



RDR and the IT Vendors' readiness for action

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Background



The FSA launched the Retail Distribution Review (RDR) in June 2006 in response to what they saw as recurrent problems in the market for the distribution of retail investment products.

The first formal output came in June 2007 with DP01/01 which put forward a number of ideas including: Professional Financial Planners, General Financial Planners, Primary Financial Advice, Focused Advice, Generic Advice (led into 'Money Guidance' – Thoresen), Non Advised sales, CAR and Increased levels of qualification.

The FSA then went through an extensive period of consultation with 888 formal responses to their proposals, leading to an interim report in April 2008.

In many respects the interim report threw the initial RDR output into 'reverse gear' and dropped a number of major bombshells on the industry as structured today. However the industry response was surprisingly muted.

The process changes that may occur under the new proposals are substantial, as are the new channel opportunities. The industry response to these challenges will inevitably involve the IT community, as a result, AT8 decided to conduct a survey to see how the IT vendors perceive the current proposals and whether they are ready to embrace the potential changes.

Among other things the interim report plans to:

- Provide a simplified approach still focused on customer interests
- A very clear Polarisation between distribution models
 - IFA - full advice on whole market with higher [than current] competence levels for practitioners
 - Sales only with no advice with the aim to encourage higher levels of savings and protection so the needs of more consumers are met.
 - Money Guidance – a newly-proposed information and guidance service following the recommendations of the Thoresen Review.
- A move to Client Agreed Remuneration (CAR) models only
- The enforcement of new professional standards
- The establishment of professional bodies within the industry

It is our contention that the resulting business models will require investment in new processes and new technology. Better advice tools will be needed to support the IFAs, more streamlined sales processes, maybe fully automated ones, along with easy to understand educational support will be needed to make the non advised Sales and Money Guidance channels work effectively. The drive to CAR will enforce changes on administration platforms and quotation engines.

The market to date has been comparatively subdued in its response to these proposals, although it is beginning to wake up to the size of the changes along with the implications of opportunities and threats. This report seeks to indentify how alert the IT vendor market is to the opportunity and identify the level of its response.

