Breakdown of CPD hours spent over the last 12 months

All RIAs (column percentages)		
		Total
Structured hours spent (mean 59)	None	1
	1-20	11
	21-40	31
	41-100	28
	Over 100	9
	Don't know	22
Unstructured hours spent (mean 43)	None	4
	1-20	26
	21-40	24
	41-100	19
	Over 100	5
	Don't know	22

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs (1,436)

There is a great deal of variation between RIAs in terms of the number of hours completed, with a minority (9%) having completed over 100 hours of structured CPD over the past year. Table 8.6 shows that the average number of structured and unstructured CPD hours had fallen in 2012 compared with 2011. In total, the year on year reduction was equivalent to 21 hours of CPD.

Table 8.6 CPD completed in year to summer 2011 and summer 2012

All RIAs, by survey wave (mean)		
	2011	**2012**
Structured hours spent	72	59
Unstructured hours spent	49	43
Total hours	122	101

D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? Base: All RIAs 2011 (783) excl. don't knows (259); All RIAs 2012 (1,152) excl. don't knows (284).

The results shown in Table 8.6 have interesting implications. Table 8.2 showed that the proportion of RIAs completing the *minimum* required amount of CPD had increased from 58% to 66%. Nevertheless, the average amount of hours spent had fallen, suggesting that RIAs might now be aiming to conduct only the minimum required number of CPD hours, rather than go beyond it. This may also, however, reflect advisers attributing qualification study to their CPD activity in 2012.

8.2 Annual CPD planned post-December 2012

All RIAs, other than those not taking an AQ, were asked how many hours of CPD they expected to complete annually after 31 December 2012.

While two-thirds (66%) of RIAs had completed the required minimum of CPD hours in the 12 months to summer 2012, a slightly smaller proportion (63%) also planned to do so after 31 December 2012. Ten per cent indicated they would be doing less than the required amount, while over a quarter (27%) could not estimate

Table 8.7 shows the breakdown of intentions after 31 December 2012. Once again, RIAs who already held a Level 4 qualification were more likely to expect to complete the minimum CPD hours: 65% expected to do so, compared with only 50% of RIAs who were not Level 4 qualified.

Table 8.7 Expected CPD to be completed annually after 31 December 2012, by qualification status

All RIAs except those not taking an AQ, by Level 4 qualification status (column percentages)

	Hold Level 4	**Do not hold Level 4**	**Total**
Plan to complete 21 or more hours of structured CPD and 35 or more hours of total CPD	65	50	63
Plan to complete 21 or more hours of structured CPD but less than 35 hours of total CPD	*1*	*0*	1
Plan to complete 35 or more hours of total CPD but less than 21 hours of structured CPD	*5*	*4*	5
Plan not to complete either 21 or more hours of structured CPD or 35 or more hours of total CPD	2	20	4
Don't know how many hours will be spent	*28*	*25*	27

D1b and D1c Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) do you plan to complete each year after 31 December 2012? Base: All RIAs, except those not taking AQ (1,397); Hold Level 4 (1,256), do not hold Level 4 (141)

There were, again, differences by firm type and size, as Table 8.8 shows. RIAs working in B/BS firms were less likely than RIAs in other types of firm to plan to complete the minimum required CPD hours after 31 December 2012. This was consistent with the hours completed in the previous 12 months. RIAs from Tied – AR and WM firms were also less likely to comply, with only 50% and 52% respectively expecting to do so. RIAs in IFA – DA and APF firms were more likely than average to expect to meet the required CPD minimum after 31 December 2012.

Table 8.8 Expected CPD to be completed annually after 31 December 2012, by firm type

All RIAs except those not taking an AQ, by firm type (column percentages)

	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	Total
Plan to complete 21 or more hours of structured CPD and 35 or more hours of total CPD	75	*62*	50	52	*76*	45	*[69]*	75	63
Plan to complete less than the required minimum	*9*	*12*	*8*	*10*	2	*11*	*[18]*	*13*	10
Don't know how many hours will be spent	16	*26*	42	38	*22*	44	*[13]*	12	27

D1b and D1c Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) do you plan to complete each year after 31 December 2012? Base: All RIAs, except those not taking AQ (1,397); IFA – DA (523), IFA – AR (110), Tied – AR (96), WM (323), EBC (63), B/BS (136), Life (36), APF (110)

As Table 8.9 illustrates, RIAs working in smaller firms were more likely to estimate that they would do the required minimum of CPD hours after 31 December 2012 (75%, compared with 53% of RIAs in larger firms), once again in line with current practice.

Table 8.9 Expected CPD to be completed annually after 31 December 2012, by firm size

All RIAs except those not taking an AQ, by firm size (column percentages)

	1-19 RIAs	**20+ RIAs**	**Total**
Plan to complete 21 or more hours of structured CPD and 35 or more hours of total CPD	75	53	63
Plan to complete less than the required minimum	*10*	*10*	10
Don't know how many hours will be spent	15	37	27

D1b and D1c Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) do you plan to complete each year after 31 December 2012? Base: All RIAs, except those not taking AQ (1,397); 1-19 RIAs (626), 20+ RIAs (771)

Table 8.10 shows the breakdown of structured and unstructured CPD hours that RIAs expected to complete after 31 December 2012. On average, where RIAs were able to predict their planned number of hours of CPD, they anticipated completing more than the required minimum, at 42 hours of structured and 37 hours of unstructured CPD.

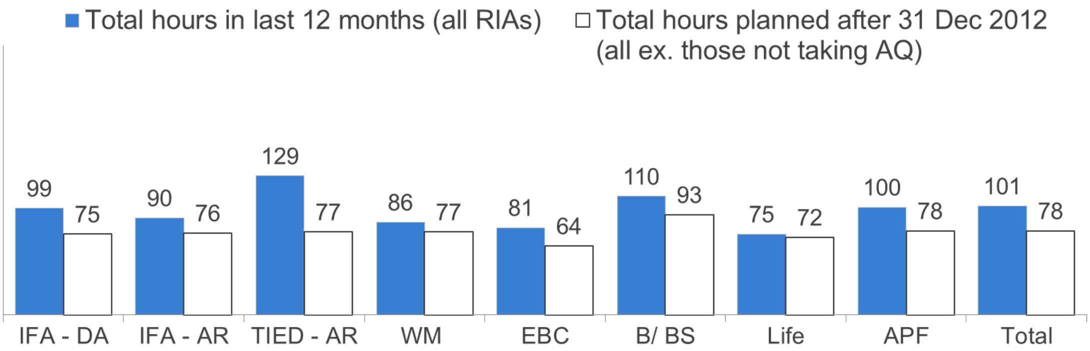
Table 8.10 Breakdown of CPD hours expected to be completed after 31 December 2012

All RIAs except those not taking an AQ (column percentages)		
		Total
	None	1
	1-20	6
	21-40	43
	41-100	20
Structured hours spent	Over 100	2
(mean 42)	Don't know	28
	None	2
	1-20	29
	21-40	23
	41-100	15
Unstructured hours spent	Over 100	3
(mean 37)	Don't know	28

D1b and D1c Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) do you plan to complete each year after 31 December 2012? Base: All RIAs, except those not taking AQ (1,397)

It is notable, in particular, that the proportion of RIAs expecting to complete over 100 hours over the next year is just 2%, compared to the 9% of RIAs who completed over 100 hours in the previous year. This implies that after 2012 many RIAs intended to scale back the total number of hours spent on CPD. Figure 8.1 summarises this information, breaking down total hours by firm type. At total population level, RIAs expected to complete 23 fewer hours of total CPD on average after 2012. This reduction was evident across all firm types. RIAs from Tied – AR firms expected to scale back the most, with an average fall of 52 hours.

Figure 8.1 Mean number of CPD hours spent in last 12 months, and mean predicted number of CPD hours to be spent after 31 December 2012



D1 and D1a Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) have you completed in the last 12 months? D1b and D1c Approximately how many hours of structured and unstructured CPD (Continuing Professional Development) do you plan to do each year after 31 December 2012? Base: All RIAs (1,152) excl. don't knows (284), IFA – DA (467) excl. don't knows (75), IFA – AR (89) excl. don't knows (25), Tied – AR (64) excl. don't knows (34), WM (254) excluding don't knows (73), EBC (53) excl. don't knows (10), B/BS (89) excl. don't knows (48), Life (33) excl. don't knows (6), APF (103) excl. don't knows (13); All RIAs except those not taking AQ (1,011) excl. don't knows (386), IFA – DA (425) excl. don't knows (98), IFA – AR (80) excl. don't knows (30), Tied – AR (55) excl. don't knows (41), WM (199) excl. don't knows (124), EBC (49) excl. don't knows (16), B/BS (76) excl. don't knows (60), Life (31) excl. don't knows (5), APF (96) excl. don't knows (14)

Of the RIAs able to state how many hours of CPD they did before December 2012 *and* how many they expected to do after 2012, 42% predicted that the hours of CPD that they would do after December 2012 would fall; a further 40% expected no change in the number of CPD hours completed from 2013, while 19% said they would do more CPD from 2013. A greater proportion of RIAs who were not already meeting the required minimum expected to do more CPD in 2013; in total, 49% of this subgroup expected to do so.

The RIAs who planned to conduct fewer CPD hours after 2012 were asked the reasons for this reduction. As Table 8.11 shows, the vast majority (87%) of these RIAs said they would reduce the number of CPD hours because their exams and gap-fill activity would have been completed and so they would not need to spend the same number of hours studying. Almost one in five (19%) of these RIAs said they would reduce the number of CPD hours in order to focus on growing their business.

