Association of APFA Professional Financial Advisers

The Advice Market Post RDR Review

June 2014

THE ADVICE MARKET POST RDR

1. SUMMARY

Introduction

As detailed in its 2014/15 Business Plan, the FCA is intending to undertake a post-implementation review of RDR this year. It will be carrying out research throughout 2014/15 using regulatory data, publicly available data, and specially commissioned industry and consumer research to assess the effect of the RDR against its objectives, as published by the FSA in 2011 (see section 2).

This report sets out our understanding of the current state of the adviser market post RDR, together with the evidence supporting our conclusions. It also explains what we believe should happen next to help ensure a sustainable, innovative market that works well for both firms and consumers.

Summary of the evidence

The evidence presented in this report shows that despite a fall in adviser numbers, many firms have adapted successfully to the post-RDR world. However there is still a significant minority of firms that are concerned about how sustainable their current business model is. The cost of running an advice firm, particularly the cost of regulation, is seen by many firms as their biggest challenge in the years ahead. There is also recognition that further regulatory change is on the way – for example, changes around platforms, and capital adequacy - which could have a major impact on firms' financial sustainability.

Looking at the post-RDR world from the consumer's perspective, those seeking advice on investments or pensions are increasingly falling into two groups. There are those who can afford to pay for advice, and are willing to do so, and who have sufficient assets or income to make them an economic proposition for advisers. This group has access to a more professional and more transparent service from better qualified advisers. However, there is a group of consumers who may want advice, but for whom it is not economic given the amount they have available to invest. This group is increasingly reliant on sourcing information themselves and investing direct via the internet. What they may not realise is that there is less transparency around costs, they have less protection and they could end up worse off as a result.

What should happen next?

In some areas the changes brought about by RDR have had a positive effect; for example, the industry is more transparent and better qualified. However there are still a number of areas where it appears less successful, including understanding of the disclosure requirements, such as the independent and restricted definitions, and whether all consumers who want to are able to access advice.

Based on the evidence set out in this report, there are two things we believe the regulator could do to help firms:

1. Not make any further regulatory changes (beyond those already planned); and
2. Reduce regulatory costs.

1. Regulatory change

Improved professional standards and disclosure requirements are benefitting consumers. However the new rules need time to bed down and advisers need time to develop their business models in light of their experience in the 18 months since RDR started. The evidence shows that whilst the majority of firms are adapting well, there are still some that are concerned about how sustainable their business is. Given there are already further rule changes in the pipeline, firms need some time to consolidate their position, ensure they are complying with all the existing regulatory requirements and prepare for the changes that are on the way.

The exception to this should be the definition of independence, which we believe is not working as well as it could. There is potential for consumer confusion over what the definitions mean, particularly the term "restricted" which can have different meanings, depending on an individual firm's model. A simpler, more instinctive, definition of independence – along the lines being proposed in the EU – might be preferable.

2. Regulatory costs

Firms need to be able to operate in a sustainable way in order to offer affordable advice to those consumers that want it. The evidence shows that a significant percentage of firms' costs arise directly from regulation, particularly for smaller firms, and it is one of the biggest challenges faced by firms. This is not just about the fees and levies firms have to pay but also the indirect costs such as regulatory reporting and ensuring compliance with the rules. The regulator therefore needs to be more focussed on finding ways to reduce the burden on firms, rather than increasing it. Later in this report we set out the ways we think the regulator could help reduce costs, and help a competitive and sustainable advice market to grow, so that consumers can access advice when they want it at a price they can pay.

In the rest of this report we look in more detail at the impact of RDR on firms (section 3) and consumers (section 4), consider if the FCA's desired outcomes have been achieved (section 5), and set out in more detail what we think needs to happen next (section 6).

2. THE FSA'S RDR DESIRED OUTCOMES AND SUCCESS FACTORS[1]

The FSA's stated RDR desired outcomes and success factors are as follows:

Desired outcomes:

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

Success factors:

Short term:

A. Consumers understand the difference between different types of advice (independent advice, restricted advice).

B. Firms adhere to the new landscape, e.g. describe their advice services appropriately as independent or restricted.

C. Advisers meet required standards of professionalism.

Long term:

D. Firms sell fewer products that currently (i.e., pre-RDR) pay high commission, sell more products that currently pay little or no commission, and sell more cheaper/lower charging products.

E. Consumer engagement in the market, caused by improved perception of the quality of services.

F. Fewer unsuitable sales.

G. Improved product persistency.

H. Firms' solvency increases along with cyclically adjusted profitability.

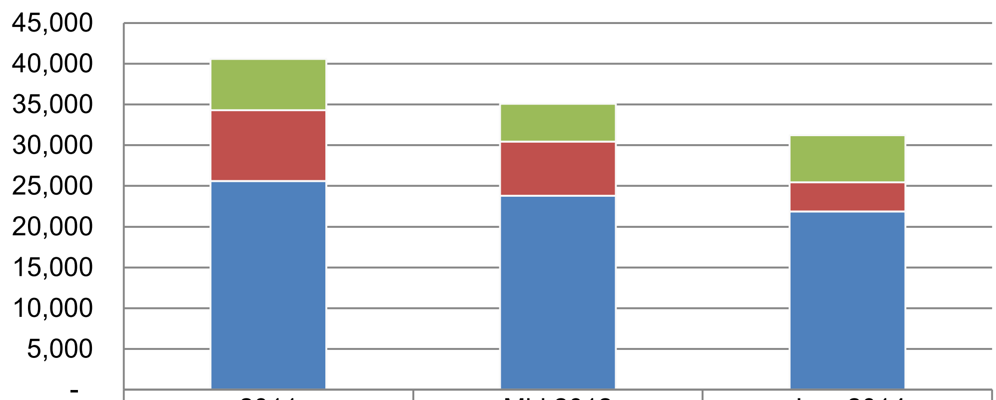
I. Unintended consequences of the RDR do not materialise or are mitigated appropriately.

3. THE IMPACT OF RDR ON FIRMS

Adviser numbers

Since RDR was implemented, the downward trend in advisers, which was already apparent in the run up to implementation, has continued. When the number of advisers was estimated by the FSA in 2011[2], there were over 40,000 advisers in the market, almost 26,000 of whom worked for financial advice firms. By January 2014 this had dropped to 31,000[3] advisers in total, with 22,000 working in financial advice firms. Whilst the biggest drop was in the bank and building society sectors – approximately 60% - there was also a significant fall of nearly 15% in the number working for financial advice firms (Figure 1).

Figure 1: Number of advisers



	2011	Mid 2012	Jan. 2014
Total	40,566	35,073	31,220
Other	6,292	4,631	5,783
Bank/Building soc	8,658	6,655	3,556
Financial Adviser	25,616	23,787	21,881

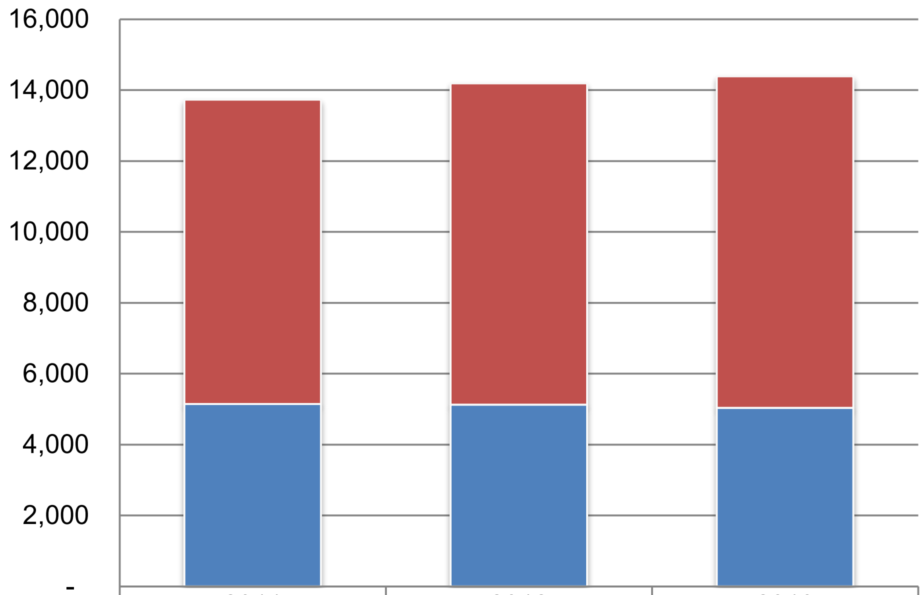
When NMG asked business owners and self-employed advisers about their plans for recruiting new staff, 60% said they had no plans to recruit any advisers or paraplanners in the next two years[4]. 13% of these said that they would however look to recruit new staff if industry schemes were available to help source partially trained graduates. Amongst the remainder, 70% said they could not justify, or did not need, another member of staff, and 36% cited cost.

Firm numbers

The number of financial advice firms registered with the FCA at 31 December 2013 was 14,387[5], an increase of 5% since 2011. Most of the increase over that period was in the number of appointed representatives, which represent about 65% of the market (see Figure 2 below).

Anecdotal evidence suggests there are two changes happening within the market, although they have not yet been reflected in the FCA numbers. Some firms are beginning to exit networks and become directly authorised - perhaps because of a desire to maintain their independent status. Other smaller firms are joining with larger firms as they find the cost of running a small business is becoming prohibitive. This may be evidence of a longer term trend of consolidation, but it is too early to say for sure.

Figure 2: Number of financial advice firms

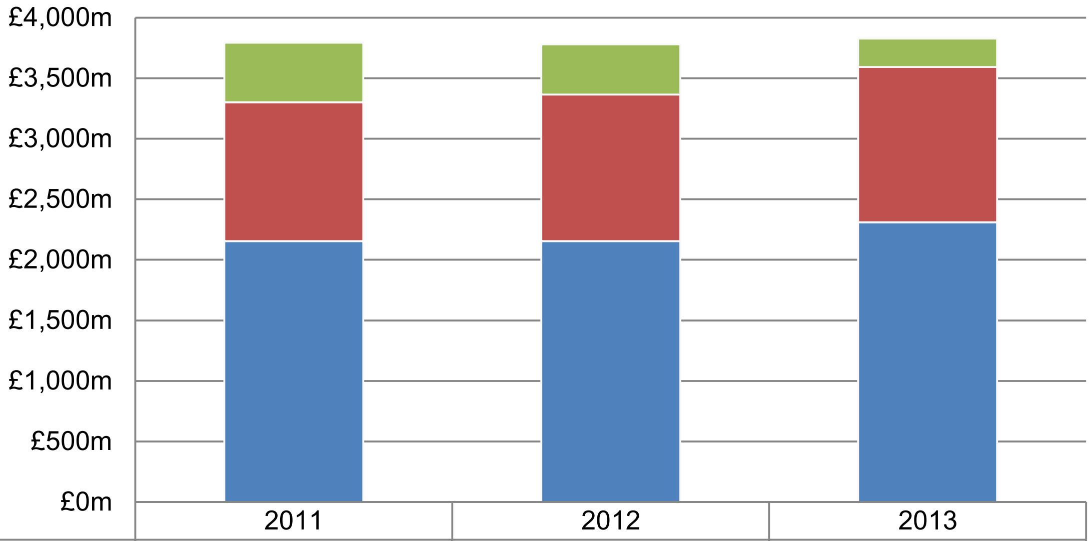


	2011	2012	2013
Total	13,732	14,189	14,387
Appointed representatives	8,590	9,066	9,351
Directly authorised	5,142	5,123	5,036

Revenue and profitability

Although the number of advisers has fallen, revenue from regulated business for financial advice firms has remained steady, at around £3.8 billion per annum[6], for the period from 2011 through to 2013 (Figure 3 below).

