MOONSTONE

RDR Feedback on Remuneration

At the Discovery Financial Planning Summit, held on 19 May 2015, Mr Jonathan Dixon of the FSB discussed feedback received from the industry on remuneration proposals in the Retail Distribution Review.

Investment product remuneration

While there has been general support for a shift to an advice fee model for "investment products" (defined as single premium policies or CIS), there are mixed views on whether an advice fee-only model is appropriate for "savings products" (defined as recurring premium investment policies).

Solid arguments have been advanced in this regard, but this alternative proposal needs to be tested against the over-arching principle that we outlined in terms of consistency across sectors and the need to deal with product bias. Also, the shift away from commission on these so-called savings products also underpins a shift away from early termination charges – so if we retain any form of commission on such products we would have to ensure that we do not perpetuate termination charges.

There was strong support for a special dispensation for the low-income market, allowing commission on investment products that meet certain product standards, while addressing termination charges.

Investment platform remuneration

On LISPs, the feedback has been mixed. There is general, but not unanimous, support for a shift to "clean pricing", with prohibition on LISP rebates. Some LISPs still believe they should be able to receive "outsourced fees" from product suppliers for certain services.

Also, LISPs have raised concerns with the proposals that they must:

- charge clients the same administration fee regardless of the fund invested in; and
- give equal prominence to different funds/products featured on the LISP menu.

I suspect there may be some long and detailed discussions to come on these points.

Life risk products

Commentators have raised concerns that customers may not be willing to pay an advice fee for advice on risk policies, and that we should look at allowing a higher proportion of commission to be paid up-front.

We will look at these suggestions and conduct further research on appropriate changes to commission structures and levels, and the time period over which changes should be phased-in.

There are also a number of different views on the proposal to prohibit commission on replacement policies. Alternative suggestions included an extended commission claw-back period.

Similarly, there have been arguments for a lighter touch on the application of equivalence of reward, and its delayed implementation.

On these two issues, we will signal over the next few months the extent to which we will continue with our stated intention of making changes this year or deferring some or all of the changes to a later phase.

On the equivalence of reward issue, however, we are seeing a disturbing trend of using the current unclear equivalence dispensation to offer incentives to tied agents that achieve similar results to the now prohibited sign-on bonuses. Any phasing-in of our longer-term proposals would therefore need to ensure that such gaps cannot be exploited in the interim.

Lastly, a very good point has been made that our RDR reforms should deal with adviser remuneration for post-retirement annuities. In particular, the fact that the different remuneration models for traditional life annuities and living annuities can significantly distort advice on this very important life decision. This was a clear oversight and we intend to develop proposals on this issue as part of our further work and consultation.

Short term Insurance Remuneration

For short-term insurance policies, remuneration structures will remain largely the same.

The biggest difference is that allowance will be made for advice fees to be negotiated directly with clients for up-front and on-going advice. In many ways, this will replace the current section 8(5) fee, which allowed brokers to charge a fee to the policyholder, but without this having to be explicitly agreed and without any clarity on what services the fee was being paid for.

As-and-when commission will continue, to cover both up-front selling and on-going servicing of the client.

Again, given that advice will be separately remunerated by means of an advice fee, commission levels will need to be reviewed.

Lastly, another proposed change in this area is the introduction of stricter standards around cover cancellations by brokers with the aim to prevent incentive-driven churning of policies.