Financial Conduct Authority

Thematic Review TR14/21

Retail investment advice: Adviser charging and services

December 2014

Contents

1. Executive Summary

Background

In January 2013, we began a three-cycle thematic review into how firms implemented key changes brought about by the Retail Distribution Review (RDR). In the first two cycles we focused on:

- whether firms were complying with our adviser charging and service disclosure requirements, and
- whether firms that were holding themselves out as independent were delivering this service in practice

The first cycle found that firms had made progress in implementing the RDR, but identified some areas where they were failing to meet our requirements, particularly around adviser charging disclosure.[1] In response we published a thematic report with good and poor practice, the findings from linked consumer research, and a factsheet to help firms.[2]

The second cycle found that firms holding themselves out as being independent were, in the main, acting independently in practice. However, we still had concerns about how firms in the sample were disclosing important information about their charges and services. The failings often related to areas of the disclosure requirements that were fundamental to providing consumers with clear information on the costs of advice. For example, many firms that based their adviser charge on a percentage of the funds invested were failing to disclose the charge in cash terms.

We made it clear that the level of disclosure failings was unacceptable and that we expected standards to improve.[3] To help firms, we published further supporting material, including a short online video on key topics and the assessment tool we use to check firms are meeting the RDR disclosure requirements.[4] We also participated in a series of UK-wide FCA workshops and industry conferences linked to the RDR, sharing good practice and responding to queries from advisers.

1 Unless indicated otherwise, the rules referred to in this paper are those that came into force on 31 December 2012. This paper does not contain all of the rules and guidance in the Handbook relevant for independent and restricted advice. For all relevant rules and guidance, firms should refer to the Handbook (in particular, COBS 6.1A and COBS 6.2A).

2 www.fca.org.uk/news/tr13-05-how-firms-are-implementing-the-rdr

3 We published these findings in two thematic reports: www.fca.org.uk/news/thematic-reviews/tr14-6-supervising-retail-investment-firms & www.fca.org.uk/static/documents/thematic-reviews/tr14-05.pdf.

4 The online video and assessment tool are available on the FCA website.

Focus of the review

We recently completed the third cycle of the thematic review. Our work focused on two areas:

- A repeated assessment of firms' adviser charging and service disclosure. We wanted to see whether firms had taken action to improve disclosure in response to the cycle two findings.
- A new piece of work looking at how firms' business models have developed in response to the RDR. We focused on the ongoing services firms provide to clients in return for an ongoing adviser charge and how firms are delivering these ongoing services in practice.

Our approach

We requested information from 110 firms. The sample was structured to provide a representative spread of firms from across the financial advice sector and ensure our results were robust. We carried out a desk-based review of this material based on the assessment template that we published in June 2014.[5] We also undertook a more detailed assessment of the design and delivery of ongoing services in 12 firms.

We commissioned an independent market research company to conduct consumer research into how consumers interact with advisory firms' ongoing service propositions. The aim of the research was to provide an insight into consumers' expectations of ongoing services and their experiences of the services being delivered.

Further detail on our methodology is contained in Annex 1.

What we found

Overall, we believe the findings from this review provide further evidence of the increasing professionalism of the financial advice sector.

We found a material improvement in the way firms disclose the cost of their advice, their scope of service, and the nature of their services to clients. This suggests firms have responded positively to the findings from the second cycle of our review and made use of the supporting materials we published. As a result, clients should be in a better position to understand the nature of firms' services and the charges that apply.

However, there remains scope for further disclosure improvements. In particular, we remain concerned that some firms are failing to provide individual clients with clear disclosure, in cash terms, of the ongoing charges they will be paying for the firm's ongoing service. Our consumer research also suggests some consumers have limited awareness of the fees they are paying for ongoing services. Given ongoing services are central to the services many firms offer their clients, it is important that firms disclose these charges clearly. Firms should therefore consider how they communicate information on ongoing services to their clients and how effectively it is understood.

5 The asessment template and accompanying notes are available here.

Our consumer research highlights the importance many consumers place in the ongoing service element of financial advice. Integral to this is the knowledge that a trusted professional, acting in their best interests, is ensuring the investments they have been recommended continue to be appropriate for their circumstances. The research suggests the majority of clients are satisfied with the ongoing services they are receiving and that its value acts as an important motivator in consumers' decisions to pay for financial advice. It also suggests advisers should be more confident about communicating charges to clients. There is strong evidence that existing ongoing service users value the benefits of their ongoing service and would be unlikely to give these up to avoid the associated charges.

The findings from our desk-based review indicate that the majority of firms have developed an ongoing service proposition and put in place systems and controls to deliver it. There were only isolated examples of firms receiving an ongoing adviser charge and not providing a genuine service in return. Our detailed assessments at a sample of firms also suggested they are delivering on the service commitments they have made to their clients in practice. This was supported by the findings from our consumer research.

Action taken

We believe it is essential for clients to have a clear understanding of the level of charges and the nature of services on offer so they can make informed decisions about whether they meet their needs. Our rules and guidance in this area are clear and have been reiterated as part of three successive, high-profile pieces of thematic work.

