



The IT Directors Forum
The Catering and Hospitality Forum
PIMS

Future of the IFA Business Model

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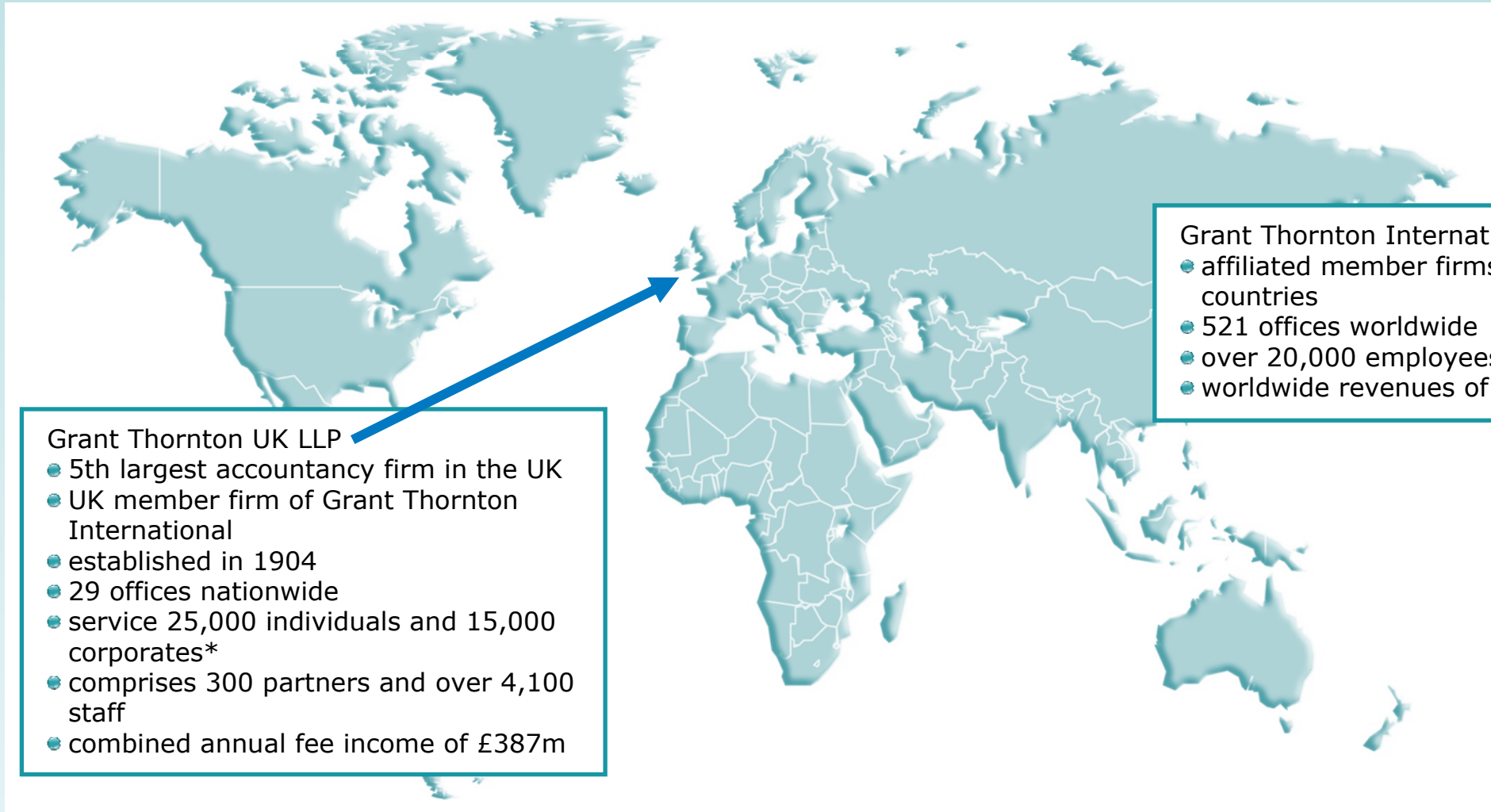


A little about me ...