The AT8 Research

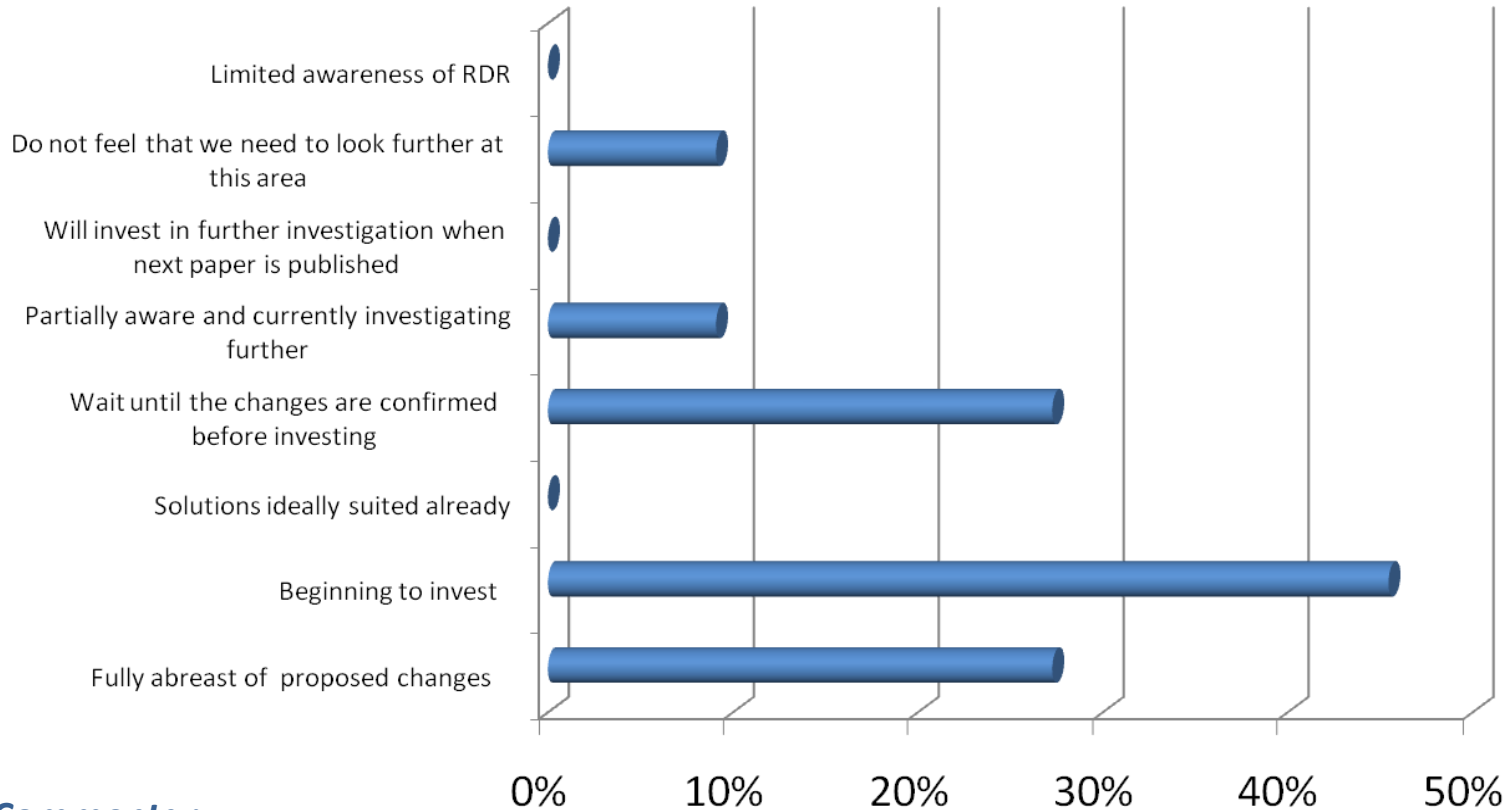


- AT8 have been discussing the impact of RDR with a number of the leading IT companies culminating in a formal questionnaire being sent out to the leading organisations.
- The research aimed to capture the degree of awareness the vendors have of the changes, as well as establish what tools and solutions they already had that can help in a post RDR world, along with the areas of their solutions they were investing in to get 'RDR ready'.
- We also looked at what the vendors perceived as the benefits and risks of the proposed framework.
- We have supported the questionnaire with a number of conversations with vendors and their clients across the market to ensure the direction shown within the report is reflected in their actions in the market place.

The vendors were asked to state which of the following statements best described their approach to RDR:

- a) We are fully abreast of and understand the proposed changes
- b) We are already beginning to invest in updating our solutions
- c) We are fully aware of the proposed changes and believe our product /solutions are already ideally suited to the new environment – no additional changes are planned
- d) We are aware of the proposed changes but will wait until the changes are confirmed in the next report (Oct) from the FSA before investing in making system changes
- e) We are partially aware and are currently investigating the proposals further
- f) We are partially aware but will only invest in further investigation when the next paper is published by the FSA
- g) We are partially aware and do not feel that we need to look further at this area in the near future
- h) We have limited awareness of RDR

Vendor Awareness - results



AT8 Commentary

AT8 are encouraged by the number of vendors already investing in ensuring that they will have solutions flexible enough to operate in the proposed RDR world. The sample does have a bias towards the leading vendors in the back office and front office space for distributors, and this will have effected the results somewhat, but we were encouraged to see this degree of thought leadership and commitment at this stage. These findings are backed up when AT8 are doing reviews of vendors products where we have seen specific and tangible investment in product developments for this area.

Survey results



- The survey also produced the following results:
- 81% of vendors either agreed or strongly agreed that RDR will provide additional business opportunities.
- 100% of those who responded either disagreed or strongly disagreed with the statement that their company will lose some business opportunities due to RDR.
- 55% of respondents either agreed or strongly agreed with the statement that most of their clients will need to update their technology to adapt to the proposals.
- 55% of those questioned believed that their customers would need to make significant changes to their business model to be ready for RDR.
- When questioned about whether RDR was delaying decisions, the respondents were less decisive, with the average position being a slight disagreement with the statement.

Regulation - Solution Vendor Articulation



- Regulation is continuing to drive technology refreshes and in some cases is also delaying existing technology projects and RDR is no exception!
- The Major vendors are positioning themselves as being ready for these regulatory drivers.
- In our research, vendors have identified the following areas for investment:
 - Providing an electronic guided sales process
 - Improving reporting capabilities
 - CAR compliant product creation
 - Enhancement of the management of fees and charges
 - Refinement of analytical tools and processes
 - Investment in enhancing systems to address advice in a stringer way
 - Provision of educational tools to services money guidance
 - Investment in integration to social networks as an environment for the delivery of advice tools

RDR – Vendor Perceived Benefits



- From the research, the vendors were hugely supportive of the regulation changes identifying the following potential benefits:
- Guided sales process will be lower cost to regulate
- Improved consumer satisfaction
- Speedier sales process
- Level playing field with provider recommendations
- Greater consumer confidence in the industry
- Better client understanding of the product and service offerings
- Increased persistency of policies
- Improved professionalism
- Reinforces TCF principles
- Attracting new talent to the industry
- Increased capacity for institutions via the guided sales process

RDR – Vendor Perceived Benefits (continued)



Vendors also listed the following as potential benefits:

- Raised consumer awareness of the true cost of advice
- Introduction of true competition
- Consumer control over fees to force providers to compete on things that are genuinely in the consumers best interest
- Clarification of roles
- Renewal commissions only being paid where adviser provide ongoing advice driving better service
- Increased opportunity for use of technology in the sales process to drive efficient sales process
- Increased service levels

- Despite the predominantly favourable position to the proposals with 73% believing they would have a positive effect on the industry, the vendors highlighted a number of areas in which they had concerns with the proposals including:
 - Difficulty in navigating the guided sales approach and avoiding ‘advice’
 - Cost of change
 - Potential confusion by public and advisers
 - May reduce number of ‘independent advisers’
 - Uncertainty over the future of non independent advice
 - Will the plans be watered down or changed (again)
 - How distributors can plan ahead with so much uncertainty

Conclusion



Change seems a constant in today's Financial Services industry and distributors are constantly faced with the position that they must adapt to survive. The IT industry has been benefiting from this change for some years but particularly over the past 3 years which has been a boom market for supplier of software and IT services to Financial Services institutions. As a result we have seen strong financial performances from existing suppliers and many new entrants to the market as well.

Given the successes we have seen in the market we had some nervousness going into this research that the IT vendors would be focused on delivering their current business obligations and may not have taken the time to raise their heads and see the opportunities in front of them. This fear has proved largely unfounded and while there are some of the smaller players that haven't yet realised the full potential of what is coming, many vendors have and are responding to the market changes being forced through by RDR.

Some vendors are still suspicious that the proposals will be watered down but this does not mean the investment they are making will be irrelevant as the new models they are looking to support are still likely to be encouraged, even if they are not enforced. Equally the thought leadership they provide in this time can only enhance their brand and increase their market profile. In short it is our belief that investment by vendors in RDR now will pay dividends in the short, medium and long term.