# RDR in the UK: The winners and losers

Potential lessons for South Africa.

Ingé Lamprecht / 30 May 2017 00:04

JOHANNESBURG – The biggest winner emerging from the Retail Distribution Review (RDR) regulatory reform in the United Kingdom has been the customer, a chief executive has said.

RDR was introduced in the UK at the end of 2012 to ensure more transparency and clarity in the financial advice industry. South Africa is gearing up for a similar RDR reform process, but regulatory efforts to make advice more affordable, accessible and fair have sparked fears that it could put many financial advisors out of business and make advice unaffordable for lower income earners.

Speaking at the Sanlam i3 Summit, David Ferguson, founder and chief executive of Nucleus Financial Group, said RDR and all the associated legislation introduced in the UK have really been about driving value for money.

“It was all about value for money really and anyone who didn’t get that or couldn’t bring themselves into that world was lost.”

The winners have been those stakeholders that built or rebuilt their businesses around the customer. This was easy for start-ups, but sometimes difficult for established groups. The regulatory change essentially meant that the game was up for anyone who didn’t have the customer’s interest at heart – whether it was platforms taking dirty margins, advisor networks funded by soft commissions from providers or product providers concealing charges in complex charging structures, he said.

“If it doesn’t work for the customer, it simply doesn’t work at all.”

But while much doom and gloom were predicted for the advisor market in the years leading up to RDR in the UK, the independent financial advisors and restricted advisors who have made it through this trip have also been “extraordinary winners”.

Other winners included open platforms that were not driven by kickbacks or commission from fund groups and passive funds.

Ferguson said prior to the introduction of RDR, passive funds were a small part of the UK market, but when the commission model was eliminated it opened the door for this sector. Low-cost index and ETF provider Vanguard has enjoyed enormous success in the UK on the back of RDR.

Discretionary fund managers (particularly those who run model portfolios on platforms), technology providers and consultants also benefited from the regulatory change.

The losers were essentially anyone who was commission-led, Ferguson said.

This included fund supermarkets running a commission-based model where fund groups effectively paid for the distribution, insurance companies (particularly those that were investment focused) and mediocre transactional-type advisors.

Ferguson said almost all retail banks in the UK pulled out of the advice market due to risk considerations.

As advisors became more professional, some support companies have lost out. Active fund managers have generally also been on a journey to become losers, he added.

Ferguson said on the periphery of the industry, the biggest losers have been trade media, trade bodies, event management companies and groups that fed off old fee structures.

Mass-market customers were arguably also losers in this process, as they could no longer afford financial advice.

Advisors

On a weighted average on-going fee basis, the typical charge for advice on the Nucleus platform is currently 81 basis points. This has risen from a market average of around 50 tot 55 basis points ten years ago, Ferguson said.

That meant that the independent financial advisor was receiving the lion's share of the average total customer charge of 183 basis points.

Ferguson said the UK financial advisor market was really thriving, although he admitted that there were individuals who didn't make the trip through RDR and who were lost to the sector.

But those individuals who completed the qualifications, got professional and became client-centric have been "massive winners", he said.

"Those that lost just didn't get on the bus. They thought this was going to be deferred. They thought this was going to be cancelled. They thought it would be diluted in some way, but for whatever reason they were unable to make the trip to a world where the client mattered most."

The success story that has emerged over the last few years, was against all the odds, he said.

Between 2010 and 2012 almost everyone was predicting the demise of the financial advice sector in the UK and it simply hasn't happened, he said.

"It has actually gone completely the opposite way."

Ferguson said in the old days, a UK advisor might have looked after as many as 1 000 clients, but this number included a lot of people who have just been sold a product at some point. Currently the typical advisor has roughly 100 clients with whom he or she has a deeper, almost personal couching relationship.

"It is much less about products. It is much less about investment management. It is really about how do I get inside this person's head and understand what they want for their life. How do I help them within that journey?"