Unpacking RDR: Relationship/Status

Where does this come from?

The 55 proposals contained in the RDR discussion paper can be grouped into 3 categories (see Figure 1). In previous editions we've spoken about activity-based services and we've spoken about remuneration. In this edition, we deal with the relationship or status of advisors under RDR. Why? Because, under RDR, relationship and status together with activities, feeds into remuneration.

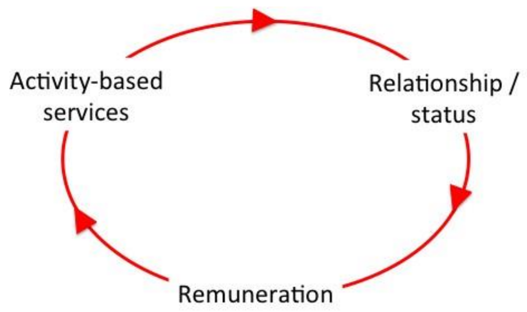

Figure 1 - key categories of RDR proposals

The reason for defining the status or relationship is so that the customers can clearly understand what they're getting and from whom. So they can see on whose behalf the advisor is acting and who the advisor represents. Once they see that, they can see and understand who is paying the advisor and for what. That will put them in a position to be able to evaluate the type and extent of the advice they will receive and then decide whether or not to act on it. In simple terms, the disclosure of status will be clear and transparent.

What does "relationship" mean?

Relationship relates directly to the kind of association or link between the customer and the advisor as well as the kind of association or link between advisor and product supplier. Ultimately, in terms of the RDR proposals, the relationship will determine the status of the advisor. Put simply, it will determine what advisors can call themselves, what they can put on their business cards and letterheads. RDR defines 3 types of advisers, namely:

- independent financial adviser (IFA)
- multi-tied advisor, and
- tied advisor

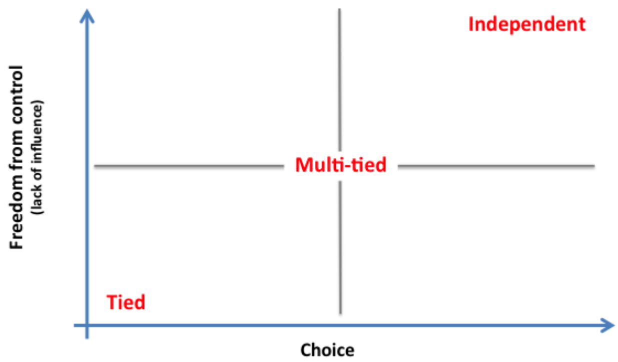

Figure 2 - Relationship/Status

So, how are they determined? The easiest way to understand "relationship" and the knock-on impact on title or designation is to look at it as a relationship with product suppliers and measure it in terms of two main criteria … CHOICE and CONTROL (see Figure 2). The more choice the advisor offers (eg. irt product suppliers) and the less control that advisor is under relative to those product suppliers, the more the advisor can be described as independent. Less choice and more control pushes the advisor more to a tied relationship.

As a general rule, in terms of RDR, advisors will only be able to operate or act in one of these capacities *vis-à-vis* suppliers and therefore only use one label or designation. So, if you're an IFA, you're an IFA. If you're a tied advisor, you're a tied advisor. It follows that if you're a tied advisor you cannot call yourself an IFA. There is an exception though – an "IFA" advising on investment products can be "multi-tied" for insurance risk products and/or health benefits. The RDR paper talks about slightly different terminology for short-term insurance and health benefits, but the principles are the same.

These labels above are essentially linked to product, so there is another label or title (unrelated to product) that any of the above advisors may use in addition to the "product-related" label above – and that is "*financial planner*" as long as the advisor meets the standards that will be set. Financial planning is less about product and more about process, competence and may involve affiliation or membership of a professional association.

So what does this mean for me as an advisor going forward?

The types of questions facing advisors are "*what type of advisor do I want to be*", "*as what do I want to offer advice*"; "*what title do I want to put on my business card?*" To answer these questions, you should be looking at some of the key features of each designation or status as proposed in RDR. As an advisor, YOU need to consider whether each status or designation will help you to deliver what you want to your customers and to build your business.

For our purposes, we distinguish between tied and IFA (with multi-tied sitting somewhere in the middle).

What can you do?	**Tied**	**IFA**
Offer a range/choice of product suppliers	□	□
Offer a range of product options	□	□
Get additional income for selling a company's products	□	□
Get cash plus non-cash benefits (eg. financial planning software, office accommodation, incentives)*	□	□
Be a rep on 2 licences**	□	□
Use the word "independent" in your title	□	□

* In this regard, the RDR paper proposes that equivalence of reward should be applied at an advisor level – this means that irrespective of the status of the advisor (tied or IFA) the value of cash plus non-cash that can be earned from the same quantum of the same type of business should be equivalent – eg. if a tied advisor writes a 20 year life policy with a premium of R1000 pm, the value that the tied advisor gets (cash commission plus non-cash benefits) should be roughly the same as an IFA would get in the form of "broker commission".

** This point is problematic for many current IFAs because we believe there are good solid reasons why IFAs want to be reps on more than one licence – as such we will be raising these issues in our feedback to the FSB.

The differences above are only some of the factors for advisor to consider in deciding what type of advisor they want to be. Other factors will be based on “softer” issues, like “do you want to answer to someone else”, do you want to be under the control of management”, “do you want to build capital value for your own account”?

Lastly, there will be standards each of these advisor’s will need to meet and if advisor’s don’t meet them, the regulator may ‘re-classify’ an advisor into another type.