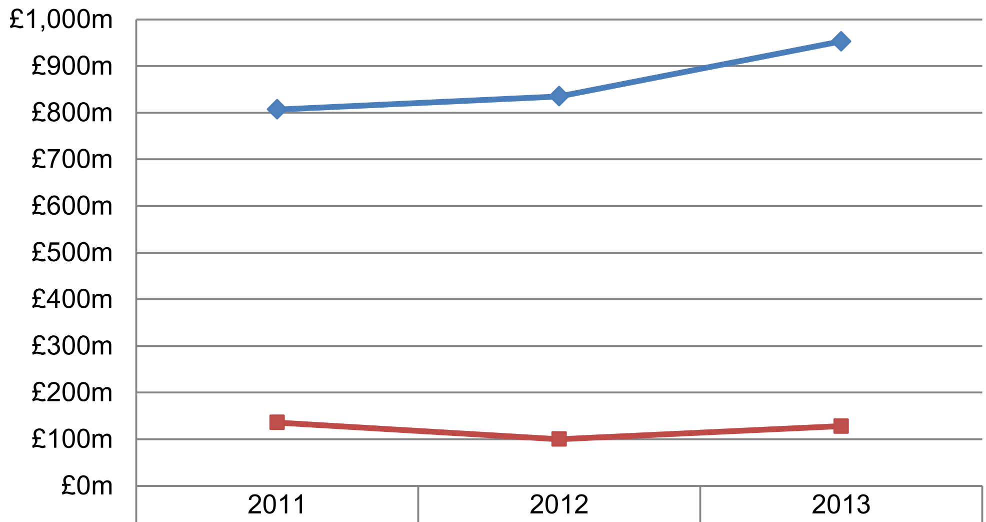
Figure 3: Aggregated revenue from regulated business



	2011	2012	2013
Total	£3,794m	£3,781m	£3,826m
Mortgages	£492m	£416m	£233m
Insurance	£1,147m	£1,212m	£1,283m
Investment	£2,155m	£2,153m	£2,310m

Annual profits before tax and dividends climbed steadily from £807 million to £953 million over the same period[7] (Figure 4). However these figures may not fully reflect the costs of running financial adviser firms, as many smaller director-owned businesses will pay themselves in dividends. Looking at the figures for retained profits, the picture is not quite as good, with total retained profits across the sector falling from £136 million in 2011 to £100 million in 2012, before recovering slightly to £128 million in 2013[8] (Figure 4).

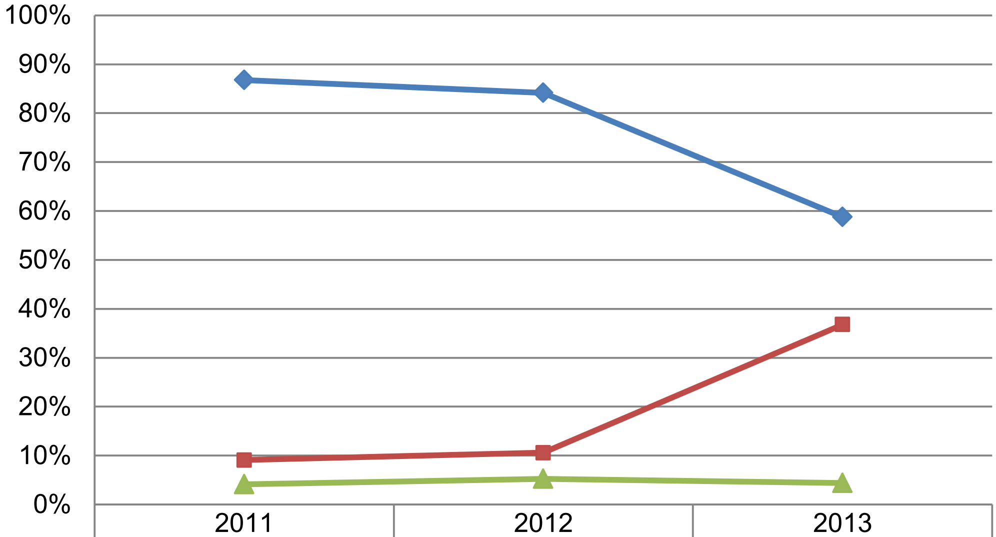
Figure 4: Aggregated Profits before tax & Retained profits



	2011	2012	2013
Profits before tax	£807m	£835m	£953m
Retained profits	£136m	£100m	£128m

As would be expected, the proportion of investment business revenue generated from fees has increased in 2013[9] – see Figure 5 below. However the full impact has yet to be seen, as firms submit their RMAR data at different times throughout the year (depending on their reporting period) and therefore the figures submitted in 2013 may include revenue earned in 2012. Therefore some pre-RDR commission received in 2012 will be included in the 2013 RMAR data, as well as trail commission received in 2013.

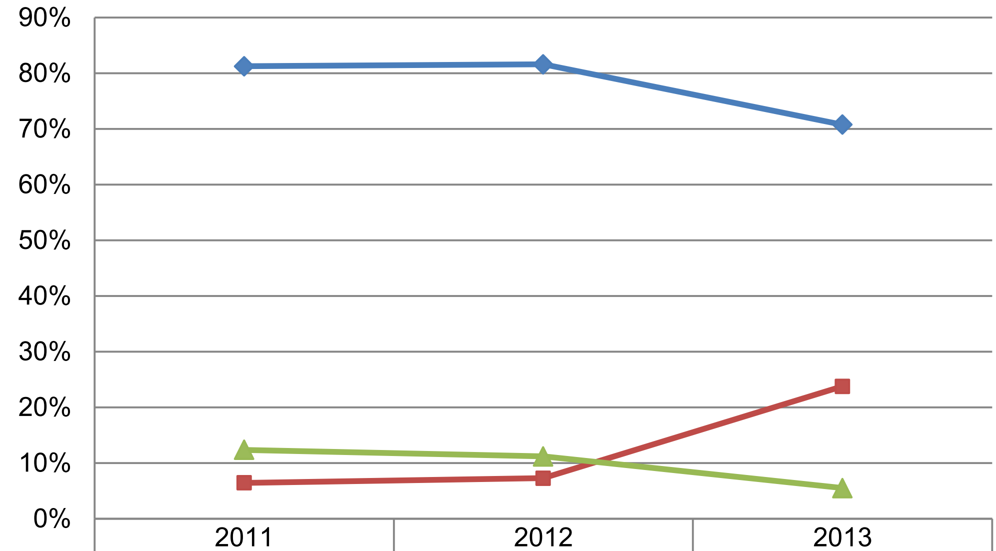
Figure 5: Split of investment business revenue



	2011	2012	2013
Commission	87%	84%	59%
Fees	9%	11%	37%
Other income	4%	5%	4%

When looking at aggregated revenue figures across all types of regulated business (i.e. investment, non-investment insurance and mortgage), the proportion generated from commission has also dropped, suggesting that financial advisers are not switching to recommending products that still pay commission (Figure 6[10]).