We are encouraged by the findings from this third cycle of work. However, firms should be aware that we will continue to review their approach in our routine supervisory work and, where appropriate, we will use our regulatory powers to intervene to correct instances where poor disclosure of services and charges threatens good consumer outcomes.

Given the importance of this area, following the third cycle of work, we have referred one firm – who we do not believe has sufficiently engaged with the changes the RDR requires – to our Enforcement and Financial Crime Division.

We remain committed to supporting the financial advice sector in this continuing period of transition. Over the course of the three cycles of the thematic review we have provided firms with a range of information to help implement the RDR requirements. This includes reports with our findings, good and poor practice examples of the rules being applied, a checklist of requirements, a factsheet, explanatory online videos covering questions and answers on key topics, nationwide workshops, and independent research on consumers' experiences and preferences. All firms involved in the delivery of advisory services are encouraged to review this material and consider the implications for their own business models.

Annex 3 collates all this material in one place. We encourage firms, trade and professional bodies, and consumer groups to continue to make use of it.

2.
Adviser charging and service disclosure

Disclosure of services

We found the vast majority of firms are providing clients with clear information on their services (including the scope of their service). Only a small proportion of firms failed in this respect. For example:

- All restricted firms used the word 'restricted' in their disclosure material (an improvement from the 19% failure rate in cycle two).[6]
- 7% of restricted firms failed to explain the nature of their restriction (an improvement from the 23% failure rate in cycle two).
- 9% of firms failed to clearly disclose the nature of their ongoing services (an improvement from the 20% failure rate in cycle two).

Disclosure of adviser charges

Overall, the disclosure of adviser charges has improved and more firms are providing clear information to their clients. For example:

- *Generic charging structure*: 15% of firms using a percentage-based charging structure failed to provide examples of their initial charges in cash terms (an improvement from the 24% failure rate in cycle two). Similarly, 18% of firms failed to provide examples of their ongoing charges in cash terms (an improvement from the 30% failure rate in cycle two).
- *Total charge for the individual client*: 13% of firms failed to provide this information to clients as soon as practicable (an improvement from the 22% failure rate in cycle two).
- *Total charge for the individual client*: 9% of firms using a percentage-based charging structure failed to disclose to the individual client the total charge for initial advice in cash terms (an improvement from the 24% failure rate in cycle two).

6 There were 28 restricted firms in the review

However, there are three areas where the failure rate remains high:

- *Costs of ongoing services*: 35% of firms did not disclose the total adviser charge for their ongoing services in cash terms relevant to the individual client (compared to 41% in cycle two).[7] This normally applies when the firm is using a percentage based charging structure. As this was one of the main failings in both of the previous review cycles, we are disappointed that a significant proportion of firms continue to fail to disclose the ongoing adviser charge in cash terms for individual clients.

- *Hourly rates*: Of the firms using hourly rates within their charging structure, 57% did not provide an approximation of how long each service was likely to take (compared to 73% in cycle two). This failing is mitigated by the fact that, in practice, many of these firms' primary method of charging clients is on a percentage basis, which they disclosed clearly and compliantly. Within these firms, hourly rates were often used for non-standard, complex or ad-hoc work, so the lack of clarity is likely to only affect a small proportion of their clients. However, it is important firms ensure all of the charging methods included in their disclosure documents are clear for clients.

- *Wide ranges*: 23% of firms use wide ranges in their generic disclosure.[8] For example, stating that they charged between £X and £Y for a financial planning report. Where there is a lack of clarity it can be difficult for the client to be clear about the likely cost.

The findings were broadly similar across different types of firm. The main exception is the wealth management sector, where too many firms operating on a percentage charging basis are failing to provide examples in cash terms in their generic charging structures (typically in their 'rate cards'). Although the industry-wide failings in this area are 15% (initial charges) and 18% (ongoing charges), the equivalent figures for wealth management firms are 36% and 50% respectively.

The evidence from our detailed assessments in a sample of 12 firms substantiated the findings from the desk-based review of the wider firm population. The main issue identified was firms' failure to provide specific disclosure of the ongoing adviser charge to their clients in cash terms.

Annex 2 contains a more detailed summary of our findings, including a comparison between the results from the second and third cycles of the review.

Format of adviser charging and service disclosure

In addition to the detailed adviser charging and service disclosure requirements, firms also have a wider responsibility to ensure the way they communicate with their clients is clear, fair and not misleading.[9] When creating and reviewing the documents (and other information) explaining services and charges to consumers, firms need to ensure they consider the prominence, clarity and accessibility of the information (in addition to compliance with more detailed disclosure rules). Firms may also wish to consider how engaging their disclosure material is and how this might be improved to increase client understanding and engagement. This will help clients make an informed choice about whether the firm's proposition meets their needs and represents good value.

7 The failing related to the disclosure of the total charge for ongoing services for the individual client (COBS 6.1A.24R). Disclosure of cash terms examples for ongoing services in the generic disclosure material was usually clear and compliant.

