# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>02</td>
</tr>
<tr>
<td>ABOUT THIS REPORT</td>
<td>03</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY OF THE MARKET RESEARCH</td>
<td>04</td>
</tr>
<tr>
<td>THE SAMPLE</td>
<td></td>
</tr>
<tr>
<td>Respondents</td>
<td>08</td>
</tr>
<tr>
<td>AUTHORS</td>
<td>09</td>
</tr>
<tr>
<td>NOTES FOR EDITORS</td>
<td>12</td>
</tr>
</tbody>
</table>
Foreword

The Financial Services Authority (FSA) launched its Retail Distribution Review (RDR) in June 2006. The specific aim of the RDR was to consider the root causes of the problems that have emerged in the distribution of retail investment products and to see if they could be fixed at source.

The FSA published a discussion paper “A Review of Retail Distribution” (DP07/01) in June 2007 and an Interim Report in April 2008, before announcing final proposals in their Feedback Statement (FS08/06) entitled “Retail Distribution Review”, published in November 2008. In this Feedback Statement, the FSA stated the outcomes they wanted to achieve, namely:

- An industry that engages with consumers in a way that delivers more clarity for them on products and services;
- A market which allows more consumers to have their needs and wants addressed;
- Standards of professionalism that inspire consumer confidence and build trust;
- Remuneration arrangements that allow competitive forces to work in favour of consumers;
- An industry where firms are sufficiently viable to deliver on their longer term commitments and where they treat their customers fairly;
- A regulatory framework that can support delivery of all of these aspirations and which does not inhibit innovation where this benefits consumers.

These fundamental and far-reaching changes which are proposed to be implemented by December 2012 will profoundly affect all participants in the retail investment market. The next key stage in this process will be in June 2009 when the FSA will publish a Consultation Paper containing draft rules.

With this in mind, we commissioned a report to support our commitment to the insurance and financial services industry and, in particular, to assist our clients operating in this sector. The report provides the views of some 130 senior executives on the FSA’s final proposals in its Feedback Statement. The full report includes additional commentary and thoughts from our own team at Pinsent Masons who have reviewed the expected outcomes and views derived from the survey.

Therefore, we are delighted to publish our report, which is being released in advance of publication of the FSA’s Consultation Paper next month, to assist in providing a clearer understanding of the views of the 130 product providers and advisers in the retail distribution industry on the implications of the RDR as they see them. We also take this opportunity to thank everyone who participated in the survey for their valuable time and input.

Martin Membery
Partner, Head of Insurance Sector, Pinsent Masons
May 2009
Following the release of the FSA’s RDR Feedback Statement in November 2008, Pinsent Masons Insurance Sector commissioned management consultants, Wheeler Associates, to conduct a study into the market’s response to the RDR process and its proposals. The basis of this study was a survey conducted by market researchers, McCallum Layton, among senior executives from 130 organisations involved in the investment, life and pensions industry including IFAs, life companies, fund management companies, friendly societies and wrap/platform companies.

To get a better view and to be able to support our clients in considering the changing regulatory and operational framework, we have provided detailed analysis in the full report on the areas felt to be of most importance to these constituent groups. These areas include:

- The RDR process, professional standards, adviser charging, independent advice, sales services and money guidance;
- The business opportunity, operational impact on providers and advisers, capital adequacy and who will be the winners and losers;
- The impact and implications for online provision of retail investment products and platforms;
- The role of Banks, and whether the RDR creates opportunities for them; and
- Competition law implications.

The market research included in-depth telephone interviews undertaken with senior executives that provided detailed views from the industry on the implications and effect of the RDR, the process and the likely outcomes for market participants.

In addition, in January 2009, Pinsent Masons hosted an Executive Roundtable dinner bringing together a group of highly respected senior executives in the investment, life and pensions industry. The dinner enabled the participants to discuss openly the RDR process, the November 2008 Feedback Statement and the implications for their industry. We would like to thank all those who participated for their insight and help in providing the framework for the market research that followed.