- First job for Barclays in 1988
- 5 years commission only sales for GAN
- 6 years own IFA
- 8 years regulatory consultancy
 - 1 year on my own
 - 7 years for Grant Thornton



A little about us ...



Grant Thornton UK LLP

- 5th largest accountancy firm in the UK
- UK member firm of Grant Thornton International
- established in 1904
- 29 offices nationwide
- service 25,000 individuals and 15,000 corporates*
- comprises 300 partners and over 4,100 staff
- combined annual fee income of £387m

Grant Thornton International

- affiliated member firms in 113 countries
- 521 offices worldwide
- over 20,000 employees
- worldwide revenues of US\$2.8 billion

A little about us ... - Financial Services Group

- Roots are from IFA sector
- 10 Partners
- 155 Staff
- Multidisciplinary team - Tax, Audit, Actuaries, Risk, Regulatory, Corporate Finance, Project Management
- Industry Practitioners
- IFAs, Networks, Life Assurors, General Insurers, Banks and Investment Firms



Topics to be covered

1. UK & Europe
2. Industry challenges
3. Future framework
4. Next steps and questions



Key messages

1. Things will change
2. Teamwork
3. Specialisation

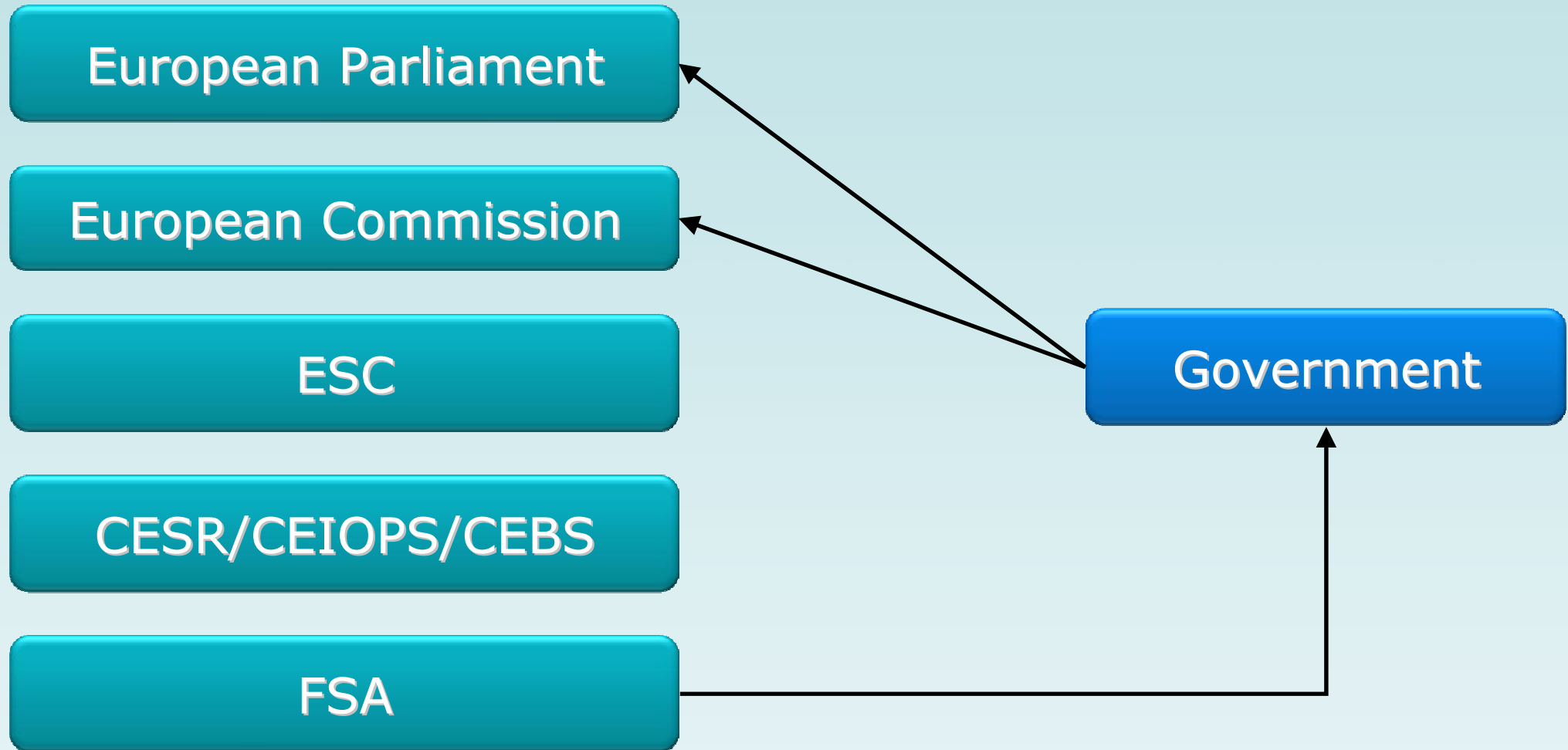


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UK & Europe - European Union



Regulatory Perspective - UK EU policy

- Super Equivalence
- Gold Plating
- Stealth regulation
- Current European Commission proposals:
 1. Mortgage strategy white paper
 2. Packaged Retail Investment Products
 3. Alternative Investment Fund Directive
 4. New Liquidity requirements and supervisors



Regulatory Perspective - 1. Mortgage white paper

Encouraging approach

- Issues with:
 - land registration
 - property valuation
 - forced sales procedures
- "Rigorous impact assessment, including a quantitative cost-benefit analysis"
- But results of the cost benefit analysis were due by end of 2008 ...



Regulatory Perspective

- 2. Packaged Retail Investment Products

- Products:

- "provide a significant function"
- "promote orderly markets"

- But:

