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viewpoint

Keeping you connected to today's financial services market

The growth of 'DIY investors': RDR changes pushing a move to self direction?

It will soon be two years since the Retail Distribution Review (RDR) came into force and represented a major shake up for the retail investment market. Incorporating the latest Harris Interactive poll data, we assess the impact on the use of professional advice and the implications for the future.

Background - the reasons for change

Following a general decline in consumer perceptions of the financial services industry as a whole and, more specifically, focusing on investors' concerns regarding financial advice, the Financial Conduct Authority (FCA, formerly the FSA) hopes the RDR will result in a fairer experience for retail investors and will go some way in helping to restore trust in the industry.

On the back of numerous industry indiscretions, the RDR has three specific objectives:

The changes involve banning investor commission in favour of up front advice fees, guidelines on clearly describing services, and implementing a minimum qualification and requirement for continuous professional development.

Adviser numbers and shift in focus

Before implementation there were fears within the industry that advisers, faced with the new specific training requirements, would leave the industry altogether, and those that remained would struggle as they lose clients.

In reality, the training has not proved to be much of an issue though, but adviser numbers have reduced, driven in large part by the exit from the mass advice market of a number of major banks and building societies. Others now restrict advice to those with £100,000 or more to invest. It is not just the banks who are narrowing their focus in this way either, but rather a trend that is being echoed across the wider industry. Post-RDR, there is a concern amongst advisers that it will no longer be profitable for them to advise the lower level investors. In the words of one IFA, "we can't afford to service clients with less than £40k-£50k. The costs just don't make sense. It's not worth our while".[1]

44% of IFAs interviewed in early 2013 said that they thought the RDR would have a negative impact on first time investors, which is not good news for long-term industry prospects or for a fairer market for consumers.[2] In terms of overall fairness and widening access, this is a worrying move, and particularly so in light of this year's budget changes which make it easier for people to invest their pensions as they choose. As Dominic Grinstead, Managing Director at MetLife, recently said: "It's a shame the numbers of advisers has shrunk at a time when the need for advice is shooting up".

Despite an apparent focus amongst IFAs on the higher net worth individuals, the industry is feeling much more optimistic than it expected. The view that advisers would lose clients has not necessarily materialised, with nearly three quarters of IFAs actually expecting to see an increase in the number of clients they work with this year, up from half who thought so last year.[3] Harris Poll data reveals there has in fact been little change in the proportion of consumers using an IFA when purchasing investments: 22% do so now, compared with 24% in 2010.[4] Figures also point to continued use in the future. Those who claim to use an IFA as their main source of advice, alongside those who have received advice since the introduction of the RDR (from January 2013) are significantly more likely to say they will always seek professional advice.

Which of the following statements best describes how you feel about obtaining advice on savings, investments and pension products?

	All who take advice	IFA as main source of advice	All who took advice since the RDR
I will always seek professional advice	18%	33%	52%
More often than not I seek professional advice	24%	40%	31%
I will only seek advice on the more complicated issues	40%	25%	16%
I never seek professional advice, I do the research myself	18%	1%	2%

Source: Harris Interactive Omnibus, April 2014.
Base: All GB adults who use advisers - 1,023; all using IFA as main source of advice - 210; all who took advice since RDR - 168

Cost of professional advice

As charges have become more transparent following stripping away commission in favour of up front advice fees, many wondered if, faced with the 'true' cost, fewer would pay for advice. In fact though, of all those who considered taking professional advice post-RDR, just under a third chose not to do so, but only a quarter of those cited the size of fee being off-putting as a reason. Most simply decided to use the money for something else.

However, two thirds of those holding savings, investment or pension products think that professional advice is too expensive, reducing to two in five amongst those who use an IFA as their main advice source. This should act as a reminder to advisers that, post-RDR, perhaps more than ever they need to demonstrate real value for money and compete well with other advice sources if they are to flourish.

How investors feel

Our research shows that those using IFAs are slightly more positive overall (82%) about the way in which they manage their investments, and are especially likely to feel interested, optimistic and supported. They do still have the same concerns as all investors, however, with 37% expressing negative emotions towards managing investments, with feeling worried, sceptical, frustrated and powerless topping the list.