Figure 6: Split of all regulated revenue



	2011	2012	2013
Commission	81%	82%	71%
Fees	6%	7%	24%
Other income	12%	11%	5%

Independent or restricted

Although post RDR the majority of firms have retained an independent status, it is likely the numbers will adjust further. To date the FCA has not published any data on the number of independent or restricted firms in the market. However data from NMG's Financial Adviser Census suggests 12% of firms are currently operating a restricted model, up from 3% in quarter 4, 2012[11]. When asked what model they expect to be operating in 12 months' time, the proportion increases to 22%[12]. So complying with the post RDR definitions appear to be having an impact on the services firms are prepared to deliver.

It is interesting to compare the UK's definition of independence with that currently being contemplated in Europe. The MiFID II text currently being consulted on by ESMA (the European Securities and Markets Authority) envisages a definition of independent advice where "*a sufficient range of different product providers' products should be assessed prior to making a personal recommendation. It is not necessary for the advisor to assess investment products available on the market by all product providers or issuers, but the range of financial instruments should not be limited to financial instruments issued or provided by entities with close links with the investment firm*." The implementation of MiFID II should be used to look again at the definition of independence, and consider whether the European approach may be easier for consumers to understand.

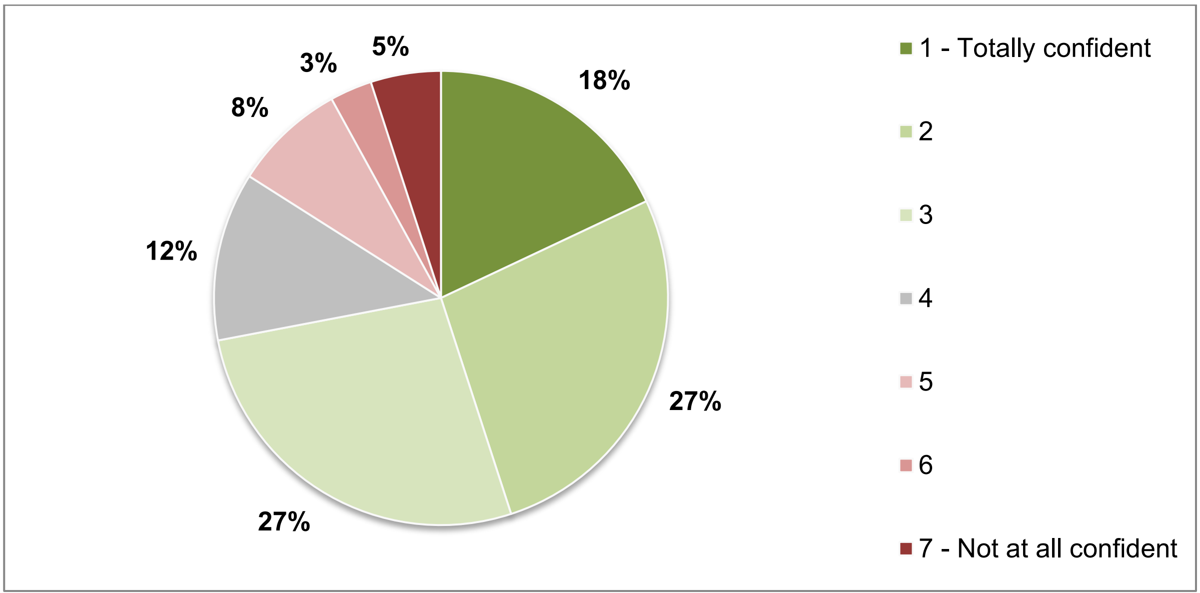
Adviser sentiment

The aggregated financial data for the industry only tells part of the story, as behind the headline figures are differing experiences for different firms.

Research company GfK NOP Limited has been monitoring adviser sentiment since RDR was implemented. Whilst the majority of firms are confident that they have developed their final operating model, and that they will sustain a healthy flow of revenue by the end of 2014, there is still a significant minority of firms that are not so confident.

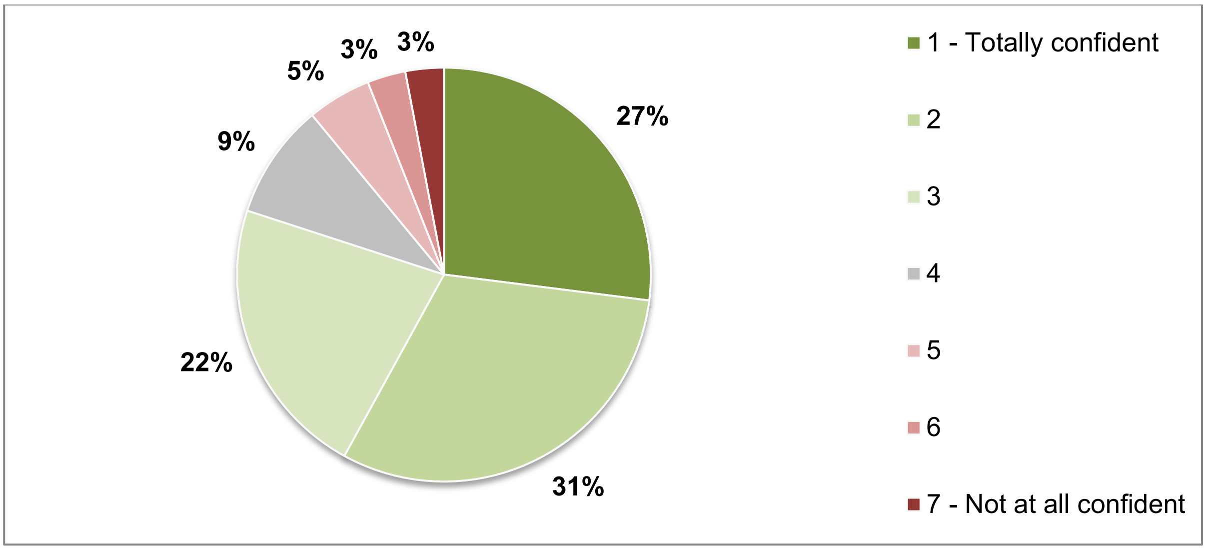
When asked by GfK how confident they were that they had developed their final operating model, on a scale of 1 (totally confident) to 7 (not at all confident), 72% of advisers said they were confident (scored 1 to 3), 12% were neutral (scored 4) and 16% said they were not confident (scored 5 to 7)[13] (Figure 7 below).