8 The equivalent figure in the second cycle of our review was 19%.

9 Principle 7 and COBS 4.2.1R, COBS 6.1A.22R.

During the first cycle of our thematic review we published independent consumer research on consumer understanding of adviser disclosure documents.[10] This found that the design and content of disclosure documents were critical in promoting consumer engagement and understanding of the advice process and related costs. The market research company that conducted the research highlighted a number of design principles likely to improve the quality of disclosure documents. We have repeated them here as a resource that firms may wish to consider when designing and reviewing their own disclosure documents.

- Ensure documents are written in a font-size that makes it easy for people to read. This also ensures documents are not mistaken for 'terms and conditions'.
- Ensure information on services and charges is displayed together so that people are able to assess it in context. Where information is separated, there is more work for the consumer to reconcile the various points of information.
- Avoid using dense paragraphs of text to share complicated information - tables and/or diagrams are preferable. This is particularly the case when it comes to processing and comparing information such as costs.
- Use bold text, colour and/or highlighting to draw out key information such as costs.
- Use white space to make the contents easier to read. Avoid cramming the information into the space available, particularly where this means changing the layout, font size or the margins of the pages to accommodate additional points.
- Try to keep the document to four pages or less. When documents become longer than this, they start to look like hard work (even if they are not), and so receive less attention from consumers. However, firms should not sacrifice font size or layout needs just to meet this desire.

10 The first cycle of the RDR thematic review included the publication of independent consumer research, carried out by NMG Consulting, investigating consumer understanding of adviser charging disclosure documents. The full report is available on the FCA website: www.fca.org.uk/your-fca/documents/nmg-rdr-consumer-research.

3.
Design and delivery of ongoing services

3.1 Findings from our consumer research

We commissioned an independent market research company, NMG Consulting, to conduct consumer research into how consumers interact with advisory firms' ongoing service propositions. The aim of the research was to provide an insight into consumers' expectations of ongoing services and their experiences of these services being delivered.

The key findings from the research are as follows:

- Amongst consumers who take advice, the ongoing element of financial advice is an integral part of the service and an important motivator in paying for financial advice. Using regular financial reviews as the main indicator of ongoing services, 65% of consumers who take advice are receiving ongoing services.

- Trust underpins consumer-adviser relationships. Consumers tend to view ongoing services as a relationship with a trusted professional who is acting in their best interests.

- The key benefit for consumers using a financial adviser on an ongoing basis is having the peace of mind that someone with expertise and awareness of the market is taking care of their investments.

- The opportunity to achieve a better return than they would by managing the portfolio themselves is only one of the motivations to use financial advice. Alongside the rational reasons for using ongoing services are strong emotional drivers such as 'security' and 'peace of mind'.

- The most valued elements of ongoing services are those that provide evidence that a 'personalised service' is being given. Consumers' core expectation is for advisers to review their personal circumstances and ensure their recommendations continue to be appropriate. Other 'must have' services include access to their adviser, regular reviews, fund monitoring and switching, and access to information on the value of their investments.

- Regular reviews are highly valued by consumers and are viewed as key to the ongoing relationship. Consumers expect reviews to include a discussion of their circumstances and objectives, a review of their investments, an explanation of the impact of legislation (where applicable), the provision of information and reassurance when funds have decreased in value, discussion of future market forecasts and the opportunity to ask questions.

- The vast majority of consumers are satisfied with the ongoing service they are receiving from their adviser.[11]

- Consumer awareness of the fees they are paying for ongoing services is limited. Some advice users are not aware of whether they are paying for ongoing services or how much. Much greater awareness of charges is seen in those that have set up a new investment post-RDR compared to those that have not. This suggests the RDR requirements for increased transparency of charges are having a positive influence on user awareness of ongoing charges.

- Documentation describing ongoing charges is not always effective in making consumers aware of fees paid. Consumers do not engage well with the documentation and often struggle to find (and recall) the pertinent elements relating to charges.

- Advisers should be more confident about communicating charges to clients. The research provides strong evidence that existing ongoing service users value ongoing services and would be unlikely to give these up to avoid the associated charges. This message is particularly important for advisers with clients still on a trail commission basis who have not yet been updated about the RDR changes/moved onto adviser charging.

Annex 1 contains further information on the consumer research methodology. The detailed research findings have also been published separately.[12]

The findings from the consumer research show the importance consumers place in an ongoing advisory relationship. Central to this is the knowledge that a trusted professional, acting in the clients' best interests, is ensuring their investments continue to be appropriate for their circumstances and objectives.

However, the research also highlights some consumers have limited awareness of the charges they are paying for ongoing services. It suggests firm documentation describing ongoing charges may not always be effective in communicating this information to consumers. It is important to bear in mind though that these findings include some client-adviser relationships that pre-date the RDR and so may not fully reflect current standards within the financial advice sector.[13] Firms should ensure they are meeting their obligations to provide clients with clear information on their services and charges.

3.2 Findings from our work with firms

The RDR was a catalyst for advisory firms to review fundamental aspects of the services they provide to their clients. In addition to the question of whether to provide an 'independent' or 'restricted' service, firms have had to develop an adviser charging structure and review whether and what kind of ongoing services they wish to offer clients.

