



MiFID II & the Future of Retail Financial Advice

Putting Clients First

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Changes in the regulatory environment to MiFID II can serve as a model for the retail financial advice industry. Greater transparency in costs and reducing conflicts of interest should reduce overlap between advice and product sales.

How the Retail Financial Advice Industry can Learn

The retail financial advice industry faces a similar challenge to the one addressed by MiFID II—conflicts of interest arise when advisers are paid based on the products they sell. While commissions on retail investments were supposedly banned under the UK's Retail Distribution Review (RDR), these fees were often simply rebranded as “adviser charges.” The problem persists because many advisers are still incentivised in ways that create potential conflicts of interest.

For example, some firms offer in-house solutions that facilitate advice fee deductions by tapping directly into assets under management, creating a convenient revenue stream for the adviser but potentially skewing their objectivity. In other cases, the adviser might also sit on the investment committee, allowing them to take additional investment fees, which can further cloud the impartiality of their recommendations.

Even more concerning is when advisers recommend a product where none is actually needed, simply to maintain their fee structure. These practices undermine trust and blur the line between genuine advice and product sales.

By *unbundling* advice from product sales, we can eliminate these conflicts and ensure that the client's best interests *always* come first.

Much like how MiFID II tackled this issue in the institutional world, the retail financial advice industry can benefit from a similar unbundling of advice from product sales. This would ensure that advice is truly independent, objective, and focused solely on the client's needs.

The Benefits of Unbundling Advice from Product Sales

- 1: Transparency and Trust:** By separating advice from product sales, clients would have a clear understanding of what they are paying for. They would know exactly how much they are paying for advice and would be confident that the adviser's recommendations are based on their best interests, not on commissions or sales targets.
- 2: Better Client Outcomes:** When advisers are not tied to selling products, they can focus entirely on holistic financial planning. This ensures that the advice they give considers all aspects of a client's financial life, leading to more thoughtful, long-term strategies rather than product-based quick fixes.
- 3: Reduced Conflicts of Interest:** Just as unbundling research and trading under MiFID II removed the incentive for asset managers to choose certain brokers based on research perks, separating advice from product sales would eliminate the temptation for advisers to recommend products that benefit them financially but may not be in the client's best interest.
- 4: Encouraging a Fee-based Model:** A fully fee-based model for advice would ensure clients are paying for the value they receive rather than for products. This would also encourage financial advisers to take a more client-centered approach, aligning their goals with those of their clients.

What Needs to Change

For the retail financial advice industry to make the shift, several things need to happen:

- **Regulatory Support:** Just as MiFID II enforced the unbundling of research and trading, regulators in the financial advice space must set clear guidelines on how advice should be separated from product sales, enforcing transparency around charges.
- **Industry Adoption:** The industry must recognise the long-term benefits of transparency over short-term sales commissions. Fee-based advice models need to be promoted as the gold standard, and advisers who adopt this model should be recognised and celebrated.
- **Consumer Education:** Clients need to be made aware of the difference between commission-based advice and independent, fee-based advice. When clients understand that unbiased advice leads to better outcomes, demand for transparent, unbundled services will increase.

Conclusion: A Path Forward for Financial Advice

The MiFID II reforms show that unbundling conflicts of interest can work in favour of clients, saving them money and ensuring better investment outcomes. The retail financial advice industry stands to benefit from applying these same principles—by separating advice from product sales, the industry can restore trust, and improve client outcomes.

It's time to follow the MiFID II example and unbundle advice from product sales.

This simple but effective move could transform the financial advice industry into one that is transparent, trustworthy, and fully aligned with clients' best interests.

Questions & Answers

Q: What is the problem with combining financial advice and product sales?

A: When advisers are incentivised to sell specific financial products, it creates a potential conflict of interest. This can result in advisers recommending products that might not be in the client's best interest, simply because it benefits them financially. For example, some firms offer in-house solutions that deduct fees directly from assets under management or have advisers on the investment committee who take additional investment fees. By unbundling advice from product sales, we can ensure that advice remains independent and focused solely on what's best for the client.

Q: How does unbundling advice from product sales help clients?

A: Separating advice from product sales removes the conflict of interest that often arises when advisers are paid through commissions or fees tied to specific products. With unbundled services, clients can trust that the advice they receive is truly in their best interest, not driven by a need to sell products. This transparency fosters trust and leads to more personalised, holistic financial planning, ultimately helping clients achieve their long-term goals.

Q: How does MiFID II's unbundling of research and trading relate to financial advice?

A: MiFID II successfully unbundled research from trading costs in the institutional investment world, reducing hidden fees and conflicts of interest. This same concept can be applied to the financial advice industry by unbundling advice from product sales. Just as MiFID II improved transparency and accountability in investment management, unbundling advice would ensure that financial advisers focus solely on helping clients without being influenced by product commissions or internal sales pressures.

Q: What are the potential conflicts of interest if advice and sales remain bundled?

A: When advice and sales are bundled, advisers might recommend products that offer them higher commissions, even if they're not the best fit for the client. They could also encourage clients to invest in in-house solutions, where fees are deducted from assets under management, benefiting the firm but potentially creating a conflict with the client's long-term financial interests. Separating advice from sales eliminates these conflicts and ensures that advice is aligned with the client's best outcomes.

Q: How can unbundling advice from product sales benefit the financial services industry?

A: Unbundling advice from sales would enhance transparency, reduce conflicts of interest, and restore trust in the financial services industry. It would allow advisers to focus entirely on the client's needs, ensuring they provide tailored, objective guidance. This shift could also lead to better long-term outcomes for clients, as they receive more holistic advice without the pressure to buy products. Overall, it would elevate the industry's standards and encourage more ethical practices.

Q: How can I ensure I'm getting unbiased financial advice?

A: To make sure you're receiving truly impartial advice, look for advisers who charge transparent fees for their services, rather than earning commissions (sometimes renamed as "adviser charges") from product sales. It's important to ask your adviser how they're compensated and whether they have any financial ties to the products they recommend. **Transparency is essential!** Make sure you fully understand how your adviser is paid and how this might influence the advice you receive. Fee-based advisers, who aren't incentivised by product commissions, are more likely to provide objective advice that aligns with your personal financial goals.

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