Thinking about the way you manage/review your savings, pensions and investment products, how does it make you feel? Please select all that apply

	Total (savings, investments or pensions)	IFA as main source of advice
POSITIVE (NET)	76%	82%
In control	39%	33%
Interested	25%	44%
Secure	22%	33%
Optimistic	18%	33%
Relaxed	16%	23%
Happy	15%	14%
Empowered	11%	10%
Supported	11%	27%
Excited	6%	6%
Apathetic	5%	3%

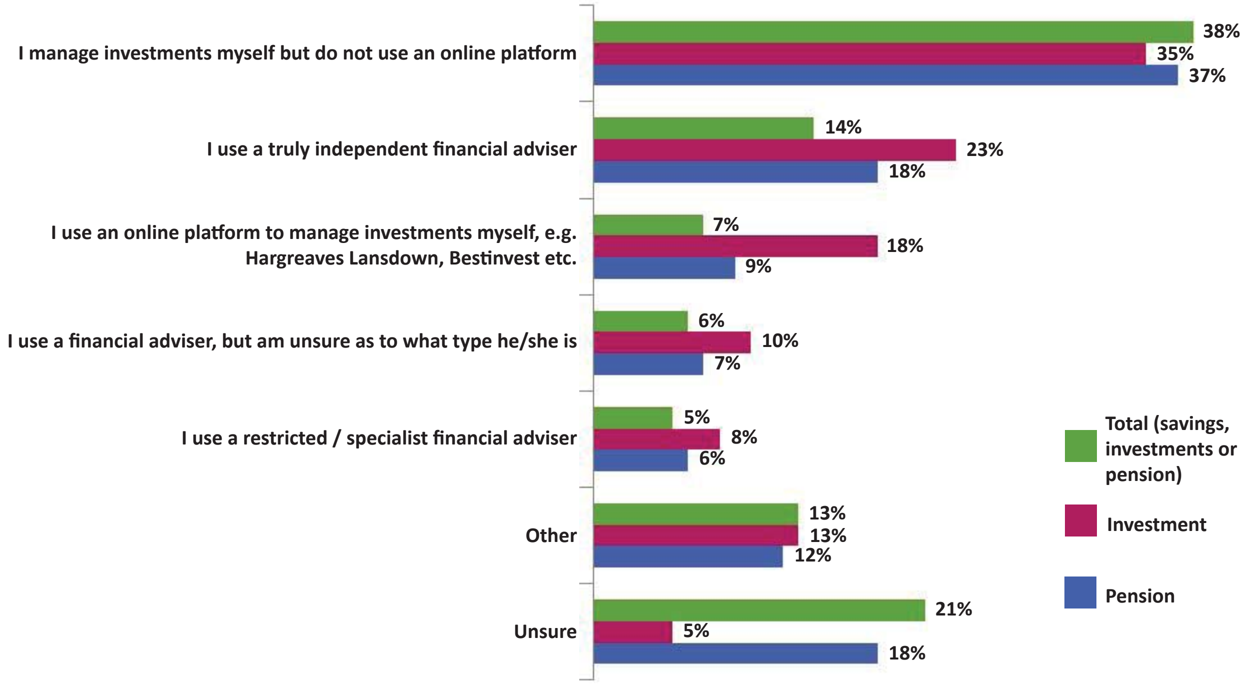
	Total (savings, investments or pensions)	IFA as main source of advice
NEGATIVE (NET)	40%	37%
Worried	12%	15%
Sceptical	12%	13%
Frustrated	11%	10%
Powerless	9%	10%
Disappointed	9%	7%
Bored	8%	3%
Depressed	7%	6%
Scared	6%	7%
Angry	4%	4%
Resentful	3%	5%

Source: Harris Interactive Omnibus, April 2014. Base: All GB adults with savings, investment or pension products - 1,551; those using IFA as main advice source

Types of advisers used

It is also worth noting here that knowledge about advice sources is actually somewhat limited, with 6% claiming to use a financial adviser but not know what type, and a further 21% unsure of how they manage their investments at all (driven largely by those with pensions). Just 14% believe they use a truly independent financial adviser, though this rises to 23% amongst those with investments.

Thinking about the way you manage/review your investments please select all that apply



Source: Harris Interactive Omnibus, April 2014.
Base: All GB adults with savings, investment or pension products -1,551; those with investments – 480; those with pensions – 1,118

'Restricted' versus 'independent' advice

In order to be categorised as 'independent', advisers need to offer advice across the whole market and across all products, from investments to private equity and venture capital trusts. Potentially this could open up new avenues to investors that they had not previously considered.

Instead of widening advice in this way though, many advisers are choosing instead to be referred to as 'restricted' by offering a specialised service. Whilst they would prefer to see themselves as more niche or bespoke, rather than less independent, the term 'restricted' doesn't exactly sound positive and may well not strike the right tone with investors, especially when so many inherently value 'independent' advice.

The RDR was designed to improve the clarity and standards of professional advice, but this particular change in terminology feels like just that: a re-categorisation which, if anything, may muddy the waters still further. It is unclear who, if anyone, the winners of this move actually are.

The rise of platforms

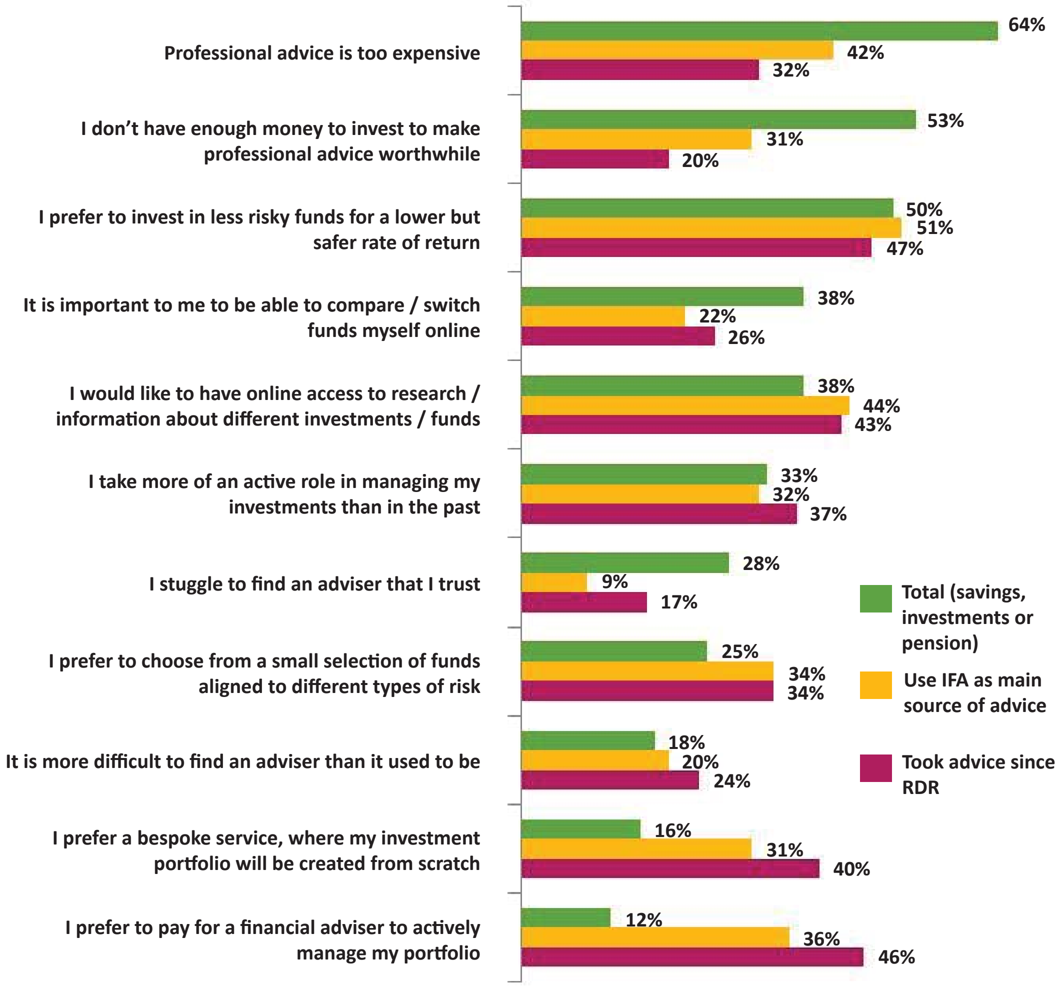
Post-RDR, the most significant trend emerging may be a move towards self direction. Online platforms or 'fund supermarkets', such as Bestinvest and Hargreaves Lansdown, have reported increased business since 2013. This comes alongside an increase in passive fund management, with the more simple exchange-traded funds or tracker funds becoming mainstream. Recognising the growing importance in this area, Which? have launched a fund supermarket comparison, with Hargreaves Lansdown announced in May as their recommended provider, with a customer satisfaction rating of 76%.

For investors unable to obtain advice from either their bank or an IFA without a considerable sum of money to invest, it is not difficult to see why the platform route would appeal: they offer choice without the need to consult an adviser - firmly putting control in the investor's own hands, whilst skipping the advice fee. Even amongst those who do take professional advice, platforms allow them to keep tabs on investments themselves, and this echoes a wider industry trend of consumers being more actively involved in managing their own finances digitally. We need only look at the growth of online and mobile banking to see the financial DIY mindset in action.

