Retail distribution review (RDR)
Agenda

- RDR in perspective
- RDR roadmap
- Learning from the UK
- Strategic considerations
- RDR for customers, providers and advisers
- Next steps
RDR in perspective

The Retail Distribution Review (RDR) was undertaken in response to the fact that, despite the significant progress achieved through the Financial Advisory and Intermediary Services (FAIS) Act in raising intermediary professionalism, improving disclosure to clients and mitigating certain conflicts of interest, fundamental concerns about poor customer outcomes and mis-selling of financial products remain.
“The Financial Services Board (FSB) has released the Retail Distribution Review (RDR) White Paper for comment – and the jury’s out about how the RDR will affect the short-term insurance industry, says FAnews.

While its common cause that RDR will have far-reaching effects for the long-term insurance industry, its not clear how the short-term industry will fare.”

11 December 2014
Proposals

Commission anomalies
Conflict of interest
Equivalence of reward
Product supplier influence

Adviser categorisation

Phase 1 implementation (July 2016) has been postponed due to the delayed legislative timeline
2002 Publication of FAIS Act

2005 Statement of Intent

2012 RDR is implemented in the UK

2014 RDR discussion document is published in SA

Apr – Sept 2015 FSB reviews all stakeholder feedback

Nov 2015 FSB publishes a discussion document titled "Status Update: Retail Distribution Review Phase 1"

Mid-2016 Planned implementation of RDR Phase 1

May 2016 Postponed implementation of RDR Phase 1 due to delayed legislative timetable

You are here

Phase 2 implementation anticipated to be between the effective date of the FSR Act and the CoFI Act

Phase 3 longer-term structural changes

You are here
Learning from the UK

RDR is well established in the UK and we can draw some valuable lessons from their experiences.
Impact of RDR on the UK Market

- Extending the ‘advice gap’
- Adviser numbers fell by approx. 20%
- Discounted products sold via the internet
- Opportunities for the more well-qualified and sophisticated advisers
- Increased competition: mid-market advice
- Product re-design
- Advisers charge clients partially on assets under advice rather than solely on the basis of a fixed or hourly fee
- Payment of advice fees are facilitated by the provider
- Opportunities for the more well-qualified and sophisticated advisers
Why has the number of Advisers reduced in the UK?

- Not meeting minimum standards of professionalism
- Increased costs of compliance
- Cash flow challenges
- Difficulty in articulating a compelling value proposition
Strategic considerations

- The strategic considerations of RDR reaches beyond a compliant distribution model.
- Business operations and capabilities will need to be assessed from a strategic viewpoint.
What does RDR mean for Customers?

- Lower cost of advice for some customers
- Improvement in the quality of advice
- Products are more likely to meet the needs of the customers as the advice is better
- Could improve customer confidence by removing some negative perceptions of the advice process

- There may be a higher cost of advice for some customers
- A large proportion of customers may be priced out of the market for advice
- A shrinking adviser population may focus on the higher net worth segment
What does RDR mean for Advisers?

- Those advisers already holding more than the minimum qualifications are in higher demand
- Should increase customer confidence in advisers
- The changes may be an opportunity for some adviser firms

- Implementation costs and initial disruption
- Cost of reaching minimum professional standards
- Increased transparency of advice may increase competition and reduce margins
- Customers willing to pay less for advice than providers
- Less customers now willing to pay for advice

Significant changes to the distribution landscape, bringing challenges and opportunities.
What does RDR mean for Providers?

- Possible lower new business strain
- Competition may lower the cost of advice
- May see lower lapse rates
- Potential sales boost on protection products for life insurers

- May be lower new business volumes - new distribution channels need to be explored
- Cost of product redesign
- Cost of system changes
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