Table 8.11 Reasons for reducing the number of CPD hours after 31 December 2012

All RIAs planning to do less CPD
(column percentages, multiple answers possible)

	Total
Gap-fill or exams will be completed by then/ I won't need to study as much	87
I will focus more on growing my business	19
I won't have time to do more CPD	7
I expect to leave the industry/ retire	2
Other	6

D1d Why are you planning to do less CPD after 31 December 2012? Base: All planning to do less CPD after 31 December 2012 (381)

RIAs tended to describe 2012 as an 'unusual' year in terms of CPD, as they had spent additional hours on studying for their Level 4 qualifications:

> *'I have completed my gap-fill during the last year and two exams. No exams next year.'*
>
> APF

> *'My previous unstructured CPD study was in excess, as I included study for exams to meet the RDR requirements.'*
>
> IFA – DA

8.3 How records of CPD are kept

Keeping records of CPD hours and of the activities that contributed to them is a requirement under the RDR. Each year, at least 10% of RIAs will have their CPD records checked by an accredited body. As well as attaining an AQ and complying with ethical standards, advisers will have to declare that they have completed their CPD to receive their annual Statement of Professional Standing (SPS).

Almost all of the RIAs (99%) who were able to specify their CPD hours said they kept a record of their CPD activities. The three most common ways of keeping a record were:

- Using a log provided by the employer (36%).
- Using the RIA's own log (24%).
- Using a log provided by a professional body (23%).

The way in which the CPD records were kept broadly aligned with firm size and type, as shown in Table 8.12. RIAs working in larger firms, in particular EBC, B/BS and Tied – AR firms, were more likely to use logs provided by their employers, while RIAs in smaller firms, such as IFA – DA or APF firms, tended to maintain their own logs. RIAs working in IFA – AR firms were more likely to use CPD logs provided by their network.

Table 8.12 Ways in which CPD records were kept, by firm type and size

All RIAs able to specify the numbers of CPD hours spent, by firm type and firm size (column percentages)

	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	1-19	20+	Total
Use log or system provided by employer	26	21	66	22	68	67	*[76]*	23	22	49	36
Maintain own paper based/ electronic log	39	14	6	8	*13*	6	*[15]*	49	41	9	24
Use log or system provided by professional body	*22*	*20*	6	65	*15*	*18*	*[6]*	*23*	*25*	*21*	23
Use log or system provided by network	3	45	17	1	*0*	1	*[0]*	2	3	17	10
Use log or system provided by service provider	9	*0*	*2*	*3*	*2*	*2*	*[3]*	1	10	1	5
Other	*	*0*	*0*	*0*	*0*	*0*	*[0]*	*2*	*1*	0	*
Don’t know	*0*	*0*	*0*	*	*2*	*0*	*0*	*0*	*0*	*	*
Don't keep a record	*0*	*0*	*3*	*0*	*0*	*6*	*[0]*	*0*	*0*	2	1

D2 Of the following, which best describes how you maintain a record of your CPD? Base: All RIAs able to specify hours (1,151); IFA – DA (466), IFA – AR (89), Tied – AR (64), WM (254), EBC (53), B/BS (89), Life (33), APF (103); 1-19 (574), 20+ (577)

8.4 Outcomes-focused CPD

The RDR also required advisers to document the learning outcomes of their CPD so that its contribution to the development of an RIA’s knowledge and skills could be demonstrated. As Table 8.13 shows, 81% of RIAs said they were already carrying out outcomes-focused CPD, which represented a 17 percentage point increase from 2011. There were no significant differences by firm type or size.

Table 8.13 Incidence of outcomes-focused CPD, by firm type

All RIAs who were able to specify CPD hours, by firm type (column percentages)

	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/ BS	Life	APF	Total
Already carry out outcomes-focused CPD	*84*	*85*	*75*	*80*	*72*	*73*	*82*	*80*	81
Do not already carry out outcomes-focused CPD	*13*	7	*14*	*11*	*25*	*21*	*12*	*18*	13
Don't know	4	*8*	*11*	*9*	*4*	*6*	*6*	*3*	6

D3 New rules from the FSA will mean that CPD must be outcomes-focused after 31 December 2012. Do you already carry out outcomes-focused CPD? Base: All RIAs able to specify hours of CPD carried out in last 12 months (1,151); IFA – DA (466), IFA – AR (89), Tied – AR (64), WM (254), EBC (53), B/BS (89), Life (33), APF (103)

RIAs who already held a Level 4 qualification were more likely to carry out outcomes-focused CPD: 82% did, compared with 72% of RIAs who did not hold a Level 4 qualification. This may suggest that the experience of attaining a Level 4 qualification has been aided by, or has led to, carrying out outcomes-focused CPD.

8.5 Summary and conclusions

Two-thirds (66%) of RIAs had completed both structured and unstructured hours of CPD over the year prior to summer 2012, either at or in excess of the minimum specified under the RDR. Only 12% indicated that they had not already been meeting RDR requirements, with the remaining 22% unable to estimate how many hours had been spent on CPD, perhaps a reflection of the fact that the post-RDR hour-based requirement was not yet in place in 2012.

The proportion completing the minimum hours had increased from 58% in 2011, largely because of the focus on exams and gap-fill activity. There had also been an increase in the proportion of RIAs carrying out outcomes-focused CPD.

Nonetheless, the RDR requirements for CPD did not begin until 31 December 2012 and it may therefore be a slight cause for concern that there was a predicted fall (from 66% to 63%) in the proportion of RIAs who expected to meet the minimum specified hours after 2012: in some firm types, particularly the largest, the proportion that expected to complete the minimum required number of hours was lower still: in B/BS firms, for example, just 45% of RIAs expected to complete the minimum after 2012.

It may be that RIAs working in these largest firms will be more reliant on their employer to guide them through CPD requirements, and so it may transpire that the hours that they complete prove to be greater than predicted. To ensure this is the case, the Financial Services Authority (FSA), accredited bodies, trade bodies and larger firms might wish to consider an increase in the level of communication around CPD, encouraging RIAs to meet the ongoing requirements under the RDR.

9 Awareness of and compliance with the Statements of Principle for Approved Persons (APER)

All approved persons, including retail investment advisers (RIAs) must meet certain standards of behaviour expected by the Financial Services Authority (FSA). These standards are set out in the Statements of Principle and Code of Practice for Approved Persons (APER) and include for example, the standards of acting with integrity and of acting with due skill care and diligence. To help approved persons understand FSA expectations a number of examples of behaviour that do not meet requirements are set out in APER. From 1 January 2011, some new examples of such behaviour were added, such as failing to take account of the interests of clients.

Under the Retail Distribution Review (RDR) each adviser must make an annual declaration that they have met the required standards of behaviour. This declaration, along with completing the correct Continuing Professional Development (CPD) and holding an appropriate qualification, will be verified independently each year by an accredited body who will issue the adviser with a Statement of Professional Standing (SPS). Firms must ensure that each of their advisers hold an SPS as evidence that they have met and continue to meet RDR Professionalism requirements.

This chapter explores awareness of and compliance with APER.

9.1 Awareness of the Statements of Principle for Approved Persons

In summer 2012, the vast majority of RIAs (94%) claimed to be aware of the APER Statements, an increase from 86% in 2011.

Overall, there were few significant differences by firm size or type, with two main exceptions. RIAs working in WM firms were more likely to be aware of APER (98%). RIAs that were part of a network (either in an IFA – AR or Tied – AR firm) were significantly less likely to be aware of the Statements. Table 9.1 illustrates this difference in awareness of the APER Statements by network membership. Ten per cent of RIAs in networks said they were not aware of the statements, suggesting that there may be issues regarding communicating these requirements to networked RIAs in a minority of cases.

Table 9.1 Awareness of Statements of Principle for Approved Persons, by network status

All RIAs (column percentages)			
	Network	**Not a network**	**Total**
Aware	90	96	94
Not aware	*4*	*2*	2
Don't know	*6*	*3*	4

E2 Are you aware of the four Statements of Principle for Approved Persons, to which advisers need to adhere? Base: All RIAs (1,436); Network (212), not a network (1,224)

Otherwise, RIAs' awareness of APER was relatively consistent across demographic and other groupings.

9.2 Compliance with the Statements of Principle for Approved Persons

All RIAs were shown the four APER Statements and asked whether they complied and whether they were able to provide evidence of their compliance.

Overall, the vast majority of RIAs (97%) felt they complied with the Statements – up slightly compared with 2011 (96%), and a substantial majority felt they were able to provide evidence of their compliance (81%, significantly up from 64% in summer 2011). Findings are shown in Table 9.2. There were few significant differences by firm type or size, with the following exceptions:

- RIAs working in B/BS were more likely to comply and be able to provide the evidence (89%).
- RIAs working in smaller firms were less likely to say they could provide evidence of their compliance (78%).
- Although not statistically significant, RIAs working in larger firms were more likely than those in smaller firms to say they complied and were able to provide evidence (83% compared with 78%), perhaps because RIAs in larger firms worked in an environment with more structured support from company compliance officers.

Table 9.2 RIAs' ability to provide evidence for Statements of Principle for Approved Persons, by firm type and size

All RIAs, by firm type and firm size (column percentages)											
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
Comply and can provide evidence of this	*78*	*82*	*77*	*79*	*79*	89	*[85]*	*73*	*78*	*83*	81
Comply, but can't provide evidence of this	19	*14*	*18*	*18*	*21*	7	*[8]*	*23*	19	13	16
Do not comply	*0*	*1*	*1*	*0*	*0*	*0*	*[0]*	*0*	*0*	*	*
Don't know	*1*	*2*	*3*	*1*	*0*	*4*	*[5]*	*3*	*1*	*3*	2
Prefer not to answer	*2*	*2*	*1*	*2*	*0*	*0*	*[3]*	*0*	*2*	*1*	1

E3 Of the following, which best describes how you comply with these 'Statements'? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116); 1-19 (655), 20+ (781)

Additionally, RIAs who were members of a professional body were more likely than non-members to say that they complied with APER and could provide evidence of their compliance: 82% compared with 70% of non-members.