Although the FSA now describes the current phase of the RDR as the “Retail Distribution Implementation Programme” (RDIP), we have decided to retain the term “RDR” in this report as it focuses on the final RDR proposals set out in the Feedback Statement.

We hope that you find this executive summary a useful insight into the RDR, and that it provides a clear and concise review of the challenges the retail investment market faces in light of the most significant regulatory change in a generation.

**Should you wish to obtain a copy of the full Pinsent Masons research report then please visit:**

[www.pinsentmasons.com](http://www.pinsentmasons.com)
Executive summary of the Market Research
by Wheeler Associates

Included is a summary of the main findings from the market research undertaken by McCallum Layton in February/March 2009. The findings are not listed in order of importance.

Industry critical of the RDR process and proposals

Since its launch in June 2006, the FSA’s Retail Distribution Review (RDR) has attempted to redefine the distribution landscape for the investment, life and pensions industry for the benefit of consumers as well as for product providers and advisers.

The FSA has sought to involve widespread consultation across the industry, which has led to the production of three major discussion documents, namely: the June 2007 Discussion Paper; the April 2008 Interim Report; and the November 2008 Feedback Statement.

Although respondents to our survey indicated a high level of involvement by their organisations in the RDR – 68% of respondents said that either they personally or someone else in their organisation had provided a written submission to the FSA or attended an FSA event on the RDR – many were critical of the FSA’s proposals and the pace of the RDR. Just 3% expressed themselves very satisfied with the FSA’s proposals with a further 35% being quite satisfied. However, (36%) said that they were dissatisfied with the proposals. Nearly a third (30%) said that they were dissatisfied with the pace of the RDR – some being unhappy that it is taking too long, others that it is being rushed.

“Industry critical of the RDR process and proposals

“The FSA need to get on with it, the pace of the process has been very frustrating.”

Executive Roundtable Participant (January 2009)

Original objectives of the RDR not being met

When the FSA launched the RDR it set out to achieve four main objectives, namely:

• To deliver fairer outcomes for consumers;
• To modernise the investment, life and pensions industry;
• To give consumers more confidence and trust in the investment, life and pensions industry, and
• To encourage more people to save for their retirement.

Respondents to our survey believe that the FSA has failed to deliver on all of these objectives, with more respondents disagreeing that these objectives will be met than those agreeing. On ‘fairer outcomes’, 40% agree and 49% disagree that this objective will be met. On ‘modernisation’, 41% agree and 36% disagree. On ‘increasing consumers’ confidence and trust’ 20% agree and 57% disagree, and, finally, on ‘encouraging more people to save for retirement’, 6% agree and a massive 77% disagree.

“Original objectives of the RDR not being met

“The purpose of the RDR is to abolish commission. The real outcome of the RDR will be that the IFA industry will cease to exist.”

Executive Roundtable Participant (January 2009)

More than half of all respondents, 58%, feel that access to financial planning advice will decrease as a result of the FSA’s proposed reforms. Just 8% think it will increase.

When asked if they think the FSA’s proposals will have a positive, negative or neutral impact on competition in the retail investment market, those who said negative (40%) outnumbered the positives (22%) by almost two to one.
IFAs least satisfied with the RDR

The biggest critics of the RDR are the IFAs. Nearly half (47%) of the smallest IFAs (1-3 employees) have not contributed to the RDR and 31% of all IFAs say that they are dissatisfied with the extent to which they have been consulted. Nearly half (48%) of all IFAs are dissatisfied with the proposals coming out of the RDR. IFAs are also less likely to agree that the original objectives for the RDR will be met, and nearly two thirds (64% - rising to 72% among the smallest IFAs) feel that access to financial planning advice will decrease as a result of the FSA’s proposed reforms. Finally, 52% (rising to 69% of the smallest IFAs) believe that the FSA’s proposals will have a negative impact on competition in the retail investment market.

Proposals to clarify services get mixed reception

The majority (80%) of respondents are supportive of the change in the definition of independent advice under the RDR, as truly unbiased, unrestricted advice, based on a comprehensive and fair analysis of relevant markets; 17% are not (the balance had no view either way).

More than three quarters of organisations surveyed (77%) currently provide advice that fits with this definition, including 96% of the IFAs and between a third and half of the rest. However, just 62% of respondents said that their organisation is likely to provide independent advice under this definition going forward post-RDR. So, fewer organisations plan to provide independent advice under the FSA’s reforms.

There is much less clarity and support for the definition of ‘sales services’ under the RDR. Under the RDR, there will be four categories of ‘sales services’, namely: non-independent advice services; guided sales – advised; guided sales – non-advised; and; execution-only sales. Apart from ‘execution-only sales’ around 40% of respondents thought the labels for the other three ‘sales services’ confusing. The majority (around 90%) felt that these three terms would not be very clear to the general public. Only the ‘execution-only sales’ label was thought to be intelligible to the general public, but even then only by 41% of respondents.

When respondents were asked how they would label these different ‘sales services’, no clear consensus emerged as to what was most appropriate. On this evidence, considerable work will have to be done to develop a series of service labels which will be meaningful to the industry, let alone consumers!

Around a third of respondents’ organisations (37%) currently use sales services as defined by the RDR to distribute investment, life and pensions products to consumers, including 71% of the life companies. 35% of respondents said that their organisation is likely to use sales services as defined by the RDR, going forward post-RDR. Likelihood of doing this was highest among life companies (65%) and lowest among IFAs (28%) and fund management companies (25%).

However, 15% of those who currently use sales services said they were unlikely to do so going forward (either because they intend to go the fully advised route, because they will rely on others to distribute their products, or because they may be leaving the industry). 9% of those who do not do so currently said they were likely to, post-RDR (mainly because they feel they will be forced to).

“I just need a relationship with my client. I don’t care if it’s called advised sales.”
Executive Roundtable Participant (January 2009)

“The challenge for IFAs is how to support a change in income stream.”
Executive Roundtable Participant (January 2009)

“On guided advice, the proposals are muddled. Only a clean, simple solution will work for the banks.”
Executive Roundtable Participant (January 2009)
Independent advice will only be affordable by and available to the most affluent post-RDR

Three quarters of respondents agree with the contention that post-RDR, independent advice will only be affordable by and available to the most affluent in society.

“IFAs chase the mid to high net worth individuals. Post-RDR, the banks will pick off the lower end of the market.”
Executive Roundtable Participant (January 2009)

Jury split on migration to online purchasing of investment, life and pensions policies

Views were mixed as to whether the RDR proposals increase the likelihood that over time, investment, life and pensions policies will go the same way as car insurance, where the bulk of all new policies are bought online directly from providers these days 47% agreed and 47% disagreed.

“Youngsters do everything online. They also trust certain brands. Conventional distribution for life products is not the model we should be considering. New technology shouldn’t be ignored. The emerging new breed of consumer will utilise technology.”
Executive Roundtable Participant (January 2009)

Those who do see this happening suggested likely timescales of between one and 20 years for this to come about; the majority, though, saw this happening within the next 5-10 years.

The industry is supportive of Money Guidance, but will not provide it

Whilst 78% of all respondents said they are supportive of Money Guidance and its aim to better inform consumers about their money matters, just 22% of respondents said that their organisation will be providing Money Guidance services. Only IFAs and friendly societies suggested they would be doing this.

“IT’s [Money Guidance] a nice socialist idea!”
Executive Roundtable Participant (January 2009)

Adviser charging expected to lead to a significant loss of consumers seeking independent advice and less IFAs providing that advice

Views were mixed as to whether the introduction of adviser charging will increase consumers’ level of trust in the investment, life and pensions industry: 46% agree it will, whilst 39% disagree.

