DEPOLARISATION

The orphan age

Following the recent depolarisation of the advice market, Sonia Speedy explores the potential pitfalls facing advisers and examines whether fears about the creation of IFA orphans are justified

The depolarised advice market may be intended to give better advice to the public but there are fears that existing clients could find themselves falling by the wayside and potentially orphaned by their tying or multi-tying IFAs.

Sesame commercial director Charles Bryant believes that this as a key "issue for advisers and consumers. He says: "What we have done is provide them with the compliance processes and documentation to enable them to take advantage of all the models available."

This means giving advisers the guidelines needed to move from a multi-tied to a whole of market advice process so that the client understands what is going on and what advice process they are actually in.

Bryant believes that if this is successful, there should be no circumstance where an adviser cannot give advice to an existing customer on an existing policy because it has multi-tied. But while the industry is aware of the need to provide options for advisers to meet these specific needs, he does not believe that all firms that tie or multi-tie will follow Sesame's example.

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He says: "I do not think that everyone will go to the same lengths that we have simply because it is very complex. From an adviser's perspective it is very important that they follow the compliance guidelines to ensure that both the customer and the adviser are protected by being clear on what the basis of the advice is."

Scottish Equitable head of business development Steven Cameron reckons that as fewer multi-ties have been formed than expected, depolarisation orphans are less of a concern than they might have been. The prominence of the FSA's treating customers fairly initiative has helped minimise potential problems although the issue is still one to monitor.

He says: "What the industry should really do is what is most appropriate for the end consumer, but I don't know if that will necessarily be the deciding factor in all cases."

Cameron identifies an IFA single-tying as the situation with the most potential for creating orphans and that effectively all existing clients with outside providers could be left unable to be advised on specific issues in this case.

Bradford and Bingley has linked up with Legal & General to offer its customers a range of L&G investment, pension and protection products.

B&B wealth product manager Jonathan Lees firmly believes that the majority of customer needs can be met through tied advice, including holistic financial planning and valuations on existing investments. He adds that within tied and multi-tied arrangements, advisers need to clearly establish what question an existing client is asking. He says: "Financial advisers will be able to help with general queries relating to financial planning and will even be able to help with product-specific queries, including obtaining valuations. It is where the customer wants advice on what they should do with an existing product that an adviser will need to refer them back to an IFA."

Lees suggests that in some cases customers can, and often do, phone the policy provider directly for information.

Prudential UK distribution director Andy Briggs believes with the majority of multi-tie deals it will be possible to do top-ups for existing policies with an existing provider, even if they are not on the multi-tie panel.

He says: "If that is the best advice for the client, and quite often it would be, then I should imagine they would set the multi-ties up in a way so that it is fine."

Briggs suggests that slowly the smaller, weaker providers who do not get on to multi-tie panels will fade away as they lose out on new business. In such cases a move away from that provider becomes best advice. He too believes it will be single-ties where the potential IFA orphans will be made, suggesting that the advisers will only be trained and capable of advising around the products of that one provider.

Norwich Union director of distribution David Barral says: "The commercial terms on which these agreements are based requires that going off-panel must be an exception to the rule. However, clearly, where it is in the best interests of the customer – for example, increments or where a particular product is not available in the multi-tie – then providers expect advisers to be pragmatic."

The orphaning issue also raises questions about renewal commission should an adviser no longer be able to advise an existing client.

The FSA says its rules deal with when commission payment can begin and its disclosure at the point of sale, so once commission payments have started, in general it can continue to be paid.

Spokeswoman Vanessa Wood says: "This applies where the firm continues to be authorised – as would be the case if the firm chose to multi-tie with a limited number of providers. Whether the commission continues or not would be a commercial decision subject to the agency agreement between the two firms."

Renewal commission is an issue that the Treasury select committee has already poked and prodded at and what happens to such payments for clients who can no longer be advised by their IFA could spark further industry debate.

The FSA have explicitly allowed for this issue, providing the ability to go out-o f-range to meet existing client needs.

But as Cameron says: "Whether or not it does resolve it will depend on whether firms are prepared to allow multi-tied advisers to go down the out-of-range route."