9.3 Summary and conclusions

As in 2011, the vast majority of RIAs (94%) said they were aware of the APER Statements, and after being shown them, even more (97%) said that they complied with them.

The proportion of RIAs that said they would be able to provide evidence of their compliance had increased significantly since summer 2011 from 64% to 81%.

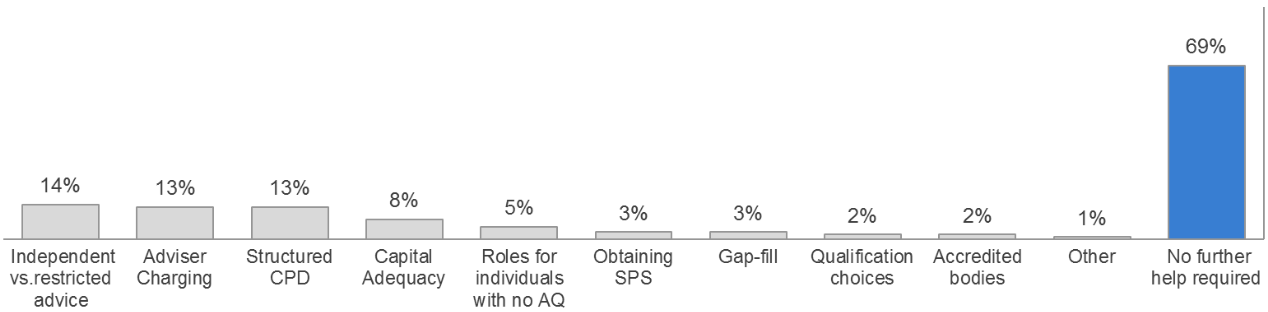
10 Clarification required on Professionalism and other aspects of the RDR

This chapter examines the proportion of Retail Investment Advisers (RIAs) needing clarification on selected aspects of the Retail Distribution Review (RDR) requirements. It also explores the sources of information that RIAs felt should provide that clarification.

10.1 Overview of clarification requirements

In summer 2012, around a third (31%) of RIAs required further clarification on one or more aspects of the RDR. As Figure 10.1 shows, the top three areas for clarification were: independent versus restricted advice, adviser charging and structured Continuing Professional Development (CPD).

Figure 10.1 Areas where clarification was needed on aspects of the RDR



G1 Do you need any clarification on meeting RDR requirements in any of the following areas? Base: All RIAs (1,436)

There were no significant differences with respect to the overall proportion requiring clarification across different firm sizes and types, with the one exception that RIAs from WM firms were the least likely to need any further clarification (20%, compared with 31% overall). Although not significantly different, RIAs in B/BS were more likely than others to require clarification in a number of areas, including adviser charging, obtaining a Statement of Professional Standing (SPS) and on qualification choices.

There were corresponding differences by firm size in terms of clarification required on specific elements of the RDR: in particular, RIAs from larger firms were more likely than RIAs from smaller firms to need clarification on adviser charging, obtaining an SPS and on qualification choices, as shown in Table 10.1.

Table 10.1 Selected aspects of RDR needing clarification, by firm type and size

	All RIAs, by firm type and firm size (column percentages)										
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
Independent vs. restricted advice	*14*	*22*	*8*	*9*	*8*	*10*	*[13]*	*15*	*14*	*14*	14
Adviser charging	10	*18*	*14*	6	*8*	*19*	*[13]*	*13*	10	16	13
Structured CPD	*12*	*16*	*14*	8	*6*	*15*	*[13]*	*11*	*12*	*14*	13
Obtaining an SPS	*2*	*3*	*1*	*4*	*2*	*7*	*[3]*	*4*	2	4	3
Qualification choices	1	*3*	*2*	*2*	*0*	*7*	*[0]*	*1*	1	4	2

G1 Do you need any clarification on meeting RDR requirements in any of the following areas? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116); 1-19 (655), 20+ (781)

RIAs' qualification status impacted their likelihood of needing further clarification. As Table 10.2 demonstrates, RIAs without a Level 4 qualification were more likely to seek clarification on many Professionalism-related aspects of the RDR, in particular on roles for individuals with no Appropriate Qualification (AQ), obtaining an SPS and gap-fill. Conversely, they were less likely to seek clarification on the non-Professionalism related aspects, independent vs. restricted advice and capital adequacy. This may be because they are still focusing on completing their qualification before turning their attention to other aspects of the RDR.

Table 10.2 Selected aspects of RDR needing clarification, by qualification status

All RIAs, by Level 4 qualification status (column percentages)			
	Hold Level 4	**Do not hold Level 4**	**Total**
Independent vs. restricted advice	15	6	14
Structured CPD	*14*	*10*	13
Capital adequacy	9	3	8
Roles for individuals with no AQ	4	10	5
Obtaining an SPS	2	9	3
Gap-fill	2	7	3
Accredited bodies	1	6	2

G1 Do you need any clarification on meeting RDR requirements in any of the following areas? Base: All RIAs (1,436); Hold Level 4 (1,256), do not hold Level 4 (180)

RIAs with at least a third of retail clients holding £250,000 or more in savings and investments were less likely to need clarification on any area (only 22% required any clarification, compared with 43% of RIAs with at least a third of their retail clients holding less than £20,000 in savings and investments).

Unsurprisingly RIAs planning to leave the industry were least likely to seek further clarification (only 17% needed any further clarification).

Overall, there were fewer RIAs saying they needed any clarification in summer 2012 than there were in summer 2011: this proportion had decreased from 43% to 31%. As Table 10.3 illustrates, there had been a decrease in the need for clarification in all areas, in particular regarding gap-fill, which had decreased significantly from 23% to just 3%.

Table 10.3 Aspects of RDR needing clarification, by survey wave

All RIAs (column percentages)		
	2011	**2012**
Independent versus restricted advice	Not asked	14
Adviser charging	21	13
Structured CPD	18	13
Capital adequacy	*9*	*8*
Roles for individuals who do not have an Appropriate Qualification	11	5
Gap-fill	23	3
Obtaining a statement of professional standing	Not asked	3
Qualification choices	7	2
Accredited bodies	*4*	*2*
Other	*2*	*1*
No clarification needed	57	69

G1 Do you need any clarification on meeting RDR requirements in any of the following areas? Base: All RIAs 2011 (1,042); Base: All RIAs 2012 (1,436)

In summer 2012, 13% of RIAs said they required further clarification on structured CPD. In Chapter 8 we reported that only 63% of all RIAs except those not taking an AQ expected to do the required minimum CPD after 2012, consisting of a minimum of 35 hours of CPD each year for retail investment activities, of which 21 hours would need to be structured. Ten per cent expected to do less than required, while over a quarter (27%) could not estimate how many hours of CPD they would complete after 31 December 2012. These findings suggest there may be something of an awareness gap around CPD generally. Possibly, fewer RIAs anticipate needing clarification on CPD because they have completed, or have in hand, any CPD they need for gap-fill, in order to become fully qualified. Therefore they are not yet focusing on the new ongoing CPD requirements.

10.2 Sources of information regarding aspects of the RDR

The Financial Services Authority (FSA) was considered to be an important source of information for most aspects of the RDR, with at least 40% of the RIAs that needed clarification on each listed aspect expecting to contact the FSA, as illustrated in Table 10.4. RIAs would turn to the FSA in particular when seeking clarification on roles for individuals who did not have an Appropriate Qualification or with queries regarding capital adequacy. The only significant variation from this was that for structured CPD RIAs were more likely to turn to their professional body or own firm for advice.

Table 10.4 Required information sources in areas where clarification was needed

RIAs requiring each area of clarification (column percentages; multiple answers possible)									
	Independent v Restricted	**Adviser charging**	**Structured CPD**	**Capital adequacy**	**Roles Without AQ**	**Gap-fill**	**Obtaining SPS**	**Qualification choices**	**Accredited bodies**
FSA	*57*	*54*	33	*62*	*65*	*[47]*	*[40]*	*[42]*	*[47]*
Firm	*29*	*44*	*42*	*29*	*33*	*[47]*	*[41]*	*[41]*	*[48]*
Professional body	*31*	*25*	43	15	8	*[14]*	*[28]*	*[30]*	*[16]*
Accredited body	*8*	3	*12*	*4*	*7*	*[10]*	*[15]*	*[19]*	*[17]*
Trade association	*9*	*7*	*3*	*8*	*5*	*[0]*	*[0]*	*[6]*	*[8]*
Other	*9*	*6*	*3*	*7*	*4*	*[0]*	*[9]*	*[0]*	*[0]*

G2 You mentioned [EACH ANSWER FROM G1] need(s) clarifying. From whom do you want this information to come? Is it from… Base: All needing clarification (814); independent vs. restricted advice (181), adviser charging (165), structured CPD (164), capital adequacy (96), roles for individuals who do not have AQ (62), obtaining SPS (49), gap-fill (45), qualification choices (25), accredited bodies (19)

Most RIAs seeking clarification from the FSA would expect to use the FSA website (89%), either it alone (45%), or would consult both the FSA website and the FSA contact centre (44%); only a small minority would seek information from the contact centre alone (6%), as shown in Table 10.5.[43]

[43] Caution should be taken when interpreting results of Table 10.5, since the base sizes for certain subgroups are extremely low.

Table 10.5 Preferred ways of obtaining clarification from the FSA

RIAs needing clarification from FSA (column percentages)

	Independent v Restricted	Adviser charging	Structured CPD	Capital adequacy	Roles Without AQ	Gap-fill	Obtaining SPS	Qualifi-cation choices	Accredited bodies	Total
FSA website	*42*	*50*	*48*	*42*	*[50]*	*[47]*	*[33]*	*[63]*	*[24]*	45
FSA Contact Centre	*6*	*6*	*2*	*13*	*[9]*	*[1]*	*[5]*	*[3]*	*[5]*	6
Both	*47*	*43*	*47*	*39*	*[38]*	*[46]*	*[39]*	*[35]*	*[72]*	44
Don't know	*5*	*2*	*4*	*6*	*[2]*	*[6]*	*[24]*	*[0]*	*[0]*	5

G2b You mentioned needing clarification from the FSA on [EACH ANSWER FROM G1]. From what FSA source would you prefer to obtain this information? Base: All seeking clarification from the FSA (426), independent vs. restricted advice (106), adviser charging (89), structured CPD (58), capital adequacy (64), roles for individuals who do not have AQ (39), obtaining SPS (21), gap-fill (19), qualification choices (11), accredited bodies (12)

10.3 Summary and conclusions

In summer 2012, around a third (31%) of RIAs required further clarification on one or more aspects of the RDR, a significant reduction upon the summer 2011 figure of 43%.

The main areas where clarification was required were independent versus restricted advice, adviser charging and structured CPD. Significantly, the proportion requiring clarification on gap-fill, which had been a priority in 2011, had reduced from 23% to just 3%.

In Chapter 8 of this report we showed that only 63% of all RIAs except those not taking an AQ expected to complete the required minimum CPD after 2012, with 10% expecting to do less than the required amount. It is perhaps notable, then, that in summer 2012 only 13% of RIAs said they required further clarification on structured CPD. This suggests that there might be an awareness gap around CPD, which might need to be remedied in 2013. The results of this survey suggest that structured CPD is the only aspect of the RDR for which RIAs are not likely to turn to the FSA primarily for clarification: RIAs' firms and professional bodies are the preferred channels for RIAs to receive this information.

11 Publicity to consumers and clients around the RDR

In the summer 2012 Retail Distribution Review (RDR) survey, Retail Investment Advisers (RIAs) were asked for the first time to rate the level of publicity to consumers on the RDR that came from different sources. Relating to this, they were also asked whether they had personally discussed the RDR with their own retail clients. This chapter examines both of these subjects.

11.1 Publicity levels regarding the RDR

Around a half of RIAs felt that there was not enough publicity to consumers surrounding the RDR from any of the sources that they were asked about, all of which are listed in Table 11.1. In particular, consumer groups and the Financial Services Authority (FSA) were seen as not providing sufficient information about the RDR. The relatively large proportion of RIAs stating that they did not know how to rate the levels of publicity on the RDR may itself suggest insufficient publicity.

Table 11.1 Rating of publicity levels on the RDR to consumers

All RIAs (column percentages)				
	Too much publicity	**About right**	**Not enough publicity**	**Don't know**
Consumer groups	2	22	54	22
FSA	2	30	52	15
Product providers	3	29	50	18
Accredited bodies	1	31	48	20
Money Advice Service	4	23	47	27
Advisory firms	1	33	46	20
Other professional bodies	1	27	46	26

G5 How do you rate the current levels of publicity on the RDR to consumers from the following sources? Base: All RIAs (1,436)

Unprompted, a small proportion of RIAs (3%) also mentioned that they would expect greater publicity from other sources, such as the government or the media in general.

Table 11.2 shows that RIAs from larger firms were most likely to report that a higher level of publicity was needed from all sources. There was also some variation by firm type, with RIAs from WM firms least likely to report that there was not enough publicity from any of the listed sources.

Table 11.2 Breakdown of proportion believing that not enough publicity was provided, by firm size and type

	All RIAs, by firm type and firm size (column percentages)										
Not enough publicity from:	**IFA – DA**	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
Consumer groups	*53*	*56*	*63*	33	*52*	*60*	*[64]*	*53*	*51*	*57*	54
FSA	*52*	*51*	*62*	33	*52*	*56*	*[56]*	*47*	*49*	*54*	52
Product providers	*49*	*44*	63	31	*38*	59	*[54]*	37	45	53	50
Accredited bodies	*50*	*47*	*59*	27	*43*	*46*	*[62]*	*46*	*46*	*49*	48
Money Advice Service	46	*44*	*52*	28	*46*	58	*[62]*	*45*	43	50	47
Advisory firms	*45*	*43*	66	27	*38*	*48*	*[56]*	*39*	41	49	46
Other professional bodies	*47*	*48*	*53*	28	*46*	*47*	*[67]*	*47*	*44*	*48*	46

G5 How do you rate the current levels of publicity on the RDR to consumers from the following sources? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116; 1-19 (655), 20+ (781)

RIAs with at least a third of clients in the highest wealth tier (at least £250,000 in personal savings and investments) were the least likely to say there was not enough publicity from all of the listed sources, while RIAs with at least a third of clients in the lowest tier (less than £20,000 in savings and investments) were more likely to say more publicity was needed, as shown in Table 11.3.

Table 11.3 Breakdown of proportion believing that not enough publicity was provided, by client wealth tier

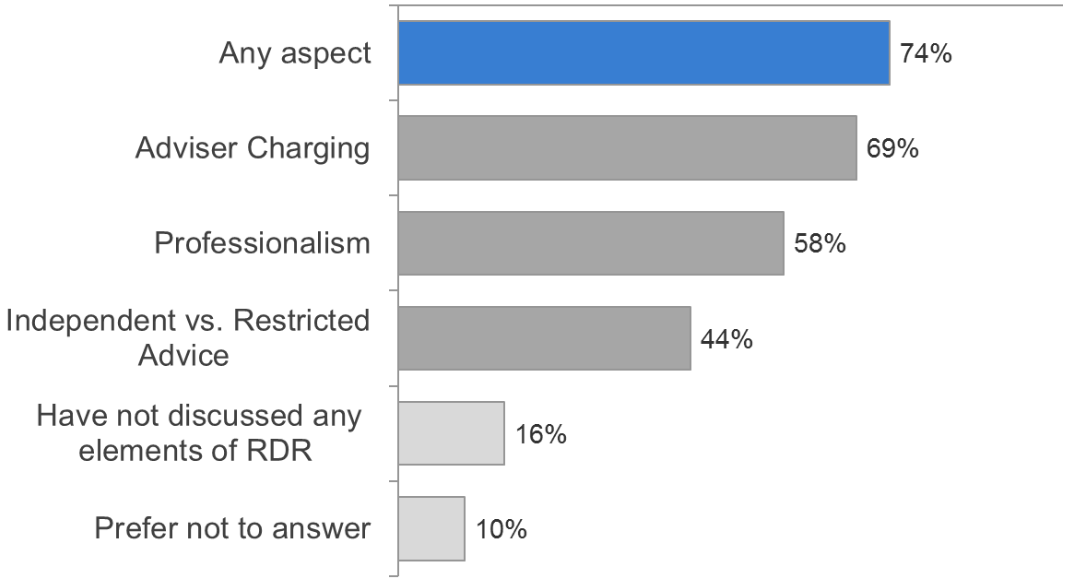
All RIAs (column percentages)					
	At least a third of clients have savings and investments of…				
Not enough publicity from:	**<£20k**	**£20k-£75k**	**>£75k - £250k**	**>£250k**	**Total**
Consumer groups	*60*	60	60	43	54
FSA	63	57	*55*	42	52
Product providers	62	57	*51*	40	50
Accredited bodies	62	*52*	*51*	38	48
Money Advice Service	*58*	*51*	*49*	35	47
Advisory firms	65	54	*47*	36	46
Other professional bodies	62	*50*	*48*	37	46

G5 How do you rate the current levels of publicity on the RDR to consumers from the following sources? Base: All RIAs (1,436); <£20k (113), £20k -£75k (432), >£75k -£250k (617), £250k+ (317)

11.2 RIAs discussing the RDR with retail clients

RIAs were also asked which elements of the RDR they had discussed personally with their retail clients. Most RIAs had discussed at least one of the RDR elements with their retail clients, as shown in Figure 11.1. Adviser charging was the most commonly discussed aspect.

Figure 11.1 Elements of the RDR personally discussed with own retail clients



G6a Which elements of the RDR, if any, have you personally discussed with which of your own retail clients? Base: All RIAs (1,436)

The likelihood of discussing the different aspects of the RDR was linked to firm type and size. RIAs working in smaller firms (in particular IFA – DA) were more likely to have discussed each of the aspects of the RDR, perhaps reflecting the closer relationships they have with their (smaller number of) clients. Correspondingly, RIAs in B/BS firms were far less likely to have discussed any aspects of the RDR with their own retail clients, as Table 11.4 shows.

Table 11.4 Elements of the RDR personally discussed with own retail clients, by firm size and type

All RIAs, by firm type and firm size (column percentages)

	IFA – DA	IFA – AR	Tied – AR	WM	EBC	B/BS	Life	APF	1-19	20+	Total
Adviser charging	83	80	*58*	41	*70*	48	*56*	*71*	80	62	69
Professionalism	67	*62*	*56*	34	*46*	48	*39*	*48*	64	54	58
Independent vs. restricted Advice	51	*49*	*39*	25	*32*	*39*	*39*	*41*	*48*	*42*	44
Have discussed all three of these elements of the RDR	47	*43*	*36*	18	*32*	*34*	*31*	*35*	44	37	40
Have not discussed any elements of the RDR	6	*10*	28	23	6	35	*23*	*19*	8	22	16
Prefer not to answer	*9*	*8*	*6*	27	*22*	*7*	*13*	*9*	*10*	*10*	10

G6a Which elements of the RDR, if any, have you personally discussed with which of your own retail clients?
Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116); 1-19 (655), 20+ (781)

11.2.1 Discussing RDR elements with different types of clients

RIAs were also asked whether they had discussed the RDR with clients with different levels of personal savings and investments. As Table 11.5 illustrates, the likelihood of discussing specific RDR elements was not typically linked to the amount in personal savings and investments held by the retail client.