Prior to the RDR, many firms provided clients with a form of ongoing service in exchange

11 When considering this finding, it should be noted that (1) favourable market conditions during the period covered by the research may have positively influenced consumers' level of satisfaction with advisory services, and (2) the research finding highlighting some consumers have limited awareness of fees may mean their ability to assess the value of advisory services is reduced.

12 www.fca.org.uk/your-fca/documents/research/retail-investment-advice-assessment-of-ongoing-services

13 For example, some clients who sought advice prior to the RDR will have received information based upon the pre-RDR disclosure requirements. They may also be continuing to receive an ongoing service on this basis (i.e. they may not have been transitioned to a post-RDR adviser charging agreement).

for the trail commission received from the products they recommended. The income stream generated by trail commission was an important part of many firms' business models. However, the precise nature of the ongoing service, including who was responsible for instigating its delivery, was not always clear. Following the implementation of the RDR, the receipt of an ongoing adviser charge is now contingent on the provision of an ongoing service.[14]

The design, disclosure and delivery of a firm's ongoing service are key indicators of its professionalism. We therefore decided it was an appropriate time to better understand how firms had approached the design of their ongoing service propositions and see how they were delivering these services in practice now the RDR has been in place for some time.

Design of firms' ongoing services

Our expectations

Firms are able to design their ongoing services to meet the needs of their clients, as well as achieving their own commercial objectives. However, they must ensure their ongoing service proposition is a genuine service and consistent with their responsibilities under the client's best interests rule and Principle 6 (Customers' interests). They must also ensure they give clients clear information on their ongoing service so clients can make an informed decision on its value and benefit, and whether they wish to pay for it.[15]

Firms should think carefully about the relationship between their ongoing service and the products and services they recommend. This is because firms have a wider responsibility to consider whether a personal recommendation is likely to be of value to the clients when the total likely charges (which could also include product and platform charges) are taken into account.[16]

Our findings

Structure of firms' ongoing services

Almost all of the 110 firms we reviewed offered their clients a form of ongoing service in exchange for an ongoing adviser charge. Although the proportion of each firm's clients that had agreed to an ongoing service varied, the take-up was generally high. In around half of firms we sampled, over 90% of their clients were paying to receive an ongoing service.

The scope of the ongoing services offered by firms varied and often depended upon the needs of their target market and the investment proposition the service was linked to. For most firms, the core component of their service was a regular review of the clients' investments against their needs and circumstances. Other common components included regular analysis of clients' investment portfolios, portfolio rebalancing[17], the production of regular portfolio valuations, and the production of general (i.e. non-client specific) communications with commentary on wider financial or macro-economic issues.

Some firms offered their clients the ability to select from different levels of ongoing service (often using tiered adviser charges or offering higher service levels the larger the sum invested). The different levels of service were most commonly based upon the frequency of adviser contact necessary to support the client, the level of assets being administered by the adviser or the complexity of the client's circumstances.

14 COBS 6.1A.22R & COBS 6.1A.26G.

15 The detailed disclosure requirements are set out in COBS 6.1 and COBS 2.2.

16 COBS 6.1A.16G (i.e. the total overall costs are so high that the benefit of the investment – or the benefit of the advice – is lost).

17 Periodic re-alignment of the assets to an agreed asset allocation.

Many firms were able to provide a clear rationale for how the different levels (and individual features) of their ongoing services mapped to their existing clients or the profile of the new clients they were targeting. This process often involved a client segmentation exercise based on criteria such as clients' level of investable assets, investment need, life-stage, knowledge and experience, and how complex their circumstances were.

Good practice example – a firm using client analysis to design and review its ongoing service model

Firm A used an analysis of its existing clients to help determine the structure of its ongoing service model. It also supplemented this by asking clients what they thought about the design of the ongoing service and then testing a preliminary version of the service with a sample of clients.

The firm introduced two levels of service (with tiered ongoing charges) to meet the needs of the two client groups that would benefit from a form of ongoing service. It also identified a group of customers with simpler needs and lower levels of investable assets for whom it felt an ongoing service was unlikely to be of value. For example, the firm did not think it was appropriate to provide an ongoing service linked to personal recommendations for an annuity.

Firm A used its management information and client feedback to regularly review its ongoing service proposition and ensure it was meeting the needs of its clients and made changes where they felt this would improve the services to clients.

Good practice example – a firm providing clear information on the customer profile for its ongoing service levels and monitoring how ongoing services were used in practice

Firm B offered three levels of ongoing service distinguished by the type of investment solution and the level of interaction with its advisers. The firm's client-facing disclosure material clearly articulated the client profile likely to benefit from each service level.

Firm B's management information captured the number of clients using each ongoing service level. The firm's senior management monitored the distribution of clients across its ongoing service levels to help assess the risk of 'shoe-horning' clients into their centralised investment proposition.

In addition, as part of the client ongoing review process, the firm discussed whether the current service level was appropriate for the client's needs. In certain circumstances, clients were moved to a different service level.

However, some firms were less able to explain how the design of their post-RDR ongoing service proposition was linked to the needs of their customers. For firms whose pre-RDR business model had focused on providing ongoing services to an established client bank, this did not appear to be an issue. Their post-RDR ongoing service model (and their business model more generally) required only moderate changes to the services provided. However, there were some firms who appeared to have settled on their ongoing service proposition (and its underlying charges) rather arbitrarily, with the most significant influence being how it compared to the approaches adopted by their peers and competitors. While it is understandable that firms would wish to benchmark their ongoing service proposition commercially, they need to ensure their own proposition meets the needs of their clients and supports the delivery of good consumer outcomes.

Good practice example – a firm redesigning its ongoing service in light of client experiences

When Firm C designed its initial ongoing service proposition it included a long list of the potential features it thought its clients might need. The long list of features was also influenced by the firm's desire to demonstrate to its clients that the ongoing adviser charge represented value for money.

After the ongoing service had been in place a number of months, Firm C reviewed how it was being delivered. The firm discovered that clients were only making use of a small proportion of the features. As a result, Firm C redesigned the structure and charges of its ongoing service proposition to concentrate on the two or three main elements that clients found most valuable (for example, the annual review of their circumstances and investments) and focused on delivering these to a high standard.

In a small minority of firms, we identified that one of the ongoing service levels offered to some of their clients only included administrative duties linked to the initial advice and the maintenance of client records. We were concerned that these tasks did not constitute a genuine ongoing service and firms were therefore failing to treat these clients fairly.

Poor practice example – a firm charging some of its clients an ongoing charge for administrative duties linked to the initial advice and general regulatory requirements

Most of Firm D's clients had agreed to take up its premium ongoing advice service. However, it charged all of its remaining clients for a retainer service that consisted of administrative services it was required to undertake regardless and a vague commitment to be available to answer minor client queries. We did not think this represented a genuine ongoing service.

Charging for firms' ongoing services

The majority of firms charged for the cost of the ongoing service as a percentage of clients' investable assets. The level of firms' ongoing adviser charge(s) varied, based upon the nature of the service being provided.[18] Some firms set the level of their ongoing adviser charge(s) based on the output from an analysis (often wider than ongoing services) examining the actual costs of delivering the service in practice, as well as the resources necessary to support it. This allowed the firm to ensure it could supply ongoing services profitably and had the necessary infrastructure and staff to deliver on the commitments agreed with its clients. It also supported the firm in considering whether there were certain client profiles (based on the level of investment, client need or investment solution) where it might not always be in the client's best interests to recommend an ongoing service or a certain level of ongoing service. However, although many firms could articulate this consideration verbally, it was not always documented in their advice processes and linked controls.

Good practice example – a firm ensuring it had adequate resources to deliver its ongoing service

Firm E decided to redesign its ongoing service proposition in the run up to the implementation of the RDR. As part of this process, it identified and took into consideration the key factors it felt would contribute to the quality of the new service, including:

- The number of clients each adviser had the capacity to provide an ongoing service to.
- The wider resources – such as paraplanners and administrators – necessary to support advisers in delivering against actual/potential ongoing service commitments.
- The wider infrastructure necessary – in terms of IT hardware and software – to deliver its ongoing services in an efficient and auditable manner. This included ensuring its existing back-office system had the functionality to provide diary management for the scheduling of client reviews and case management to store the outputs from its client meetings.

Firm E used this information to identify how much it cost to deliver its ongoing service for different types of client. It used this analysis to help inform the pricing model for the service.

18 This review did not consider wider trends in the cost of ongoing services or the impact of adviser charges on the 'total cost of ownership' for consumers. A fuller analysis of the impact of the RDR on the cost of products and services is included within the RDR post implementation review.

The majority of firms' clients opted to pay the adviser charge via the product or platform provider.[19] The remaining clients opted to pay the adviser charge directly to the adviser (for example, by writing their adviser a cheque or paying via standing order/direct debit). We did not identify any evidence of firms seeking to influence the method of how clients paid for their services (i.e. by offering 'preferential' rates for certain payment channels).

Disclosing firms' ongoing services

The format in which firms disclosed their ongoing charges varied considerably. Some firms had gone to considerable efforts to present information on their ongoing service, including the associated adviser charges, in a way that attempted to engage customers and encourage understanding. This included using creative design to highlight key information and including summary tables to help clients compare different service levels. Where this worked well, summary tables provided clear information on which advisory services were included within the ongoing adviser charge and which were not, as well as a tariff with the specific costs of additional, charged-for services.

However, the way some firms disclosed their ongoing service was less clear. This included document layouts that made it difficult for consumers to compare different levels of service and lack of relevant detail on the features of each service level. We identified a small number of firms where the design of their ongoing service and the structure of the documents describing it were identical. Within these firms, the features of the different services on offer were described at a very high level, with no description of what 'ongoing meetings', 'reporting' and 'contact' would mean in practice. We were concerned these firms had used third-party templates without thinking through how the design and delivery of the service would meet the needs of their own clients. We were also concerned that the ambiguity in firms' ongoing service commitments could create risks at both a client and business level:

- **Client risk:** as clients might expect a different level of ongoing service than firms intended to deliver.
- **Business risk:** as the lack of clarity on scope of the ongoing service would make it difficult for firms to resource, plan, cost and monitor its delivery.

