Retail Distribution Review

The Financial Services Authority (FSA) rightly took a lot of flack over banking supervision in 2008, however, I think some credit is appropriate in connection with insurance companies (no casualties yet) and also in respect of the above continuing initiative. It takes some of the selling out of the financial services industry and leaves a bit more informed buying. The key elements and hence the future financial services framework will include -

1. Clarity of services and products; Some watering down of the existing division of independent advice and product/sales service.
2. Remuneration; By the end of 2012 any adviser remuneration must be matched by an explicit product charge at the time of payment.
3. Professional standards; Advisers will have to pass examinations in the areas in which they work (just like your electrician, plumber or gas appliance fitter).
4. Treat customers fairly; See Snippets September 2008, about time most would say.
5. Insurance and capital backing; Advising firms will be expected to have a minimum capital requirement of £20,000 and additional reserves for any professional indemnity insurance exclusions.

It looks like a tough time ahead for Independent Financial Advisers (IFAs) who will face more demanding training, greater financial commitments and a higher regulatory burden. Banks (and other major brands) look like the major winners. I suspect we will see a lot more hand-holding, we're not selling you anything, generic advice, or "money guidance" in future. Just as pension guarantees have been replaced by compensation, unauthorised but not totally unregulated financial advice will be quietly transformed into guidance. Watch this space for further details about pensions guidance in 2009.

Investment

The Investment Management Association (IMA) has published 5 case studies of conflicts of interest for pension funds' external advisers. The cases cover –

- Manager-of-investment managers,
- Implemented consulting,
- Defined Contribution (DC); Bundled and unbundled services,
- DC; Bespoke funds and
- Asset management offerings of (liability driven investment) LDI advice

In each case the potential conflicts are explored and a list of questions which trustees should consider asking is provided. Unsurprisingly these centre on the dividing line between advice and management or perhaps more bluntly, when the well paid gamekeeper becomes the even more highly rewarded poacher.

My thanks also to fellow actuary Guy Thomas for his excellent investment challenge on the subject of "unrewarded risks". It has been fashionably suggested that pension fund investment involves some largely unrewarded risks through interest rate changes and inflation. Without hindsight the rewards of any investment are of course unknown. The challenge highlights the apparently "unrewarded risks" as those which pension funds are naturally exposed to, but which someone offers to take away (or replace with counterparty risk) for a fee or a spread. "Rewarded risks" (for example hedge funds) seem to be those where pension funds have no natural exposure but which can be taken only by those paying someone an even higher fee!

And finally;

As we come to the end of quite a momentous year in banking I am reminded of the famous Scottish song about Loch Lomond – which of course starts "By yon bonnie banks (and by yon bonnie braes)". Sadly 2008 has seen this change to "Bye bye yon bonnie banks" (RBS & HBoS). If the short lending period of the £37bn financing gilt issuance is followed it may soon be "Buy buy yon bonnie banks".

With best wishes for the New Year.

*As always, for further comment, assistance, advisory or trustee services, contact me on **07714 064964** or via allan@acmca.co.uk Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk*