

# The run up to 2012

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## Phil Young, Partner from Threesixty writes about the run up to 2012 and what it means for the financial services industry



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There is no doubt that 2012 is a big year. The London Olympics, Personal Accounts, Solvency II, the Retail Distribution Review, not to mention anything else that gets thrown into the melting pot along the way.

It is likely that the financial services industry will take some time to settle down and shape up post 2012 and we may see some considerable flux in the industry right through to 2015, as some models falter and others flourish.

Whilst the Retail Distribution Review has taken centre stage in the trade press, the Solvency II requirements for product providers will have an equally large impact, and it leaves manufacturers with some difficult choices. Intermediated sales are slowly but surely heading in the direction of platforms and commoditised tax wrappers, with the traditional 'product' used as the exception rather than the norm. RDR's requirements for Adviser Charging makes the platform cash account the neatest solution around right now to fee charging, and there is little to suggest that traditional, mainstream products have a long shelf life for asset accumulation via intermediary sales channels. Quite rightly, a number of established providers will look to maintain an active role in this market through a direct-to-customer proposition, similar to the Hargreaves Lansdown model, and leveraging on their existing brand and product sales in other markets such as general insurance. Good quality IFAs offering a high value service should not feel unduly threatened by a service which attempts to attract the type of customer most top end IFAs are reluctant to service. Rather, this offers a way into financial services for the intermediary clients of the future, who will usually seek professional advice once their wealth has built up to a level which justifies a fee. Offering an asset de-cumulation solution will prove difficult for many manufactures if Solvency II is implemented as is, given the capital constraints it imposes on future

annuity business. This will undoubtedly make annuity business difficult to price and probably more expensive post 2012.

As for distribution, it is unlikely that there will be anywhere near the same number of firms around by 2013, and a reduction by a third to a half can be expected. It is less clear how many advisers will continue within this reduced number of firms. There is no doubt that the manufacturing industry will lose some significant numbers of its Level 4 qualified staff to distribution around this time, and this will fill some of the spaces left behind, but the current proposals for expenditure based capital adequacy may well reduce the investment in formal graduate training schemes required to attract significant number of graduates into the industry for some further years to come. A change of operating model for many IFA firms, placing the emphasis more on field based relationship management with the nuts and bolts of advice provided via a centralised paraplanning unit may change the need for large numbers of traditional advisers i.e. those who prospect, advise and manage relationships.

The advisory firm of the future may also need to consider the client of the future. Wealth is being shared amongst a broader demographic than ever before, with more women and younger people becoming independently wealthy, and wealth spreading geographically throughout Britain. Trust is best established between like minded individuals, and to make that connection between adviser and client in years to come, it might require a broader demographic within your own business.

Working out where your value lies and how you can communicate this to clients, has always been important, but in the face of the challenges 2012 will bring, it has never been so critical.