Table 11.5 RDR elements discussed with retail clients, by client wealth tier

All RIAs with any clients in each wealth tier (column percentages)				
	<£20,000	**£20,000 - £75,000**	**>£75,000 - £250,000**	**£250,000+**
Adviser charging	*61*	*65*	*67*	*67*
Professionalism	*49*	*53*	*55*	*56*
Independent vs. restricted Advice	*35*	*38*	*41*	*42*
Have not discussed any elements of RDR	*20*	*18*	*17*	*17*
Prefer not to answer	*12*	*11*	*10*	*10*

G6a Which elements of the RDR, if any, have you personally discussed with which of your own retail clients? RIAs who have retail clients with less than £20k in savings and investments in their own name (1,119), RIAs who have retail clients with between £20k and £75k in savings and investments in their own name (1,245), RIAs who have retail clients with between £20k and £75k in savings and investments in their own name (1,354), RIAs who have retail clients with £250k or more in savings and investments in their own name (1,353)

11.3 Summary and conclusions

Around a half of RIAs felt that there was not enough publicity to consumers surrounding the RDR coming from most sources: in particular, consumer groups and the FSA were seen as not providing sufficient information about the RDR.

Three-quarters of RIAs themselves had discussed at least one aspect of the RDR with at least some of their retail clients. The most commonly discussed aspects were adviser charging (which 69% of RIAs had discussed) and Professionalism (58%). RIAs in smaller firm types, particularly IFA – DA, were more likely to have discussed these aspects than RIAs in larger firms, such as B/BS.

12 Impact of the Retail Distribution Review on Retail Investment Advisers' intentions and attitudes

This chapter examines how the Retail Distribution Review (RDR) might have impacted or influenced Retail Investment Advisers' (RIAs') intentions, behaviours and attitudes, including whether they would recommend retail investment advice as a career.

For those RIAs intending to remain in the industry, it will also examine the type of advice they expect to offer to clients and the type of retail business activities they expect to conduct.

12.1 Impact of the RDR on decisions to cease providing retail advice

Chapter 4 of this report demonstrated that early leavers (RIAs intending to retire earlier than planned, cease retail investment advice and take another role in the industry, or leave the industry altogether) accounted for 6% of the 2012 RIA population – approximately 2,000 RIAs. This was a smaller subgroup of the population than in 2011, when 8% were classified as early leavers.

The research examined to what extent the RDR was an influence on the intentions of these early leavers. In summer 2012 the RDR-related reasons appeared to be a less compelling influence on the decision not to remain than was the case in summer 2011, although the Professionalism requirements of the RDR were still 'very influential' for 41% and at least 'quite influential' for 71% of early leavers, as shown in Table 12.1.

Table 12.1 Whether aspects of RDR were influential on decision to leave the industry or cease retail investment advice, by survey wave

	Early leavers, by survey wave. 'Very influential' ('very' or 'quite influential' in parentheses) (column percentages)	
	2011	**2012**
Any aspects of the RDR	69 *(97)*	43 *(92)*
RDR Professionalism requirements (i.e. ethical standards, AQ, CPD and SPS)	*62 (78)*	*41 (71)*
Other RDR requirements (i.e. adviser Charging, change in description of firm's services, wider definition of Retail Investment Advice, capital adequacy)	*47 (79)*	*26 (74)*

F5 Thinking about the following considerations that may have influenced your decision to [RETIRE EARLIER THAN PLANNED/ STOP ADVISING ON RETAIL INVESTMENTS AND TAKE ANOTHER ROLE IN THE INDUSTRY/ LEAVE THE INDUSTRY], how influential were each of the following for you? Base: Early leavers 2011 (86); Base: Early leavers 2012 (63)

Although, because of the small base size of the early leavers group, any detailed analysis by firm size or firm type should be treated with caution, the 2012 survey suggests that among RIAs in larger firms the influence of Professionalism aspects of the RDR on the decision to leave the industry or cease retail investment advice appeared to have declined more sharply between 2011 and 2012 than was the case for RIAs in smaller firms. This is shown in Table 12.2. The need to attain an Appropriate Qualification (AQ) continued to be the most significant influence on RIAs' intentions after 31 December 2012 – it was considered as at least 'quite influential' by 41% of these RIAs, with smaller firms more likely to consider it influential (63%) than larger firms (25%).

Among other aspects of the RDR, the introduction of adviser charging continued to be the most significant influence on RIA intentions, particularly for RIAs in smaller firms. The comparison of 2012 with 2011 findings shows that, for many early leavers, the strength of influence of this and other non-Professionalism aspects of the RDR had reduced from 'very influential' to 'quite influential'.

Table 12.2 Impact of the RDR on the intention of RIAs expecting to cease providing retail advice, by firm size

	Early leavers, by firm size (column percentages)		
Percentage rating each aspect as 'very' or 'quite' influential	**1-19**	**20+**	**Total**
RDR Professionalism requirements			
The requirement to attain an Appropriate Qualification	*[63]*	*[25]*	41
The need to hold a Statement of Professional Standing	*[45]*	*[33]*	38
More CPD requirements	*[27]*	*[25]*	26
The requirement to subscribe to ethical standards	*[4]*	*[8]*	6
Other RDR requirements			
The introduction of the Adviser Charge for investment business	*[50]*	*[42]*	45
The wider definition of Retail Investment Advice	*[33]*	*[17]*	24
A change in description of my firm's services to either independent or restricted	*[18]*	*[27]*	23
The cost of obtaining adequate Personal Indemnity Insurance (PII) cover	*[15]*	*[12]*	13
Capital adequacy requirements for Personal Investment Firms (PIFs)	*[15]*	*[4]*	9

F5 Thinking about the following considerations that may have influenced your decision to [RETIRE EARLIER THAN PLANNED/ STOP ADVISING ON RETAIL INVESTMENTS AND TAKE ANOTHER ROLE IN THE INDUSTRY/ LEAVE THE INDUSTRY], how influential were each of the following for you? Base: Early leavers (63); 1-19 (32), 20+ (31)

As might be expected, the Professionalism aspects of the RDR, and in particular the need to attain an AQ by the 31 December 2012 deadline, were more important influences on early leavers who had not attained an AQ and/ or completed gap-fill.

Consistent with other findings in this survey, the influence of the Professionalism requirements of the RDR on the decision to leave the industry or cease retail investment advice was greater among RIAs who were not members of a professional body (97% said 'very' or 'quite' influential, compared with 71% overall); RIAs aged 50 years or more (88% said 'very' or 'quite' influential); and RIAs with 20 or more years of experience (86% said 'very' or 'quite' influential).

12.2 Impact of the RDR on intentions to switch to a different kind of advice

In Section 3.3.4 we examined the type of advice currently offered by RIAs. A majority of RIAs personally provided independent financial advice (65%). Thirty-five per cent of RIAs offered other types of advice: most offered multi-tied (15%) or single-tied (11%) advice, with 9% of RIAs offering whole of market advice. This had remained unchanged between summer 2011 and summer 2012.

As part of the survey, we reminded those that were planning to remain an RIA that the definition of independence was to change after 2012, and they were asked whether they would be likely, after 2012, to switch to a different type of advice (either independent financial advice, restricted advice, simplified advice or basic advice).[44]

The percentage of RIAs planning to remain an RIA who indicated they were at least 'quite' likely to switch to a different type of advice service after 31 December 2012 had increased slightly between summer 2011 and summer 2012 – from 15% in 2011 to 17% in 2012 (see Table 12.3), while the percentage who said they would definitely switch increased from 5% to 8% over the same period: none of these changes are statistically significant.

[44] The full descriptions, as provided to RIAs, are given in the questionnaire script (question F7), which can be found in Appendix B.2 of the Technical Report.

Table 12.3 Likelihood RIAs will switch to a different type of advice, by survey wave and firm size

All RIAs definitely or likely to remain an RIA, by survey wave (column percentages)

	2011			**2012**		
	1-19	**20+**	**Total**	**1-19**	**20+**	**Total**
‘Definitely’ likely to switch	*3*	*6*	*5*	*5*	*10*	*8*
‘Definitely’ or ‘Quite’ likely to switch	*8*	*20*	*15*	*12*	*21*	*17*
Don’t know	*7*	22	*16*	*9*	13	*11*

F7 As you know the definition of independence is changing. How likely are you personally to switch to a different type of advice service after 31 December 2012? Base: All definitely or likely to remain 2011 (893), 1-19 (386), 20+ (507); Base: All definitely or likely to remain 2012 (1,307), 1-19 (593), 20+ (714). Significant differences shown between years, as opposed to between subgroups.

RIAs working in larger firms, particularly in B/BS, were more likely to see a switch as a possibility – 21% of RIAs in B/BS firms thought they would ‘definitely’ switch and 31% thought it ‘definitely’ or ‘quite’ likely, as Table 12.4 shows. In contrast, in 2011, just 8% of RIAs in B/BS firms indicated they would ‘definitely’ switch. Although we did not ask why RIAs might switch, it is likely that many RIAs, in larger firms in particular, thought changes within their firms might result in a change of advice type, rather than it being an individual decision by the RIA to change.

Table 12.4 Likelihood of switching to a different kind of advice, by firm type

All RIAs definitely or likely to remain an RIA, by firm type (column percentages)

	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Definitely	5	2	*5*	*10*	*10*	21	*[3]*	*4*	8
Quite likely	*9*	*14*	*6*	*9*	*11*	*10*	*[11]*	*6*	10
Definitely or quite likely	*14*	*16*	10	*19*	*21*	31	*[14]*	9	17
Not very likely	*40*	*46*	*31*	*32*	*36*	*31*	*[26]*	*36*	37
Definitely not	*37*	*30*	*43*	*32*	*42*	24	*[49]*	53	34
Don't know	*10*	*8*	*16*	18	2	*15*	*[11]*	1	11

F7 As you know the definition of independence is changing. How likely are you personally to switch to a different type of advice service after 31 December 2012? Base: All definitely or likely to remain (1,307); IFA – DA (489), IFA – AR (102), Tied – AR (87), WM (308), EBC (62), B/BS (117), Life (35), APF (107)

Of the 17% potential switchers, 57% currently offered independent advice and 43% offered other types of advice. Table 12.5 analyses how these potential 'switchers' in summer 2012 would expect to change the type of advice service they offer, although due to low base sizes, the subgroup breakdowns should be treated as indicative only. It suggests that, in total, four-fifths (78%) of the switchers expected to switch to restricted advice. Some of these advisers, who were currently independent, may have been planning to carry on offering a similar service, but because the definition of independence was changing, they accepted that they would need to describe their service as restricted.

It was also possible for an RIA to tell us that they intended to switch, but still continue to offer the same type of advice. For example, 17% of RIAs offering independent financial advice told us that they would switch, but would continue to offer independent financial advice; we assume that they said this because they recognised that their service offering would need to be different to maintain their independent status.

Table 12.5 Type of advice likely to switch to, by current advice personally offered

All who will definitely or are likely to switch to a different type of advice service after 31 December 2012 (column percentages)

	All switchers currently offering…					
	Independent Financial Advice	**Multi-tied/ Restricted Advice**	**Single Tie/ Restricted Advice**	**Whole of market/ Restricted Advice**	**Restricted advice (all)**	**All 'switchers'**
Restricted advice	*80*	*[72]*	*[58]*	*[92]*	*76*	78
Simplified advice	*1*	*[2]*	*[0]*	*[0]*	*	*
Basic advice	*0*	*[0]*	*[1]*	*[1]*	*1*	*
Independent financial advice	*17*	*[26]*	*[28]*	*[7]*	*18*	18
Don't know	*3*	*[0]*	*[13]*	*[0]*	*4*	3

F8 Of the following, to which type of advice service would you personally, be most likely to switch? Base: All who will definitely or are likely to switch to a different type of advice service after 31 December 2012 (225); Independent Financial Advice (141), Multi-tied/ Restricted Advice (16), Single Tie/ Restricted Advice (20), Whole of market/ Restricted Advice (48), Restricted Advice (all) (84)

In order to be able to assess the extent of switching from one type of advice to another, it is necessary to distinguish two types of behaviour accounting for the 17% of switchers among those RIAs intending to remain an RIA after December 2012: those 'switching' to the *same* type of advice and those switching to a *different* type of advice. Those RIAs who said they would definitely or would be quite likely to switch, but expected to switch to the same type of advice (from independent to independent or from restricted to restricted advice) represented 43% of all potential switchers, i.e. 8% of all RIAs intending to remain.

Hence Table 12.6, which summarises the likely profile both before and after 31 December 2012 of the RIA population intending to remain in the industry, shows 9% of switchers from one advice type to another: 8% from independent to restricted, and 1% to independent.

Table 12.6 Likely change in type of advice provided after 31 December 2012

All RIAs definitely or likely to remain an RIA
(column percentages; total no. RIAs in each category in brackets)

Before 31/12/2012	**After 31/12/2012**	
Independent	Independent	52 *(17,000)*
	Restricted	8 *(2,600)*
	Don't know	6 *(2,000)*
Multi-tied/ single tie/ whole of market	Restricted	27 *(8,800)*
	Basic/ simplified	* *(100)*
	Independent	1 *(300)*
	Don't know	6 *(2,000)*

F7 As you know the definition of independence is changing. How likely are you personally to switch to a different type of advice service after 31 December 2012? F8 Of the following, to which type of advice service would you personally, be most likely to switch? Base: All definitely or likely to remain an RIA (1,307)

So, the results in Table 12.6 show that the intent to switch advice type is in fact relatively limited, although just over a tenth (12%) of RIAs intending to remain are unsure what they will offer.

Table 12.7 summarises this same information, broken down as a proportion of those currently offering independent advice, and as a proportion of those currently offering tied, multi-tied or whole of market advice. It shows that of RIAs currently offering independent advice, just 12% expected to switch to restricted advice, although a further 9% were unsure what they would offer. And conversely, just 3% of those currently offering tied, multi-tied or whole of market advice expected to become independent, although 18% were unsure as to what they would offer.

Table 12.7 Likely change in type of advice provided after 31 December 2012, split by type of advice currently provided

All RIAs definitely or likely to remain an RIA (column percentages)		
	RIAs currently offering independent advice	RIAs currently offering tied/ multi-tied/ whole of market advice
Independent	79	3
Restricted/ basic/ simplified	12	79
Don’t know	9	18

F7 As you know the definition of independence is changing. How likely are you personally to switch to a different type of advice service after 31 December 2012? F8 Of the following, to which type of advice service would you personally, be most likely to switch? Base: All RIAs definitely or likely to remain (1,307); currently offering independent advice (910); currently offering tied/ multi-tied/ whole of market advice (397)

12.3 Impact of the RDR on retail business activity

Section 3.3.4 examined the current profile of regulated products currently offered by RIAs. Regulated products and services under the RDR accounted for a mean of 76% of total personal income from retail client business, across all RIAs. This had changed very little since 2011. Of the non-RDR products and services offered by RIAs, individual protection, as in 2011, accounted for the largest percentage of total personal income on average: 12% in 2012.

We asked RIAs expecting to remain in the industry whether they thought this share of business would change post-RDR. As in 2011, a majority of RIAs expected no change in either the products or services they were offering to retail clients or in the volume of business they conducted annually in the different product areas in which they were active. Almost no RIAs expected to stop advising in particular areas after 31 December 2012. For the minority of RIAs who anticipated change in the volume of business they conducted, more RIAs expected business to grow in 2013 than expected it to decline. This breakdown is shown in Table 12.8.

Table 12.8 Expected change in business offering after 31 December 2012 of those intending to remain an RIA

	All RIAs definitely or likely to remain an RIA				
	Planning to stop offering	**Planning to do less**	**Planning to start offering**	**Planning to do more**	**Net impact**
Investments	*0*	*16*	*1*	*15*	+1
Pensions	*	*9*	*2*	*15*	+8
Annuities	*	*6*	*3*	*11*	+8
Discretionary Investment Management (DIM) with personal recommendation	*0*	*3*	*5*	*3*	+6
Individual Protection	*0*	*6*	*2*	*17*	+13
Mortgages	*1*	*4*	*3*	*4*	+1
DIM with no personal recommendation	*0*	*1*	*4*	*2*	+5
Execution Only	*	*2*	*4*	*1*	+3

F2 Compared to the last 12 months, do you think the amount of retail business you personally do in the following areas will change after 31 December 2012? Base: All definitely or likely to remain an RIA (1,307)

Table 12.9 illustrates that the expectation of change in retail business volume was greater among RIAs in the largest firms than in other firm sizes, with a substantial percentage of RIAs in these firms anticipating doing less business in investment products and doing more business in individual protection.

Table 12.9 Expected change in business offering after 31 December 2012, by selected firm size

All RIAs definitely or likely to remain an RIA, by survey wave and firm size (column percentages)		
	500+ RIAs	**Total**
Advising on Investments		
Stop/ do less business	43	16
Start/do more business	*11*	*17*
Advising on Pensions		
Stop/ do less business	*9*	*10*
Start/do more business	*17*	*17*
Advising on Annuities		
Stop/do less business	*2*	*6*
Start/do more business	*14*	*14*
Advising on Individual Protection		
Stop/do less business	*16*	*6*
Start/do more business	46	19

F2 Compared to the last 12 months, do you think the amount of retail business you personally do in the following areas will change after 31 December 2012? Base: All definitely or likely to remain (1,307), 500+ (84)

RIAs who were only ‘likely’ to remain Retail Investment Advisers after 31 December 2012 were more negative about growing their volume of business in different product areas than those who definitely intended to remain, particularly in the areas of investments and pensions.

RIAs’ expectations about the future of their income from retail clients suggest an overall mood of optimism or pessimism extending beyond individual product areas. In particular, RIAs who expected to do less business in advising on investments also expected to do less business in other areas including pensions, annuities and individual protection, a pattern observed also in 2011, as shown in Table 12.10.

Table 12.10 Future retail business expectations of RIAs who expect to do less business in future in advising on investments, by survey wave

All RIA expecting to do less business in advising on investments, by survey wave (column percentages)

	2011	**2012**
***RIAs expecting also to do less business in*:**		
Pensions	*58*	*43*
Annuities	*28*	*26*
Individual protection	*43*	*27*

*F2 Compared to the last 12 months, do you think the amount of retail business you personally do in the following areas will change after 31 December 2012? Base: All who will definitely / are likely to remain a Retail Investment Adviser AND who will stop offering or do less *investments* 2011 (112); Base: All who will definitely / are likely to remain a Retail Investment Adviser AND who will stop offering or do less *investments* 2012 (165)*

12.4 Impact of the RDR on role as an RIA

The great majority of RIAs (95% of those intending to stay as RIAs after 31 December 2012) did not expect to change how they worked after RDR rules came into force. A few individual RIAs anticipated moving from employed to self-employed status or setting up their own small firm; moving from being self-employed/ a business owner to being employed; or from being employed to setting up their own small firm. But the overall picture was one of 'little change', as shown in Table 12.11.