Figure 7: How confident are you that you have developed your final operating model?



When asked how confident they were that this operating model will sustain a healthy flow of revenue by the end of 2014, 80% said they were confident (scored 1 to 3), 9% were neutral (scored 4) and 11% said they were not confident (scored 5 to 7)[14] (Figure 8 below).

Figure 8: How confident are you that this operating model will sustain a healthy flow of revenue by end of 2014?



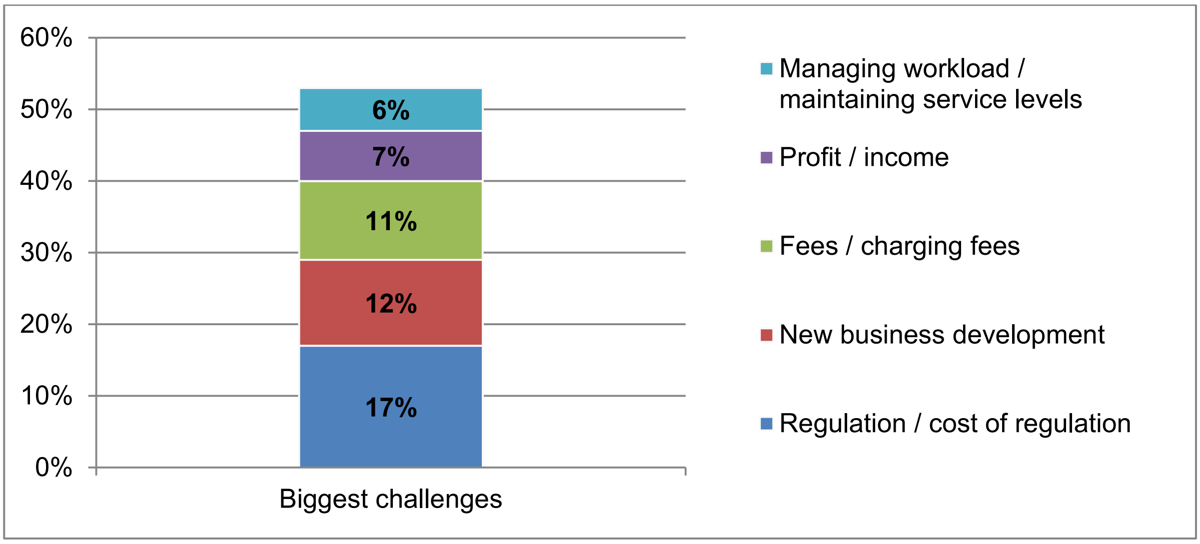
This split between firms that are doing well and those that are not is also reflected in NMG's Financial Adviser Census data.

NMG segment their survey respondents into "Thriving", "Aspiring", "Surviving" and "Declining". Whilst the number of firms in the first two categories has grown over the last year (from 65% in Q2 2013 to 69% in Q1 2014) there still remains a significant minority - 31% - in the "Surviving" and "Declining" categories[15]. This group is significantly less confident about the state of the market and the prospects for their own business, and make less use of paraplanners and social networking than those in the "Thriving" and "Aspiring" categories. Those in the "Declining" category (11% of respondents) are also more dependent on commission from pre-RDR investment business than the other groups.

This split between those firms that are doing well and those that are struggling could lead to more small firms deciding to join a larger one, or to exit the industry altogether. It is difficult to predict how this might affect the number of advisers, but as previously noted, it may result in fewer small firms and a move towards bigger firms that can benefit from economies of scale.

As part of its research, GfK asked firms what the biggest challenges are that they now face. As the chart below shows (Figure 9) regulation, new business development and charging fees were the top three concerns[16]. Profitability and managing workload/maintaining service standards also featured for a number of firms.