- "€10 trillion to €8 trillion"
- "sharp asymmetry" in information & expertise
- "additional layers of cost"
- "fragmented regulation"



Regulatory Perspective

- 2. Packaged Retail Investment Products

- Scope:

1. Investment/Mutual funds
2. Life Insurance policies
3. Structured securities
4. Structured deposits

- Outcomes:

- Conflicts of interest, inducements (commission?)
- Literature tested with investors
- TCF



Regulatory Perspective

- 3. Alternative Investment Fund Managers Directive

- Any non-UCITS collective investment scheme
 - You might only be able to sell UCITS!
- Professional investors only, local rules for retail business
 - You may only be able to sell non-UCITS to professional clients!
- Barrier to non-EU Countries
- Layer of extra cost from Depositeries
- COB rules, similar to MiFID
- Extra for leveraged funds



Regulatory Perspective

- 4. Personal Investment Firm minimum capital rules

- £20,000 Base Capital Requirement
- Expenditure Based Requirement of 3 months
- A lower limit on subordinated loans
- Exclude illiquid assets
- £600m-£850m of additional capital by Personal Investment Firms by 2013



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Industry Challenge - Profit



Industry Challenge - FSA Supervision and Enforcement

- Closer supervision:
 - 280+ new supervisors
 - Industry expertise
 - (Re)training
- 'New' enforcement tools being used:
 - Office raids
 - Simultaneous interviews
 - £100k personal fines for Approved Persons



Industry Challenge - Traders said ...

"I was in this game for the money. The low hanging fruit, ie idiots whose parents had paid for .. Yale .. Harvard .. only making it easier for me to find people stupid enough to take the other side of my trades. God bless America."

Andrew Lahde

retired in October 2008 after 1 year having made an 886% return for his investors.



Industry Challenge - Traders said ...

"This is worse than a divorce.
I've lost half my net worth and I still have a wife."

Quoted in City AM, 15 December 2008



Industry Challenge - Advisers said ...

"72% of advisers believe the way sales commission is structured can influence the products which are sold"

CFA Institute survey, January 2009



Industry Challenge

- Perception of continued 'issues' in retail sector

- 107 companies prohibited in 2008
- Mis-selling allegations continue
- Fraud

Three positive steps

1. Stand up
2. Open up
3. Wise up



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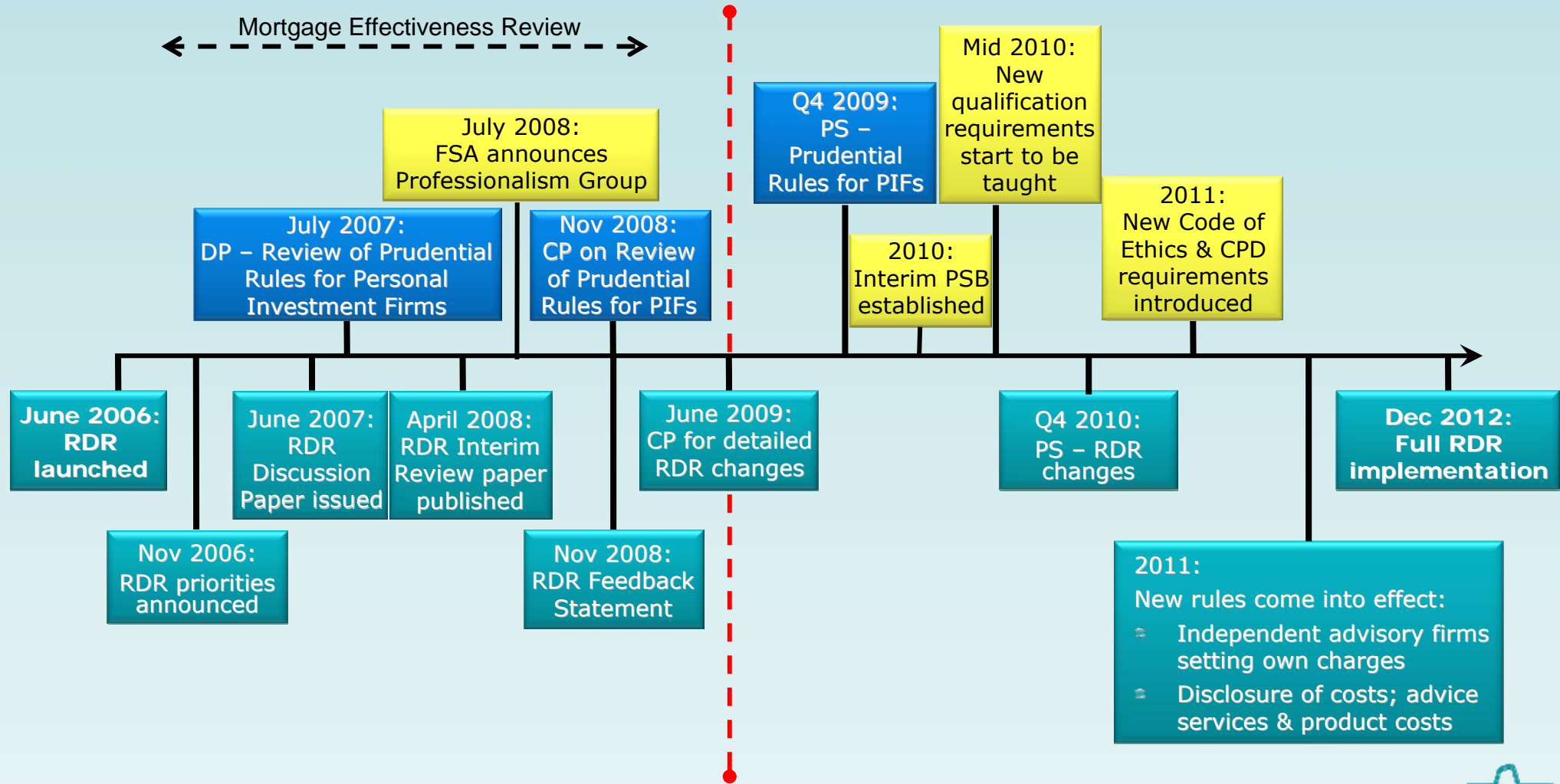
Future Framework