Table 12.11 Plans after 31 December 2012

All RIAs definitely or likely to remain, by firm type and firm size (column percentages)

	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**1-19**	**20+**	**Total**
Stay in current role	97	*95*	*95*	*97*	*97*	88	*[91]*	*98*	97	93	95
Become self-employed	*0*	*1*	*0*	*	*0*	*3*	*[0]*	*0*	*0*	*1*	1
Become employed	*1*	*2*	*0*	*	*0*	*2*	*[0]*	*0*	*1*	*1*	1
Set up as a small firm	*	*1*	*1*	*	*3*	*1*	*[0]*	*2*	*	*1*	1
Other	*1*	*0*	*2*	*1*	*0*	*2*	*[3]*	*0*	*1*	*1*	1
Prefer not to answer	*1*	*1*	*1*	*1*	*0*	*5*	*[6]*	*0*	*1*	*3*	2

F9 Looking to after 31 December 2012, which of the following are you most likely to do? Base: All definitely or likely to remain (1,307); IFA – DA (489), IFA – AR (102), Tied – AR (87), WM (308), EBC (62), B/BS (117), Life (35), APF (107); 1-19 (593), 20+ (714)

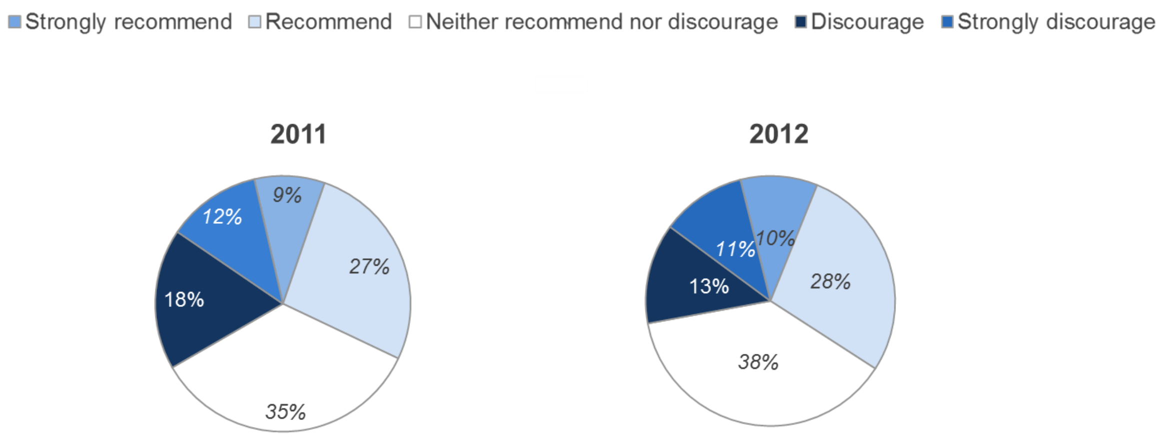
RIAs in the largest firms, particularly B/BS, were somewhat less certain of staying in their role, possibly anticipating changes in policy or in the intentions of their employer firm with respect to retail investment advice. This also reflected the greater than average percentage of RIAs in these firms who were only 'likely' to remain an RIA after 31 December 2012 (25% compared with 15% overall, as Table 4.1 in Chapter 4 showed).

12.5 Impact of the RDR on attitudes toward retail investment advice as a career

Towards the end of the survey, all RIAs were asked whether they would recommend retail investment advice as a career to someone, and whether the RDR has made them more or less likely to recommend retail investment advice as a career.

The 2012 survey found that 38% of all RIAs would either recommend or strongly recommend others to enter the retail investment advice industry but that almost a quarter (24%) would discourage or strongly discourage others as shown in Figure 12.1. The percentage of RIAs that would recommend or strongly recommend has increased by just two percentage points over the course of the last 12 months. There was a more noticeable reduction in the proportion of advisers who would discourage others, with this figure at 30% in 2011 and at 24% in 2012.

Figure 12.1 Likelihood of recommending retail investment advice as a career



F10 Would you recommend retail investment advice as a career to someone? Base: All RIAs 2011 (1,021), excl. Refused (21); Base: All RIAs 2012 (1,403) excl. Refused (33)

The apparent slight warming of attitudes within the RIA population probably reflected the fact that some of those most negative about the industry in 2011 were likely to have left by summer 2012, but the change is very small. This also reflects the fact that the early leavers group had reduced only slightly from 8% in 2011 to 6% in 2012.

In 2012, RIAs who were most negative about recommending retail investment advice as a career remained similar in profile to the RIAs who were most negative in 2011. Table 12.12 includes RIAs that refused to answer as a separate category, and shows that the most negative RIAs were IFAs: 13% of IFA – DAs and 15% of IFA – ARs would strongly discourage a new entrant.

Table 12.12 Likelihood to recommend retail investment advice to someone else as a career, by firm type

All RIAs, by firm type (column percentages)									
	IFA – DA	**IFA – AR**	**Tied – AR**	**WM**	**EBC**	**B/BS**	**Life**	**APF**	**Total**
Strongly recommend	*9*	*12*	*12*	*11*	3	*10*	*[13]*	*14*	10
Recommend	*28*	18	*20*	*23*	*25*	38	*[36]*	*27*	27
Strongly recommend/ recommend	***37***	***30***	***33***	***33***	***29***	***48***	***49***	***41***	**37**
Neither recommend nor discourage	33	*44*	*41*	47	*49*	*33*	*[36]*	*42*	37
Discourage	*15*	*10*	*17*	*10*	*14*	*8*	*[8]*	*12*	13
Strongly Discourage	*13*	*15*	*9*	6	*6*	*8*	*[5]*	4	11
Prefer not to answer	*2*	*2*	*0*	*4*	*2*	*4*	*[3]*	*1*	2

F10 Would you recommend retail investment advice as a career to someone? Base: All RIAs (1,436); IFA – DA (542), IFA – AR (114), Tied – AR (98), WM (327), EBC (63), B/BS (137), Life (39), APF (116)

Early leavers, unsurprisingly, were significantly more likely to be disaffected: a quarter of this group (25%) would strongly discourage new entrants, compared with 11% overall.

Age and tenure also had a significant impact on attitudes: 14% of those aged 50+ would strongly discourage new entrants, as would 15% of those with tenure of 20 years or more. Conversely, 66% of those aged 18 to 29 would recommend or strongly recommend retail investment advice, compared with 37% overall.[45]

Finally, as Table 12.13 shows, income was also a factor: 58% of those earning £125,000 or more from retail investment business would recommend or strongly recommend retail investment advice, compared with just 25% of those earning up to £40,000.

[45] The 37% figure refers to the percentage of all RIAs in the population that said they would recommend or strongly recommend retail investment advice; this figure is shown in Table 12.12, which includes RIAs that refused to answer as a separate category. The overall results in Figure 12.1 and in the summary of this report only include those who were willing to answer this question: of these, 38% said they would recommend or strongly recommend retail investment advice.

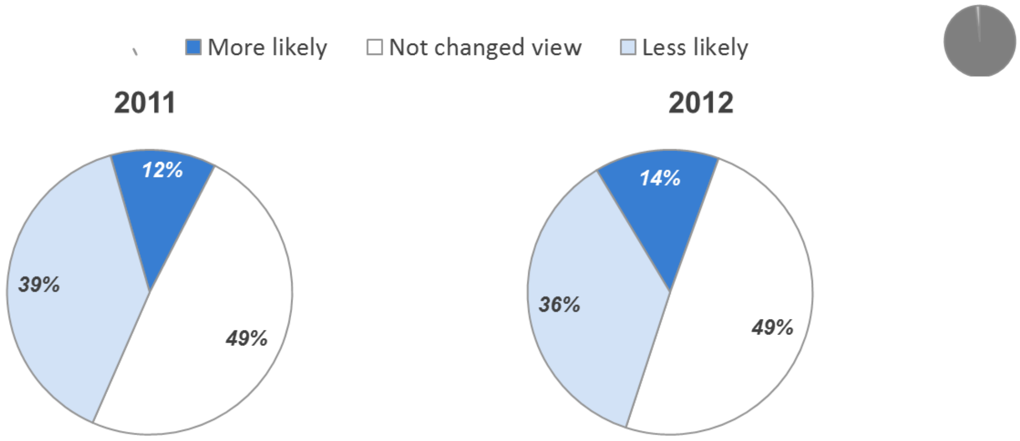
Table 12.13 Likelihood to recommend retail investment advice to someone else as a career, by income from retail investment business

All RIAs by income from retail investment business (column percentages)					
	Up to £40k	**>£40k-£80k**	**>£80k-£125k**	**>£125k**	**Total**
Strongly recommend	6	*10*	*11*	*16*	10
Recommend	19	*29*	*20*	42	27
Strongly recommend/ recommend	**25**	***39***	***32***	**58**	**37**
Neither recommend nor discourage	*45*	*38*	*40*	22	37
Discourage	*16*	*11*	*13*	*11*	13
Strongly Discourage	*14*	*10*	*13*	8	11
Prefer not to answer	*2*	*2*	*2*	*2*	2

F10 Would you recommend retail investment advice as a career to someone? Base: All RIAs (1,436); up to £40k (238), £41-£80k (541), £81-£125k (197), over £125k (154)

There had been a very small positive change between 2011 and 2012 in RIAs' views as to the impact of the RDR on the likelihood to recommend retail investment advice as a career, as shown in Figure 12.2. In 2012, 36% of all RIAs thought that the RDR had made them less likely to recommend retail investment advice as a career compared with 39% in 2011. Conversely, the percentage believing the RDR has encouraged them to be more likely to recommend has increased from 12% to 14%. Nonetheless, almost half of all RIAs (49%) took a neutral stance, as they did in 2011.