7% of GB adults with savings, investment or pension products manage investments themselves via an online platform, with this peaking at 18% amongst those with investment products. Men, younger investors and those familiar with the RDR are also more likely to use them. Just 12% of investors agree that they prefer to pay a financial adviser to actively manage their portfolio, although this rises to 36% of those using an IFA as their main source of advice and 46% amongst those who took advice since the introduction of the RDR. When we look more closely at those taking advice since its introduction we also see that they are more likely to prefer a bespoke service, where their portfolio is created from scratch.

Those taking advice since the introduction of the RDR are also considerably more likely to have over £100,000 in investable assets (31% of those taking advice post-RDR, as opposed to 18% who have not - excluding those declining to answer). This supports the view that professional advice is indeed becoming more for the mass affluent/higher net worth individuals, with lower level investors likely fuelling the growth of platforms.

Thinking about when you purchase savings, investments and pension products, to what extent do you agree or disagree with the following statements? Completely Agree or Agree



Source: Harris Interactive Omnibus, April 2014.
Base: All GB adults with savings, investment or pension products -1,551; those using IFA as main advice source - 210, those taking advice since RDR - 168

38% of investors say it's important to them to be able to compare/switch funds themselves, and 33% say they take more of an active role in managing their investments now than in the past.

It is perhaps telling that online platforms have been increasing in popularity at a time when, unlike advisers, they were not yet subject to the RDR changes.

RDR2

RDR2 was introduced in April ensuring that, like advised sales of products (i.e. financial advisers), execution only businesses (i.e. platforms) are now subject to the same regulations.

In a complex world it is no surprise that consumers cry out for simplicity when reviewing or purchasing investments, and this is a key advantage of platforms. But will increased transparency around fees and charges make it more difficult for consumers to make comparisons? It certainly is a risk and makes we wonder whether, in an effort to improve transparency, the RDR changes have at the same time increased difficulty for consumers, some of whom who may have preferred to keep things simpler.

On the flip side, RDR2 could in fact result in the investor receiving more advice and a better deal than previously when opting for the execution only route, as platforms are forced to compete more strongly with each other in a growing market. Platforms may well follow the banking picture, where we see that consumers, now used to online services, are seeking more from their online banking sites, such as money management tools and advice. Our research shows that 38% of those with savings, investment or pension products would like to have online access to research and information about different investments and funds. We are already seeing online platforms adding these tools to help non-advised investors build portfolios, and it is a really positive step - at least for the more confident investor.

Any changes have to work in practice though, and work for all investors. It would be ironic if the ultimate outcome of the RDR is a two-tired system, with the wealthiest investors paying for advice and the mainstream unwilling or unable to, and pushed instead to self direction, potentially putting their investments at greater risk.

Has the RDR met its objectives?

So what can be learnt from what we know of the RDR so far, and what will the future look like for investors?

One objective of the RDR was to separate the product from advice charges, and with the abolition of commission in favour of up front advice fees we can safely say that this has been achieved. As adviser self interest was an issue to consumers, this must go some way to alleviating concerns.

In terms of improving the clarity with which advisers describe their services, we can see that the RDR has increased transparency as services become unbundled. But this could have come at a cost of complicating things for consumers and making life harder for advisers - with the knock on effect to consumers of a focus towards the higher net worth individuals, leaving the lower level investors out in the cold and pushed towards self direction.

This brings into question the third RDR objective, which is improving professional standards. Whilst advisers now need a certain base qualification and 'independent' advisers need to offer advice across the entire spectrum, does this actually mean that consumers will benefit from improved professional advice? Well here I think the jury is still out. For those with a cool £100,000 to invest and able to afford professional advice, they may see the benefits and the move could help restore trust in the industry. But for the mainstream and first time investors, they may feel their choices are now more limited.

Provided the tools are in place to support investors, there is no reason why self directing can't be beneficial. The RDR could end up being exactly what the industry needs, resulting in greater openness, competition and a fairer deal for consumers. But as the economy recovers and the government continues to encourage investment through savings and pension reforms, safeguards need to be in place to ensure the longevity of the industry and protect consumers.

References:
[1]*Opinium Independent Voice panel*
[2]*Interviews conducted amongst IFAs, Opinium Research for Lansons, early part of 2013*
[3]*Voice of the Adviser 2013 survey – Matrix Solutions*
[4]*All answering 'IFA' to the question: 'When purchasing/taking out investments, which of the following different types of advisers do you use?'. Harris Interactive Omnibus, GB adults aged 18+ with savings, investment and pension products (base = 1,500 in 2010 and 1,551 in 2014)*

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