Good practice example – a firm providing clear disclosure of ongoing charges to its clients

Firm F's client fee agreement provided a detailed breakdown of the features included within the ongoing service, the frequency with which they would take place and whether they were instigated proactively or following a prompt from the client. It also described the potential outcomes that could arise from an ongoing review with the client and whether they were included within the ongoing adviser charge or not. Where they were not, there was a clear breakdown of the costs of these additional services displayed in cash terms. The firm believed that presenting their costs in this way facilitated an open discussion about charges and contributed to better relationships with their clients.

19 The RDR rules allow clients to agree to the payment of adviser charges directly from the investment (known as 'adviser charging facilitation'). An adviser charge can be deducted from the investment as a lump sum or, if an ongoing service is provided or the product is a regular payment one, as a series of regular payments.

Poor practice example – a firm that did not provide clear information on the delivery of its ongoing service

Firm G offered three levels of service to its clients: 'Standard', 'Enhanced' and 'Made to measure'. The main difference between the service levels was the frequency with which aspects of the service took place and whether they were delivered proactively or had to be instigated by the client. In the case of the 'Made to measure' service, the precise features and their frequency were to be agreed with individual clients.

The literature Firm G used to describe its ongoing services did not provide clients with clear information on how often the features of each service level would be delivered and who was responsible for triggering their delivery. For example, it set out that a number of service features would be delivered 'as required', 'if necessary' and 'to be agreed'. Further client documentation, including suitability reports, failed to explain how this would be delivered in practice.

We were concerned this could result in a mis-match between clients' expectations of their ongoing service and its delivery. It could also have a commercial impact for the firm if the level of service delivered in practice differed from the assumptions underpinning its business model. We were concerned the lack of detail could undermine Firm G's ability to deliver the service in practice (as well as hinder its ability to put in place appropriate systems and controls to monitor it).

Delivery of firms' ongoing services

We undertook detailed assessments in a sample of 12 firms to examine how they delivered their ongoing services in practice. The findings in this section relate to these 12 firms except where explicitly stated.

Our expectations

If firms commit to providing an ongoing service to their clients, they need to ensure they deliver this in practice.[20] Firms should also ensure they have appropriate systems and controls in place to ensure their ongoing services support the delivery of good client outcomes.[21]

Our findings

Firms' approaches to delivering their ongoing services

Most firms had considered the logistical challenges of delivering multi-faceted services to a large number of clients on an ongoing basis and put in place systems and processes to support this. Firms identified the following as key to delivering ongoing services successfully:

20 Principle 6 and COBS 6.1A.22R.
21 SYSC 3 systems and controls.

- **Diary and resource planning:** to schedule the delivery of ongoing services for clients and ensure adequate resource is available to carry out the activities involved.
- **Formal review processes:** to organise the preparatory work necessary for the delivery of the features of the ongoing service, record the outputs from the process, and provide a clear audit trail.
- **Monitoring:** to conduct regular assessments checking whether ongoing services are being delivered as agreed and whether they are delivering good client outcomes.
- **Management information:** to collect a suite of appropriate metrics to track whether ongoing services are being delivered and identify potential risks to clients linked to their delivery.

Diary and resource planning

Many firms used a diary system to help schedule the delivery of their ongoing services, particularly client reviews. The diary was used to capture all upcoming client reviews in a given period and who was responsible for delivering them. Customers were then contacted proactively to arrange the most appropriate time and format for the review to take place. We felt proactive client contact was evidence of firms delivering a professional service focused on the delivery of good client outcomes.

Firms' approach to managing the resources necessary to deliver their ongoing services varied. Some firms had undertaken a detailed exercise to calculate the resources necessary to deliver different aspects of their ongoing service. They were then able to use the results to calculate the number and type of staff required to meet their existing ongoing service commitments and how to schedule the efficient delivery of these services throughout the year. The exercise also allowed firms to identify the capacity they had to provide advisory services (including but not limited to ongoing services) to their existing clients, as well as their ability to take on new clients.

Other firms took a simpler approach. These firms used the information within their diary systems to identify the number of upcoming client reviews and ensure they had adequate advisory, paraplanner and/or administrative resource available to carry out the activities involved in their delivery.

Good practice example – a firm using a diary system to drive its ongoing review process

Firm H used a diary system to help deliver its ongoing review process. The diary identified the clients who were due a review, highlighted who within the firm was responsible for delivering it and scheduled the preparatory tasks that needed to be completed ahead of the review meeting with the client.

The diary system was also used to prompt the production of letters notifying clients that a review was due and the necessity of arranging this with the firm. Where clients didn't respond within a specified period, the diary prompted a member of the firm's administration team to call the client to schedule the review.