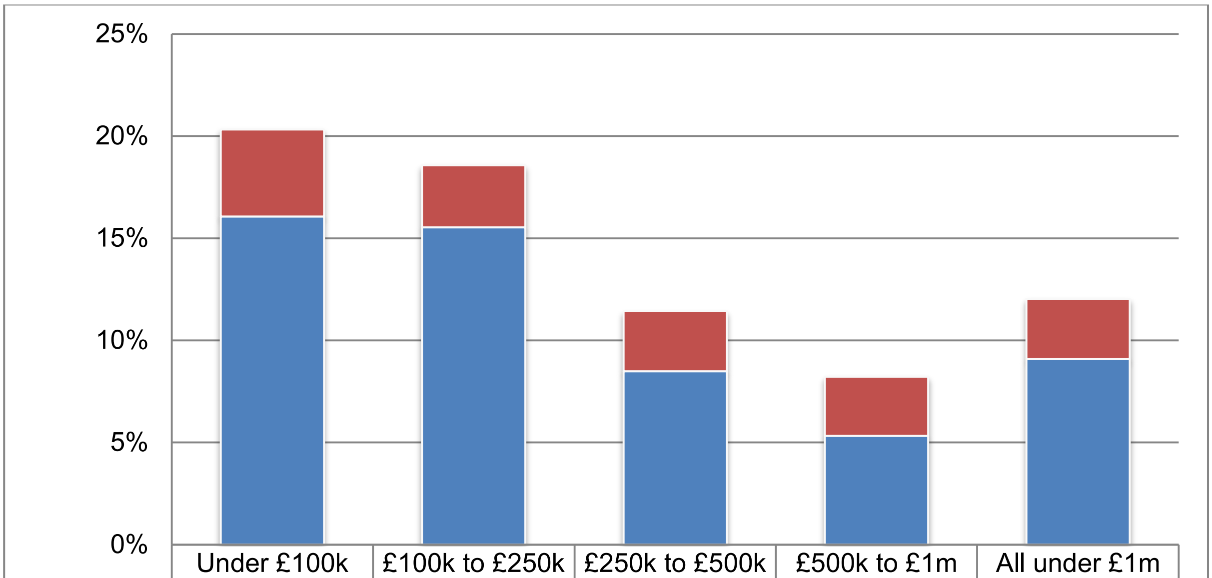
Figure 9: Biggest challenges faced by advisers



Cost of regulation

Research recently carried out by APFA[17] found that, on average, smaller firms are spending 12% of their income on direct and indirect regulatory costs. Of this, 3% is spent on direct fees and levies, and 9% on indirect costs. The impact can be significantly higher for the smaller firms, as Figure 10 below illustrates.

Figure 10: Direct & indirect costs of regulation, as a percentage of revenue, for firms with annual revenue of £1 million or less



	Under £100k	£100k to £250k	£250k to £500k	£500k to £1m	All under £1m
Total	20%	19%	11%	8%	12%
Direct	4%	3%	3%	3%	3%
Indirect	16%	16%	8%	5%	9%

With total revenue earned from all regulated business done by financial advice firms in 2013 amounting to £3.8 billion[18], this means the sector spent an estimated £460 million on regulation in 2013.

Conclusions

Taken together, the evidence suggests that despite the fall in adviser numbers, many firms have adapted successfully to the post-RDR world. However there are still some who have concerns about how sustainable their current business models are. The cost of running an advice firm, particularly the cost of regulation, is seen by many firms as a significant challenge. There is also a recognition that further regulatory change is on the way which could have a major impact on firms' financial sustainability, such as the forthcoming changes around platforms and capital adequacy.

4. THE IMPACT OF RDR ON CONSUMERS

Professionalism

One of the key aims of RDR was to improve the professionalisation of the industry, and to thereby give consumers more confidence in the advice sector. Whilst the number of advisers has fallen, those who remain are now qualified to level 4 and the number of advisers qualified to chartered status is increasing steadily. Data from NMG's Financial Adviser Census shows that the number of advisers holding level 6 qualifications has increased from 14% in quarter 4 of 2012 to 29% in quarter 1 of 2014[19].

If FOS complaints data is used as a measure of standards within the industry, then financial advisers have a much better record than most other sectors. The percentage of FOS complaints relating to financial advisers has fallen from 1.5% to 0.5% over the 4 years to 31 March 2014[20]. Similarly the uphold rate for complaints about financial advisers has fallen from 53% to 42% over the same period[21]. When looking at complaints to FOS about investments, the proportion that relate to financial advisers is significantly lower than that for product providers and banks/building societies (13% compared to 46% and 26% respectively[22]). Similarly, when looking at complaints to FOS about pensions, the proportion that relate to financial advisers is much lower than for product providers (23% compared to 53%[23]). The uphold rate for complaints against financial advisers, at 42%, is lower than that for PPI intermediaries, banks, general insurers and consumer credit firms[24]. The FOS data therefore paints a picture of financial advisers as a sector that has fewer complaints, and handles them better, than many other parts of the industry, in particular the banks, insurance companies and product providers. This reflects the more personal, long term nature of the typical adviser-client relationship.

Access to advice

There is something of a mixed picture when it comes to the ease with which consumers can access advice post RDR. Recent research by NMG for APFA[25] found that 83% of advisers have capacity to take on additional clients seeking pension decumulation advice following the pension reforms recently announced by the Chancellor. However 19% said they would not advise on pots below a certain level and a further 50% said it would depend on the specific case.

Earlier research by NMG for APFA[26] found that by November 2013 47% of advisers had turned clients away because the cost of their offering would be disproportionately high for the service being provided. Of these, 40% confirmed that they had turned away five or more clients – an estimated 60,000[*] customers in total. Later research from January 2014[27] found that just over half of advisers had turned away clients during 2013, with profitability to the firm mentioned almost as often as cost to the client. When asked why they were turning clients away, 37% said that the service they offered was uneconomical to the client based on their needs and circumstances, and 32% said servicing the client would be unprofitable