Figure 12.2 Impact of the RDR on likelihood to recommend retail investment advice as a career, by survey wave



F11 Has the RDR made you more or less likely to recommend retail investment advice as a career? Base: All willing to say whether they would recommend retail investment advice as a career to someone 2011 (1,015), excl. Refused (6); Base: All willing to say whether they would recommend retail investment advice as a career to someone 2012 (1,382), excl. Refused (20)

Early leavers were significantly more likely to say that the RDR had had a negative impact on their view: 55% of early leavers reported this, compared to 36% overall. As might be expected, there was a correlation between the likelihood of recommending a career in retail investment advice and the perceived impact of the RDR on shaping this opinion. As Table 12.14 shows, 88% of those who would strongly discourage a career in investment advice felt that the RDR had made them less likely to recommend; whereas 50% of those who would strongly recommend a career felt that that RDR had made them more likely to recommend the career.

Table 12.14 The impact of the RDR on the likelihood to recommend a career in retail investment advice

All RIAs willing to say whether they would recommend retail investment advice as a career to someone (column percentages)

	Likelihood of recommending retail investment advice as a career					
	Strongly recommend	**Recommend**	**Neither recommend nor discourage**	**Discourage**	**Strongly discourage**	**Total**
More likely to recommend due to the RDR	50	21	6	4	3	14
Not changed my view	45	65	61	20	8	49
Less likely to recommend due to the RDR	*5*	13	*32*	*76*	88	36
Prefer not to answer	*	*1*	*1*	*	*1*	1

F11 Has the RDR made you more or less likely to recommend retail investment advice as a career? Base: All willing to say whether they would recommend retail investment advice as a career to someone (1,402); strongly recommend (148), recommend (366), neither recommend nor discourage (572), discourage (186), strongly discourage (130)

12.6 Summary and conclusions

Throughout this study, we have used a range of indicators to assess whether the RDR has had an influence upon RIAs' intentions after 2012.

In 2012, RDR-related reasons appeared to be a less compelling influence upon the decisions of the early leavers not to remain an RIA or to leave the industry. In 2011, 62% had said that the RDR Professionalism requirements had been very influential in their decision to leave, whereas in 2012 this had fallen to 41%, with the need to attain an Appropriate Qualification the most significant influence on RIAs' intention to leave after 31 December.

Where RIAs expected to remain as advisers, however, the RDR appeared to have little influence on business plans post-RDR.

As was the case in 2011, a majority of RIAs expected no change in either the products or services they were offering to retail clients or in the volume of business they conducted annually in the different product areas in which they were active. Also, the great majority of RIAs did not expect to change how they worked after RDR rules came into force, with 95% planning to stay in their current role. A minority of the RIAs expecting to remain (8%) did, however, expect to switch from independent to restricted advice post-RDR, with a further 6% currently offering independent advice but unsure what type of advice they would offer post-RDR. As we discussed in Chapter 5, advisers who remain also expected to deal with a slightly different profile of clients in the future.

Willingness to recommend retail investment advice as a career to someone else was in many ways a barometer of the confidence that existing practitioners had in the future of the industry as a whole, as distinct from their own personal expectations. As in 2011, a minority of RIAs continued to feel fairly negative about their industry, as almost a quarter of all RIAs would discourage or strongly discourage others from entering the retail investment advice industry. There had been a very small positive change in RIAs' views as to the impact of RDR on likelihood to recommend retail investment advice as a career: in 2012, 36% of all RIAs thought that the RDR had made them less likely to recommend retail investment advice as a career, compared with 39% in 2011.

Afterword

Pulse surveys

The full RDR Professionalism research programme has included two intermediate, or 'pulse', surveys, designed to provide progress updates on key metrics, including the percentages of retail investment advisers (RIAs) that:

- Hold a Level 4 appropriate qualification (AQ).
- Have completed an AQ, including any required gap-fill.
- Are on track to hold a Level 4 qualification, and to complete an AQ including any required gap-fill, by 31 December 2012.

The first of these pulse surveys was carried out in Q1 2012. High-level findings were published in the April 2012 issue of the FSA's regular series of RDR newsletters: http://www.fsa.gov.uk/static/pubs/newsletters/rdr5.pdf.

The second pulse survey was carried out in Q4 2012 and high-level findings were published in the February 2013 RDR newsletter:

http://www.fsa.gov.uk/static/pubs/newsletters/rdr9.pdf

The second pulse survey

Interviews were conducted in Q4 2012, between 26 November and 13 December, with RIAs who had participated in the summer 2012 survey, the findings for which are provided in this report. The interviews targeted those who intended to complete their qualifications, but had not yet completed the Level 4 qualification and/ or any required gap-fill, when interviewed for the summer survey.[46] Successfully re-interviewing a majority of the RIAs who fell into this category allowed the Q4 survey findings to be grossed up to the summer 2012 population of 35,899 advisers.

The key findings of the Q4 2012 pulse survey were as follows:

[46] All the interviews were conducted via computer-aided telephone interviewing (CATI). A total of 277 RIAs who had responded to the summer 2012 survey were in the groups of RIAs we wished to re-interview. Of these 208 had consented to be re-interviewed, and Critical Research was able to interview 178 of these over the short period allowed for fieldwork.

Qualification progress continued at a steady and predicted rate

Overall, advisers had continued to make steady progress – that was closely in line with the attainment level that advisers had predicted in the summer survey.

Almost all RIAs (97%) held a Level 4 qualification, or were awaiting results of their final paper or were studying (although some of these still needed to complete gap-fill). Specifically, 93% of all RIAs already held a Level 4 qualification, a significant increase of 7 percentage points, since summer 2012, when progress was at 86%. By Q4 a further 2% were awaiting results of their final paper and 2% were studying. The proportion awaiting results of their final paper or studying had more than halved since the summer. This suggests that many of the RIAs who were studying in summer 2012 were qualified by early December.

Advisers within larger firms, and within B/BS, Tied – AR and EBC firms, were significantly more likely to hold a Level 4 qualification. Conversely, RIAs within 1-19 RIA firms were relatively behind in attaining a qualification; over a tenth (11%) of RIAs in IFA – DA firms did not have a Level 4 qualification.

This picture of qualifications progress has not yet taken into account the need for gap-fill. As gap-fill is structured learning that need not be by examination, advisers should not have been at risk of failing to complete it and of providing the required evidence so that an accredited body could validate the activity. For example, it could be achieved through attendance at an appropriate course.

Further progress since the summer was evident when taking into account the need to complete gap-fill. Overall, 88% of RIAs were fully qualified, having completed an AQ and any required gap-fill: a significant 12 percentage point increase, from 76% in the summer.

Overall, 5% of RIAs needed to complete gap-fill, including some RIAs who already had their Level 4 qualification and some who were still studying or awaiting the results of their final paper. In terms of firm size and type, it was again the smaller firms and IFA –DA firms that were further behind.

Almost all advisers expected to qualify before the deadline

Leaving aside the requirement to complete gap-fill, 95% of advisers expected to attain an AQ by the deadline, and a further 2% after that date: a result similar to that in the summer survey, with intending leavers comprising the remaining 3%. RIAs in larger firms were more optimistic, with almost all RIAs in 500+ RIA firms (99%) expecting to hold an AQ by the end of December. Conversely, only 91% of RIAs in single-RIA firms expected to hold an AQ by then. If we exclude leavers and those subject to the 30-month rule from the overall projections, 98% of advisers expected to meet requirements by the end of 2012, and 100% expected eventually to do so.

The group of RIAs whom we described as ‘high risk’ because they had two or more papers left to complete at the time of the survey had decreased to about 500 RIAs, from 1,000 RIAs in summer 2012. They were less likely to be a member of a professional body, more likely to be in a smaller firm (with 1-19 RIAs) and more likely to work in an IFA – DA firm.

Taking into account the need to complete gap-fill indicates that 94% of all RIAs in early December expected to be fully qualified by the end of the month, only marginally fewer than the 95% expecting to have attained an AQ when gap-fill is not considered.

The picture improves if we just consider the RIAs intending to remain as advisers and, because they are not subject to the 30-month rule, needing to meet the end of 2012 deadline: 97% of these RIAs expected to be fully qualified by the end of December 2012 and almost all expected to become fully qualified eventually.

Similar to the summer, around 1% of RIAs (approximately 400 individuals) who are not subject to the 30-month rule and who are not leavers expected to complete their Level 4 qualification and any required gap-fill after December 2012. These advisers were in a position where they would need to stop advising and, if they were not approved for any other activities, their firm would need to withdraw their approved person status and re-apply to the FSA when the RIA has completed their qualification.

References

The following publications are available on the RDR library pages of the FSA website: http://www.fsa.gov.uk/about/what/rdr/rdr-library

Farr, D., Hopkins, J. and Wood, A. (2013), *RDR adviser population & Professionalism research 2012 Survey - Technical Report.*

Atkin, B., Crowther, N., Wintersgill, D. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review.*

Atkin, B., Farr, D., Leston, J. and Wood, A. (2011), *Research: Progress towards the Professionalism requirements of the Retail Distribution Review – Technical Report*.

NMG Consulting (2010), *The cost of implementing the Retail Distribution Review professionalism policy changes*.