Formal review processes

Most firms recognised that formalised review processes were necessary to organise the preparatory work to deliver the ongoing service, record the outputs from the review process, and provide a clear audit trail of the work undertaken. The approaches firms took to managing this varied, dependent on the size of the firm and the complexity of the review process. Some larger firms had structured processes (facilitated in some cases by a linked back-office system) to ensure the right people were working on the right deliverables at the right time. Small firms had adopted streamlined processes based upon the needs of their business. For example, one small firm used a simple process map highlighting the tasks certain individuals needed to undertake and at what point in the review process they needed to complete them.

Good practice example – a firm using its back-office system to track and record the output from its client reviews

Firm J's back-office system allowed it to track the progress of the client review process through its different stages and keep a record of the outcome. The system included file notes documenting client meetings/telephone calls, as well as client letters providing a formal record of the output from the review process. It also captured client authorisation to proceed with recommended amendments and rebalancing of their investments.

Many firms had considered ways in which they could structure their ongoing review process to increase both efficiency and effectiveness. Firms tended to approach this from two perspectives.

- **Client:** The preparatory work it asked clients to undertake ahead of the review in order to maximise its effectiveness (for example, asking clients about any changes in their circumstances and any specific areas they wanted to discuss).

- **Firm:** The preparatory work the firm could undertake ahead of the review in order to produce the most effective review process. For example, by:

  - ensuring that they produced investment portfolio analysis (including recommendations to buy and sell assets) ahead of the client meeting so that it could discuss these with clients and confirm the suitability of the recommended course of action at the meeting (where appropriate); and

  - preparing for review meetings by producing an itemised formal agenda of issues to discuss based upon a thorough review of client files and any updated portfolio analysis.

Good practice example – a firm that asked clients to supply updated information ahead of the review meeting

Firm K tried to ensure its client reviews were as productive as possible by asking its clients to undertake some preparatory work. Clients were asked to complete and return a 'fact-find update' ahead of the meeting and to indicate any specific areas that they wanted to discuss. This approach meant the adviser was aware of any significant changes to the client's circumstances that could impact upon their preparation for, and delivery of, the review.

Monitoring and management information

All of the firms conducted some form of monitoring to check whether ongoing services were being delivered on the basis agreed with clients. File checking processes often included a focus on whether the service was delivered to the correct timeline, whether the review covered what it was meant to, whether the output from the review had been documented clearly, and whether the client outcome from the review was appropriate (including the suitability of any linked recommendations where relevant).

Firms also collected management information on the ongoing review process. This tended to be focused on operational factors that helped firms manage the delivery of the service.

Good practice example – a firm that used its management information to improve its ongoing service

Firm L was able to use its management information to identify that its new ongoing review service was taking longer to deliver than anticipated. As a result, it was concerned that it would not have enough resource to meet the commitments it had made to the existing group of clients who had agreed to the service. The firm was able to recruit resources to make up the shortfall.

Evidence of firms delivering their ongoing services

The evidence from our work with firms suggests they are delivering the ongoing services they have agreed with clients in practice:

- **Our desk-based review of 110 firms:** Firms reported that the vast majority of their clients had received an ongoing review in the last 12 months. For clients who had agreed to an ongoing service but this had not taken place, the majority of firms provided explanations to justify this. For example, where clients had asked to delay the review to a more convenient time or where the frequency of ongoing reviews was greater than 12 months.

- **Our detailed assessments in a sample of 12 firms:** Our review of firms' records and a sample of individual client files evidenced their ongoing services being delivered in practice (on the basis agreed with the client).

The findings from our supervisory work are reinforced by the findings from the consumer research on the delivery of firms' ongoing services. The quantitative survey of 1,013 advice users found that – using regular financial reviews as the main indicator of ongoing services – 65% of consumers who take advice are receiving ongoing services. It also found that consumer experience of ongoing services is positive, with high levels of satisfaction across consumers with different levels of wealth.

Annex 1
Review methodology

Firm-facing work

We requested information from a sample of 110 firms, randomly selected to ensure we included a range of firms sufficiently representative of the financial advice sector. The sample included small financial advisers, networks, large national advisers and banks. It also included a selection of wealth managers, private banks and stockbrokers that provide advisory services, as well as firms where the provision of investment advice is ancillary to their main business (e.g. solicitors, accountants and insurers).

Firms were asked to complete an online questionnaire and provide a copy of their disclosure documents and relevant documentation for their ongoing service proposition (where applicable). We undertook a desk-based review of this material based on the assessment template that we published in June 2014.[22]

We undertook a more detailed assessment of a sample of 12 firms' ongoing service propositions. This included interviews with members of staff and an assessment of key documents (including client files) to examine the design of firms' ongoing services and how they were being delivered in practice.

Consumer research

We commissioned an independent market research company, NMG Consulting, to conduct consumer research into advisory firms' ongoing service models. The aim of the research was to provide the consumer perspective on ongoing advisory services, specifically:

- The motivations, influences and drivers for consumers who agreed to an ongoing service.
- Whether consumers understand what an ongoing service entails and will deliver.
- Consumers' experience of, and satisfaction with, the delivery of their ongoing service.
- Consumers' needs and expectations of ongoing services more generally.
- The proportion of consumers who, having seen an adviser, decide to take up an ongoing service.