However, when asked whether the new charging regime will lead to an increase or decrease in the number of consumers seeking independent advice, 24% said that they expected a significant decrease, 22% expected the number to decrease somewhat, and only 12% expected to see an increase. 38% expected no real change.

Many of those anticipating a decrease suggested that many consumers will not want to pay for something which up to now they had regarded as ‘free’, and that many will not want to pay up-front for advice.

As the advent of adviser charging is likely to have most impact on IFAs, all respondents were asked what they believe this impact will be. A small number (4%) felt there would be no impact, and a few commented that the impact would be positive (those surviving being in a position to corner the market, firms having to improve their service offering to cultivate their clients more effectively, more graduates being attracted into the profession). The majority, though, expected the impact on IFAs to be negative, with firms doing less business, or going out of business altogether.

“It doesn’t need to be independent advice, it just needs to be good.”
Executive Roundtable Participant (January 2009)
Raising professional standards is seen as a good thing

Respondents are very supportive of the proposal to create a Professional Standards Board for organisations distributing investment, life and pensions products into the market, with 75% supporting this. Similarly, the great majority, 96%, said they are in favour of minimum professional qualifications within the financial advisory market, and 97% of a system of professional standards and qualifications, including CPD, which mirrors that in other professions like law and accountancy.

The majority (55%) of respondents believe that these measures will attract more of the most talented new entrants, particularly graduates, into financial advisory careers; 30% disagree, mainly because they don’t think the industry will offer these entrants sufficient income and that graduates are not suited or experienced enough to advise on and sell financial products.

New capital adequacy rules expected to lead to reduction in number of IFAs

The proposals for the new capital resources requirements for Personal Investment Firms (PIFs) increase the minimum level from £10,000 to £20,000, and extend the Expenditure Based Requirement to all PIFs, based on 3 months of expenditure.

Respondents were asked what impact they think these new requirements will have on the number of PIFs. 11% (mostly IFAs) felt this would have no effect at all, but a majority, 65%, anticipated a significant reduction in the number of PIFs.

The banks are expected to be the big winners under the RDR, whilst the IFAs will be the biggest losers

In its latest Feedback Statement, the FSA states that the RDR represents a business opportunity for firms involved in the life and pensions industry. Asked to what extent they agreed or disagreed that the RDR represents an opportunity for their organisation to grow its business, 36% of respondents agreed and 42% disagreed. The life companies (53%) are the most likely to see the RDR as an opportunity to grow their business, the IFAs (36%) the least.

More than a third of respondents (35%) said that they will have to fundamentally change their business model, as a result of the RDR. The changes they expect to have to make are:

- Changing pricing structures/moving to fee-based structure;
- Adopting new distribution methods;
- Staff training/qualifications.

Asked which players in the industry would be the biggest winners and losers under the RDR, respondents identified the banks as the biggest winners (mentioned by 68% of respondents) and the IFAs the biggest losers (mentioned by 59% of respondents).

Majority believe that consumers will not be better off under RDR, Money Guidance and Personal Accounts*

Finally, when all respondents were asked to what extent they agreed or disagreed with the contention that the RDR, Money Guidance and Personal Accounts* will deliver better outcomes for consumers, half disagreed and only 35% agreed, putting the industry at odds with the FSA and the Government on reforms to the way retail investment, life and pension products are distributed to consumers.

* Personal Accounts are being established in 2012 by the Government whereby employees will be auto-enrolled by their employers and required to make a minimum contribution.

“It will be a horrible process for under-capitalised businesses. Large chunks of the distribution market are chronically under-capitalised. The overall landscape will change – there will be far fewer providers. The FSA will create a wasteland.”