- FSA's top priorities for Retail Distribution Review

- "Improve the clarity for consumers of the characteristics of different service types and the distinctions between them"
- "Raise professional standards"
- "Reduce the conflicts of interest inherent in remuneration practices and improve transparency of the costs of all advisory services"



Future Framework - RDR Timeline

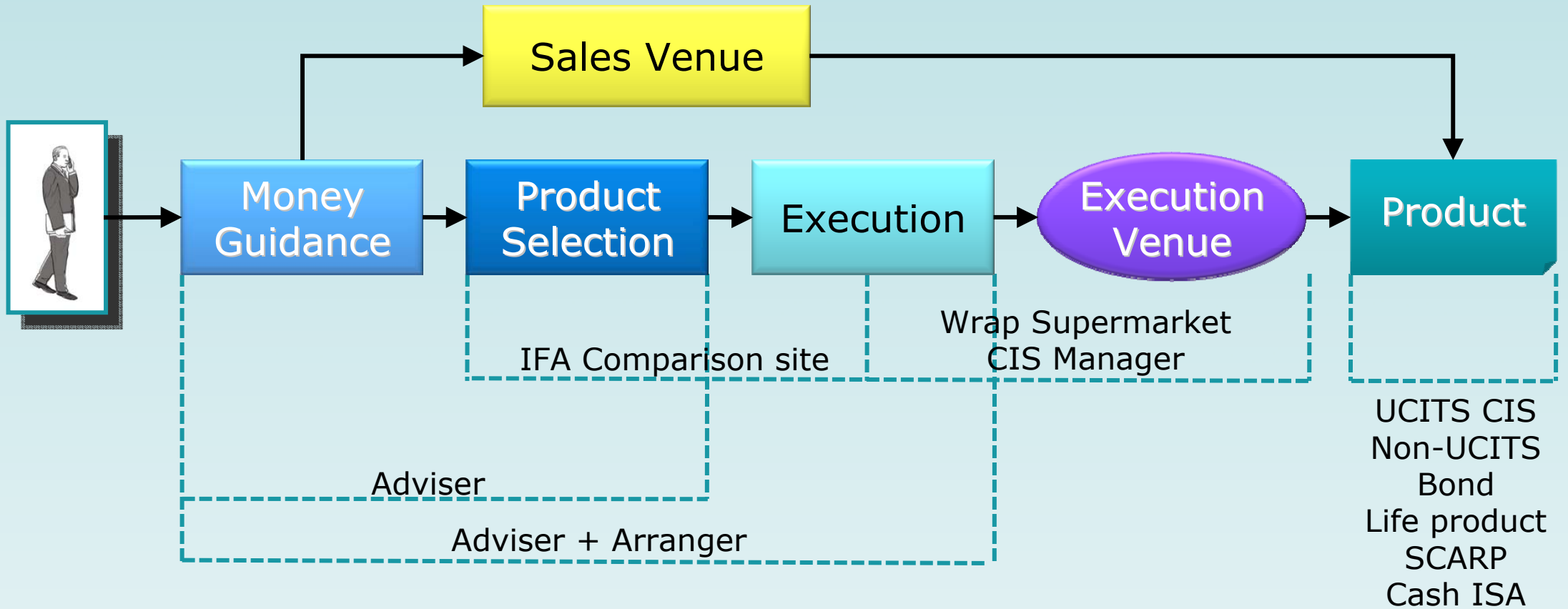


Future Framework - Grant Thornton's view of the outcomes

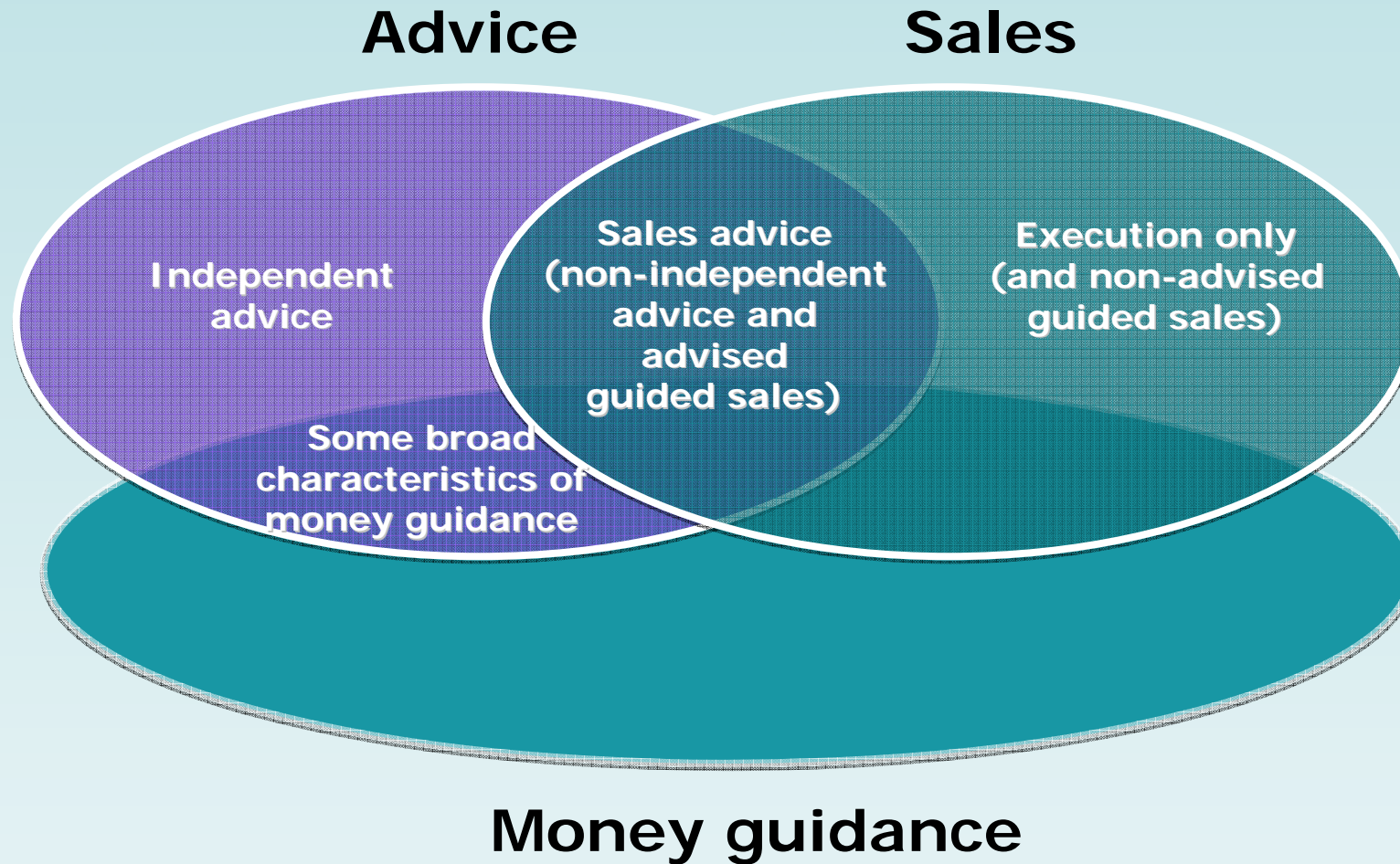
- Product design
- Remuneration shapes
- Specialisation
- New services