The research was carried out using a combination of qualitative and quantitative study with current users of financial advice services:

22 The assessment template is available here.

- Qualitative interviews: 64 in-depth, one hour interviews took place with consumers in their homes.

- Quantitative survey: 1,013 advice users participated in a five minute online survey.

The research took place between September and October 2014. The detailed findings have been published in a separate report.[23]

23 www.fca.org.uk/your-fca/documents/research/retail-investment-advice-assessment-of-ongoing-services

Annex 2
Adviser charging and service disclosure findings

Results (% failings)	Cycle 2	Cycle 3	Change
Disclosure of services			
Did not clearly disclose what service a client would receive in return for the ongoing fee[24]	20%	9%	-11%
Did not disclose that the client could cancel the ongoing service, or how they would go about doing so[25]	18%	6%	-12%
Disclosure of scope of service			
Did not disclose (in writing or a website) in good time before the provision of services[26]	4%	3%	-1%
(Where restricted) did not use the word 'restricted'[27]	19%	0%	-19%
(Where restricted) did not explain the nature of their restriction[28]	23%	7%	-16%
(Where independent) did not use the word 'independent'[29]	6%	5%	-1%
Disclosure of adviser charges			
Generic disclosure of adviser charges			
Did not provide in writing[30]	6%	3%	-3%
Did not provide in good time before making a personal recommendation[31]	4%	3%	-1%
(Where using a % basis) did not provide initial charge in cash terms[32]	24%	15%	-9%
(Where using a % basis) did not provide ongoing charge in cash terms[33]	30%	18%	-12%
(Where using an hourly rate) did not clarify whether rate was actual or indicative[34]	9%	5%	-4%

(Where using an hourly indicative rate) did not clarify the basis on which the rate would vary[35]	63%	31%	-32%
(Where using an hourly rate) did not clarify approximate number of hours each service was likely to require[36]	73%	57%	-16%
Contained wide ranges which may prevent the client from understanding the likely fee[37]	19%	23%	+4%
(Where using multiple methods to calculate the fee) did not clarify when each method will apply	45%	25%	-20%
Specific disclosure of total adviser charges			
Did not provide in a durable medium or through a website[38]	8%	5%	-3%
Did not provide as soon as practicable[39]	22%	13%	-9%
(Where payable over a period) did not provide the total charge[40]	5%	7%	+2%
Did not provide initial charge in cash terms[41]	24%	9%	-15%
Did not provide ongoing charge in cash terms[42]	41%	35%	-6%

24 COBS 2.2.1R(1)(a)
25 COBS 6.1A.22R(1)(b)
26 COBS 6.2A.5R
27 COBS 6.2A.6R(1)
28 COBS 6.2A.6R(3)
29 COBS 6.2A.6R(1)
30 COBS 6.1A.17R
31 COBS 6.1A.17R
32 COBS 6.1A.19G
33 COBS 6.1A.19G
34 COBS 6.1A.20G(2)
35 COBS 6.1A.20G(2)
36 COBS 6.1A.20G(2)
37 COBS 6.1A.20G(1)
38 COBS 6.1A.24R(2)(c)
39 COBS 6.1A.24R(2)(b)
40 COBS 6.1A.24R(2)(d)
41 COBS 6.1A.24R(2)(a)
42 COBS 6.1A.24R(2)(a)

Annex 3
Summary of previous FCA publications and supporting material from RDR thematic work

Since the RDR Thematic Review began in early 2013, we have used our findings and engagements with industry to produce several communications and tools to help firms in understanding and complying with the RDR rules. This annex provides links to communications associated with the previous two cycles of the RDR Thematic Review, as well as links to other related communications.

RDR thematic review cycle one

We published the finding from the first cycle of our thematic review in July 2013. To support firms we published the following documents:

- TR13/5 looks at how firms implemented the RDR rules relating to the disclosure of charges and services. This includes examples of good and poor practice identified during cycle one.
- Factsheet 007 – Disclosing your firm's charges and services which summarises, in two pages, the key disclosure requirements introduced by the RDR.
- Consumer research on 'Adviser Charging and Scope of Service' conducted by NMG Consulting. Further analysis is found in the accompanying technical report.

RDR thematic review cycle two

The communications from cycle two of the RDR thematic review were separated into the following:

- TR14/5, published in March 2014, looks at how firms deliver independent advice. It contains further clarification, including additional good and poor practice, for firms regarding the application of the independence rules. A short video providing further clarification is found on the TR14/5 landing page here.
- TR14/6, published in April 2014, looks at our second set of findings on firms' disclosure of costs and services. A short video providing further clarification on this subject is found on the TR14/6 landing page here.
- In June 2014 we published our disclosure assessment template to allow firms to see the criteria we assessed during the thematic review. We published the template in an Excel and a PDF format, as well as the accompanying notes.

Other RDR communications

- We published guidance on independent and restricted advice, FG12/15, in June 2012.
- Factsheet 009, published in September 2014, provides a two-page summary of the independence rules.
- Factsheet 010, published in September 2014 provides a two-page summary of the adviser-charging rules.

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