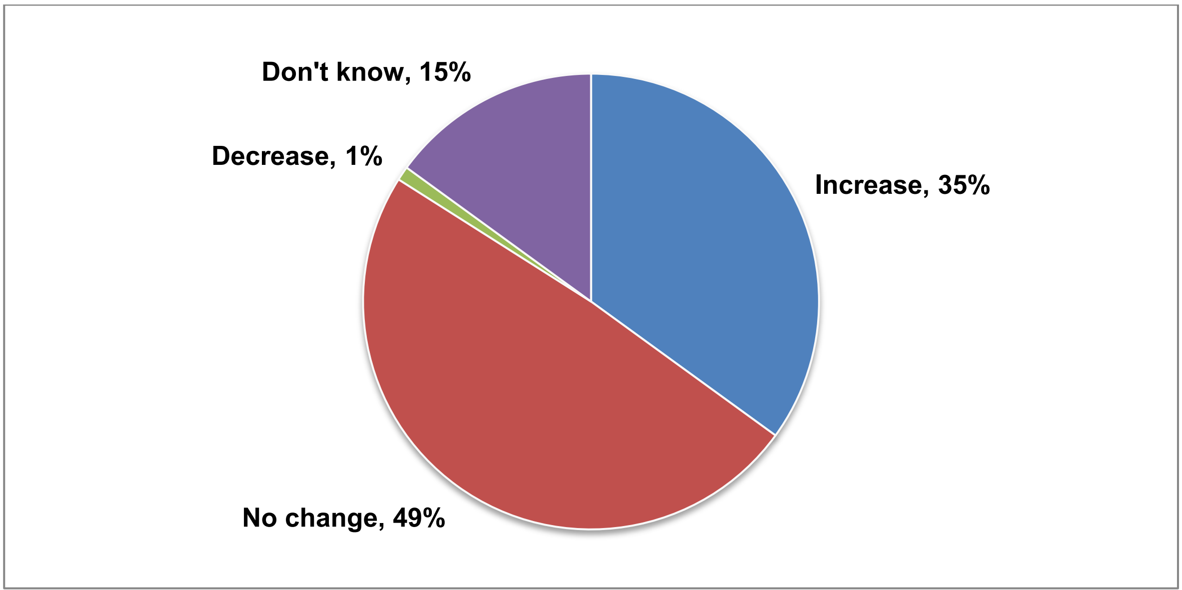
[*] 47% of 21,000 advisers at an average of 5.8 turnaways each

for their firm. For those clients that were turned away, the most common type of advice being sought was about pensions and ISAs.

Therefore whilst there may be capacity within the market, advisers may only take clients on if they consider it economic to do so – both for the firm and for the client.

One area where advisers are seeing an increase in clients is in former customers of banks and building societies. GfK asked firms whether they had seen an increase in the number of ex-bank/building society advised customers seeking advice from them in the last 12 months. As the chart below shows (Figure 11), over a third of firms have seen an increase in clients who had previously been advised by a bank or building society[28].

Figure 11: Firms seeing a change in the number of ex-bank/building society clients



Understanding fees and services

The FCA's thematic review of the disclosure of services found that firms were, in general, complying with the rules. However the RDR only focussed on the disclosure of a firm's independent or restricted status. The question of whether consumers understand the difference between an advised and non-advised service was not addressed by RDR, even though arguably it is a more important distinction for consumers, given the additional protection that comes with an advised service as opposed to a non-advised one.

The results of the FCA's thematic review work on the disclosure of fees were not so good. The third wave of the FCA's thematic work in this respect is about to start, and it is hoped that the next set of results will be better. However, the cost of advice is only part of the cost of investing for consumers, and the regulator needs to ensure that other parts of the investment chain are fully disclosing their costs so that consumers can understand how much the different channels cost in total.

APFA's research on the costs of regulation concluded that regulation cost the sector £460 million in 2013. Data from NMG's Financial Adviser census shows that on average an adviser has approximately 125 active clients[29]. With 22,000 advisers in the market this means approximately 2.75 million people are being advised on a regular basis. Assuming the annual cost to the industry of £460 million is passed on to clients, then each client is paying an average of £170 per annum to cover the cost of regulation.

In making these calculations, we recognise that it is not possible to derive a precise number, as we have had to make a series of assumptions in arriving at our estimates.

However we believe these estimates give us an indication of the order of magnitude i.e. each client is paying hundreds of pounds a year to cover the cost of regulation being borne by advisers.

Conclusions

Consumers seeking advice on investments and pensions are increasingly being divided into two groups. There are those consumers who can afford to pay for advice, and are willing to do so, and who have sufficient assets or income to make them an economic proposition for advisers. This group has access to a more professional and more transparent service from better qualified advisers. However the second group is consumers who cannot afford to pay fees, or are unwilling to do so, as it is not economic for them or the adviser given the size of their income or assets. This group is increasingly reliant on sourcing information from the internet or their provider, and may not realise what it costs them, that they have less protection and they could end up worse off as a result.

5. HAVE THE RDR OBJECTIVES BEEN ACHIEVED?

Below we consider each of the FCA's desired outcomes in turn, and give our view on whether they have been achieved.

Outcome 1: An industry that engages with consumers in a way that delivers more clarity for them on products and services

In part met: The findings from the FCA's thematic reviews show that the disclosure of a firms' status to clients (independent or restricted) is now working as the FCA expects. There does however remain a question about whether the definitions themselves are fit for purpose. Furthermore it is arguable that a more critical issue is the extent of consumer understanding of the difference between non-advised and advised services. At the time of writing, the outcome of the FCA's review of non-advised services has not been published, but indications are that this is an area, along with simplified advice, where the regulator will be seeking to do more work.

On the disclosure of fees, the results of the FCA's thematic reviews show that there is still more to be done to ensure advisers are fully compliant with the rules.

Overall therefore, whilst there may be more disclosure by advisers, it is not yet clear whether consumers fully understand the different types of services and the related costs and levels of protection. Advisers' understanding of the disclosure requirements will be helped by stability of the rule framework.

Outcome 2: A market that allows more consumers to have their needs and wants addressed

Not met: The evidence we have suggests that the market place is shrinking – there are fewer advisers than in 2011, and the number of new recruits may also be falling, particularly now the banks have pulled out of the market.

Survey results show that whilst advisers have capacity to take on new clients, they are now more likely to decline to take on a new client, or cease acting for an existing one, if they believe the relationship is not likely to be profitable.

Therefore the evidence suggests that whilst there may be sufficient capacity within the market, not all consumers who want face-to-face advice may be able to access it, as advisers decide it is not economic to take them on. Those consumers with smaller amounts to invest are likely to be the most affected.

Outcome 3: Standards of professionalism that inspire consumer confidence and build trust

Met: All advisers are now at least level 4 qualified, and increasing numbers are obtaining chartered status. As FOS data demonstrates, the financial adviser sector continues to generate one of the lowest level of complaints, and the uphold rate is significantly lower than for many others sectors of the industry.

Overall therefore the advice sector is becoming increasingly professional, as increasing numbers of advisers hold qualifications beyond the level required by the rules, and adviser firms continue to have one of the best records on complaints in the industry.