Future Framework - Specialisation in retail distribution chain

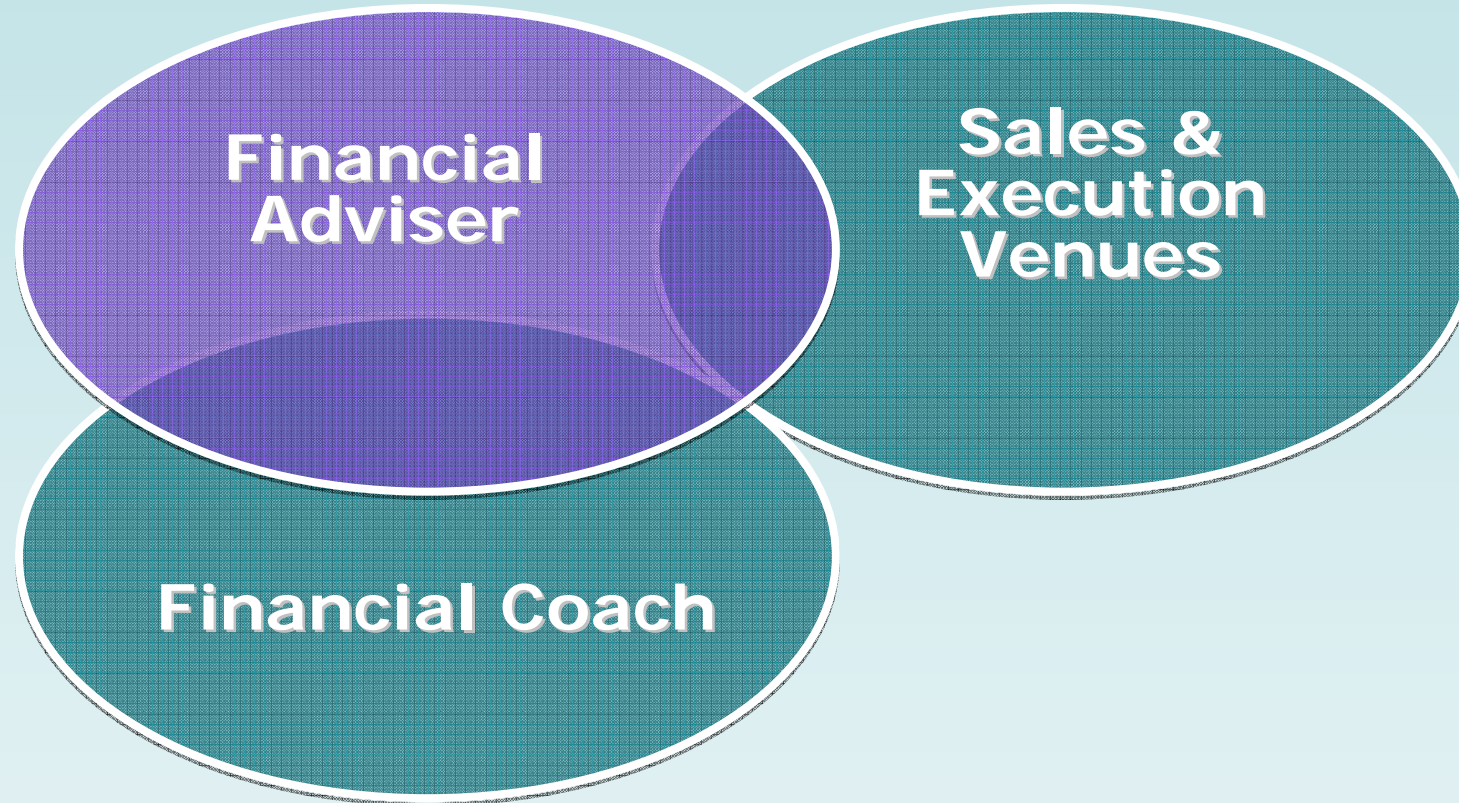


Future Framework - FSA's view of the post-RDR world



Future Framework

- Grant Thornton's view of a post-RDR world



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Next steps

1. Be clear on your strategy
2. Allocate budget to implementing the proposed changes
3. Engage with the Europe or a trade body
4. Scenario testing and stress testing is sensible, particularly for minimum capital
5. Review your anti-financial crime measures, both internal and external
6. Retain key risk, sales and compliance resources



Conclusion

1. Things will change!
2. Teamwork - Maintain and develop your greatest assets:
 - Clients
 - Staff
 - Third parties
 - Through core behaviours of:
 - Standing up
 - Opening up to others' views
 - Wising up to a 'one firm' approach
3. Specialisation - What can you be best at?



Questions?





THE IT DIRECTORS' FORUM
THE CATERING AND HOSPITALITY FORUM
PIMS

Arcadia – 17 – 20 June 2009