Executive Roundtable Participant (January 2009)
The total of 130 interviews achieved broke down by organisation type as follows:

<table>
<thead>
<tr>
<th>Organisation Type</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFAs</td>
<td>81</td>
</tr>
<tr>
<td>Life companies</td>
<td>17</td>
</tr>
<tr>
<td>Fund management companies</td>
<td>16</td>
</tr>
<tr>
<td>Friendly societies</td>
<td>13</td>
</tr>
<tr>
<td>Wrap/platform companies</td>
<td>3</td>
</tr>
</tbody>
</table>

As far as the IFAs were concerned, a broad range of company sizes were sampled for this research – 40% of the IFA companies had just 1-3 employees, 35% had 4-10 and the remainder were larger, with a mean average of 105 across this sub-sample. Overall, each respondent organisation had an average of 1,556 employees in the UK, ranging from 57 in the wrap/platform companies to 10,428 in the life companies.

The average number of life or pension policyholders or customers that each organisation has was 580k. This was lowest among the wrap/platform companies (15k) and IFAs (59k), and highest among the life companies (3.2m).

In all, 45 (35%) organisations manufacture their own investment, life and/or pensions products. Around 90% of the life companies, fund managers and friendly societies do, but just 5% of IFAs do and none of the wrap companies.

Respondents

Respondent job functions were as follows:

<table>
<thead>
<tr>
<th>Job Function</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietor/Principal</td>
<td>11</td>
</tr>
<tr>
<td>Managing Director</td>
<td>7</td>
</tr>
<tr>
<td>Partner/Director (general)</td>
<td>50</td>
</tr>
<tr>
<td>Head of Compliance/Risk/Governance</td>
<td>32</td>
</tr>
<tr>
<td>Sales/Marketing/Distribution</td>
<td>9</td>
</tr>
<tr>
<td>Strategy/Operations/Policy</td>
<td>7</td>
</tr>
<tr>
<td>Legal/Regulatory affairs</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
</tbody>
</table>
Authors

Bruno Geiringer
Partner – Life Insurance
T: +44 (0) 20 7418 7306
E: bruno.geiringer@pinsentmasons.com

Bruno has over 20 years experience in financial services law and regulation, heading up legal and compliance teams in a number of life insurance companies and was, more recently, in charge of the corporate legal team at Abbey National. Having also spent 11 years with Canada Life, he has extensive operational and strategic experience. Bruno has advised on a life company demutualisation, a number of acquisitions and disposals and court approved transfers of life and pensions businesses under Part VII FSMA.

He has in-depth experience in life and pensions regulation, life reinsurance, product innovation and development, remedial action projects, and sales force management. He has drafted distribution agreements, life and pension fund investment management agreements, intra-group shared services agreements and advised on the effect of the Unfair Terms in Consumer Contracts Regulations on retail product terms.

Mike Evans
Director of Life Insurance
T: +44 (0) 20 7418 8076
E: mike.evans@pinsentmasons.com

Mike is Director of Life Insurance in our Insurance and Reinsurance team. An actuary with over two decades of experience in the life industry, he came to Pinsent Masons in 2007, fresh from the role of Chief Operating Officer at Skandia. Our clients will benefit from his experience in strategy, product development, distribution relationships, customer service, financial reporting and regulatory relationships. Alongside his role at Pinsent Masons, Mike is a non-executive director of Hargreaves Lansdown plc, he is chairman of the Unitholders’ Advisory Committee of the ING Real Estate Select Global Osiris Fund and also chairman of the Quoted Investments Advisory Board of ING Real Estate Investment Management UK.
Authors (cont’d)

John Salmon
Partner - Financial Services E-Commerce
T: +44 (0) 141 249 5411
E: john.salmon@pinsentmasons.com

John is a Partner specialising in providing E-commerce and IT advice particularly in the financial services sector and was a founding partner of the new media and E-commerce service OUTLAW.COM. He lectures and writes extensively on the subject of IT and e-business legal issues, and wrote the IT chapter of the firm’s recent publication ‘Insurance Distribution’.

Key relevant experience includes advising leading insurance companies on the procurement of its WRAP platform and associated services, including the negotiation and drafting of the services agreement, a provider of WRAP services on white-labelling arrangements with a product provider and advising Origo on and drafting a standard legal framework to address the data protection, security and contractual issues surrounding the online transfer of data between financial services companies and IFAs through third party service providers or portals.

Alan Davis
Partner – Competition
T: +44 (0) 20 7418 7026
E: alan.davis@pinsentmasons.com

Alan heads up the London competition practice. He has expertise in a broad range of UK and EU competition law including merger control, joint ventures, anti-competitive agreements and practices, abuse of dominant position and State aids. He is qualified as a solicitor in England and Ireland, and practised in Brussels for six years including a year with the European Commission.

Alan has advised extensively on competition law issues arising from co-insurance arrangements, insurance distribution agreements including, corporate partnerships and relationships between insurers and intermediaries, including IFA networks. He has also advised on merger control and competition law issues arising from mergers, acquisitions and joint ventures between insurance companies and intermediaries. He is also advising a major underwriter on the Competition Commission’s investigation of payment protection insurance in the UK. Alan has written a number of articles in the insurance press and legal journals (including Insurance Day, Insurance International, Insurance Law) on recent competition law issues in the insurance sector.
Tony Anderson
Partner – Banking
T: +44 (0)20 7418 7079
E: tony.anderson@pinsentmasons.com

Tony Anderson is a Partner in the Banking and Insurance Group. He has considerable experience advising lenders and borrowers on acquisition, real estate and trade finance transactions across a range of sectors including media, hospitality, health, construction, insurance and commodities. He also advises clients on retrocession and custody arrangements as well as consumer credit regulation.

In addition, he has also spent time as the Legal Counsel to the Global Financial Institutions Group of one of the UK’s largest banks.

Tony’s clients include several of the UK’s leading clearing banks and insurance and reinsurance companies, commodity traders, private equity funds, healthcare operators and listed pub operators.

Tony is qualified as a solicitor in England and Australia and has advised several of Australia’s retail banks, building societies and insurers on compliance with consumer credit and competition regulation. Included in this advice has been the design and implementation of compliance and risk management programs for these clients.
Notes for Editors

Pinsent Masons is an international law firm with more than 1000 lawyers who provide a full range of corporate and commercial services. The firm ranks amongst the top 100 global law firms.

With headquarters in the City of London, Pinsent Masons operation spans the UK, Continental Europe, the Middle-East and Asia Pacific. In the UK, the firm also has offices in Birmingham, Leeds, Manchester, Edinburgh, Glasgow and Bristol. Internationally, Pinsent Masons is based in Shanghai, Beijing, Hong Kong and Dubai. Through a series of associations, the firm is allied to independent law firms able to provide legal support in a variety of jurisdictions, including within Europe and the emerging markets.

As one of Pinsent Masons’ core sectors, insurance is at the heart of our business. We have a market-leading position providing a full range of services to major insurance companies, reinsurers, brokers and other insurance sector players.

Pinsent Masons LLP is a limited liability partnership registered in England & Wales (registered number: OC333653) and regulated by the Solicitors Regulation Authority. The word ‘partner’, used in relation to the LLP, refers to a member of the LLP or an employee or consultant of the LLP or any affiliated firm who has equivalent standing and qualifications. A list of the members of the LLP, and of those non-members who are designated as partners, is displayed at the LLP’s registered office: CityPoint, One Ropemaker Street, London EC2Y 9AH, United Kingdom.

We use ‘Pinsent Masons’ to refer to Pinsent Masons LLP and affiliated entities that practise under the name ‘Pinsent Masons’ or a name that incorporates those words. Reference to ‘Pinsent Masons is to Pinsent Masons LLP and/or one or more of those affiliated entities as the context requires. For important regulatory information please visit: http://www.pinsentmasons.com/

Wheeler Associates is a specialist management consultancy providing strategic marketing and business development advice to professional services firms. Working exclusively with Leeds-based market research company McCallum Layton, Wheeler Associates is a leading provider of market research solutions to the professions.