Outcome 4: Remuneration arrangements that allow competitive forces to work in favour of consumers

In part met: RMAR data shows that the percentage of income attributed to commission is falling as expected, although the full impact of the RDR changes has yet to work its way through in the figures.

As previously noted, more needs to be done by advisers to meet required standards on disclosure of fees. In addition, the regulator needs to ensure that all costs relating to undertaking investment business are transparent and understood by the consumer, as adviser fees are only part of the cost of investing.

There is no suggestion that the current methods of remuneration, such as adviser charging and trail commission, are adversely affecting consumer outcomes, and therefore they are not an area that need further regulation. However whilst advisers are becoming more transparent about their fees, it is too early to tell what impact RDR will have on competition within the market. As many advisers get new clients through referrals, and for many clients it is the long term relationship with the adviser that is more important than the cost, greater disclosure may not have a significant impact on consumers shopping around.

Outcome 5: An industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly

Remains to be seen: The industry remains profitable, although as discussed above, the aggregated data does not reflect the differing experiences of different firms. The changes to capital adequacy, postponed until the end of 2015, may have an impact on the sustainability of some businesses, and could result in fewer firms operating in the sector.

As outlined above, the financial adviser sector continues to generate one of the lowest level of complaints with the FOS, and the uphold rate is significantly lower than for many others sectors of the industry.

Overall the sector has adapted to the changes brought about by RDR, and firms continue to offer their clients a valued service. However over the longer term increasing numbers of firms, particularly smaller ones, may struggle to operate sustainably, particularly in the face of significant costs of regulation.

Outcome 6: A regulatory framework that can support delivery of all these aspirations and which does not inhibit future innovation where this benefits consumers

Remains to be seen: There have been some recent signs that the FCA is prepared to think again about the approach it takes to regulation.

For example, in recent speeches the FCA has referred to the amount of disclosure documentation and has recognised that the regulator's previous response to a problem –

more disclosure – did not actually benefit the consumer. The FCA has now recognised that the majority of people do not read these documents, and if they do, comprehension is often an issue. It has therefore started reviewing guidance and rules to check they're genuinely supporting customers to understand financial products, and will be consulting on this subject later in the year [30]. It has also said that it will be issuing guidance offering greater clarity to firms around the broad expectations for supplying limited or simplified advice[31].

Therefore, whilst we have yet to see many concrete changes, there are signs that the regulator is beginning to recognise the detrimental impact the regulatory framework can have on both consumers and firms. However, evidence of whether the regulator really has changed depends on the outcome of the various reviews and consultations that are currently underway or planned. It is therefore too early to conclude that the regulator is able to get the balance right between consumer protection and a thriving, competitive and innovative marketplace.

6. WHAT NEXT?

The FCA is still a relatively new regulator and it has said that it intends to do things differently to its predecessor. There is therefore an opportunity for it to reduce bureaucracy and costs on adviser firms, and allow a competitive and sustainable advice market to grow, so that consumers can access advice when they want it at a price they can pay. Below we set out some ways we believe the regulator could help the adviser market.

A period of stability

Improved professional standards and disclosure requirements are benefitting consumers. However the new rules need time to bed down and advisers need time to develop their business models in light of their experience in the 18 months post RDR. The regulator therefore needs to commit to a period with no further significant regulatory change, beyond that which is already in the pipeline (e.g. platforms, capital adequacy).

The exception to this should be the definition of independence, which we believe is not working as well as it could. There is potential for consumer confusion over what the definitions mean, particularly the term "restricted" which can have different meanings, depending on an individual firm's model. A simpler, more instinctive, definition of independence – along the lines being proposed in the EU – might be preferable.

A reduction in regulatory costs

Firms need to be able to operate in a sustainable way in order to offer affordable advice to those consumers that want it. Whilst some costs are within firms' control, a significant amount of their costs arise directly from regulation. This includes the fees and levies firms have to pay as well as the indirect costs such as regulatory reporting, ensuring compliance with the rules etc. The regulator therefore needs to be more focussed on finding ways to reduce the burden on firms, rather than increasing it. Ways this could be achieved include:

- <u>Reporting</u>: whilst some changes have been made to the RMAR, we believe there is still scope for the FCA to make further changes. In our response to the FCA consultation on changes to regulatory reporting (CP14/5) we have identified some areas that we believe could be streamlined, and we hope the FCA will look seriously at implementing these changes.
- <u>A slimmer rule book</u>: much of the cost incurred by firms arises as a direct result of the complexity of the rule book and surrounding guidance that needs to be read, interpreted and applied by firms. A review of the rule book with a view to its simplification would reduce the compliance burden, particularly for smaller firms.

- Longstop: the introduction of a longstop would help reduce PI costs for firms.
- FCA fees: as outlined in our response to the FCA's consultation on fees (CP14/6), advisers are still paying a bigger share of the FCA's costs than either the banks or the insurance industry. We therefore believe the FCA should reconsider its decision not to progress with its review of its fees methodology, and look again at the way its costs are allocated.
- Consumer credit: as we also outline in our response to the FCA's consultation on fees, we do not believe adviser firms should be paying additional fees of £300 for consumer credit authorisation when the activities they are conducting are negligible. We recognise that some notional, minimum fee may be considered appropriate, in which case we would suggest it should be more in the region of those proposed for FOS and MAS e.g. £25 to £50, not the £300 currently proposed.
- FSCS threshold for investment intermediaries: the FSA's case for increasing the FSCS threshold for investment intermediaries was based on affordability using data from 2010/11. According to the aggregated RMAR data, the profitability of the sector has never been as high as 2010. We believe it is therefore appropriate that the FCA reverses the increase in the FSCS threshold.

ABOUT APFA

The Association of Professional Financial Advisers (APFA) is the representative body for the financial adviser profession. There are approximately 14,000 adviser firms employing 81,000 people. 40% of investment and protection products are sold through financial advisers, with annual revenue estimated at £3.8 billion. Over 50% of the population rank financial advisers as one of their top three most trusted sources of advice about money matters. As such, financial advisers represent a leading force in the maintenance of a competitive and dynamic retail financial services market.

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