



Are you ready for the revolution?

Are you prepared for the major changes in distributing financial services products that will occur over the next few years? Whilst the RDR provides a regulatory timeline for some of these changes, intermediaries and providers who are adjusting their proposition to become RDR compliant for 2013 could be missing out on a major opportunity. Michelle Cracknell looks at their options.

Regulation usually takes much longer to take effect than originally envisaged at outset, but it is not regulation that will cause the impending revolution. It is the customers who have seen all their other retail experiences change dramatically that will be looking for similar changes to occur in financial services. 2012 could be the start of a customer-led regulation where customers start demanding changes to the way that they purchase financial services. Those intermediaries and providers who rebuild their proposition to suit the newly empowered consumer, will gain market share at the expense of those who insist that the distribution of financial services is different and try to hang on to the current system.

One of the key aims of the RDR is to deliver a more transparent pricing mechanism for financial services products and services. The impact of this change is likely to result in the customer choosing the services that he values and will pay for, whilst highlighting other services that he does not value or thinks he can obtain at a lower cost. Of course, some customers will choose to take the complete service of financial planning through to implementing the plan and pay the price but there will be others that choose to cherry pick. For example, some customers will pay for advice for certain financial planning events (e.g. retirement planning) but self serve for others (e.g. annual ISA allowance) and some customers will pay for advice but carry out the implementation themselves.

How does an intermediary or provider plan for this revolution?

They need to build their strategy through the eyes of the customer and challenge some of the existing processes. The strategy should not be to look to automate existing processes through technology as this would be a very costly exercise and mistaken approach. Instead, the distribution strategy should address the following key issues.

- Customer choice – customers pay for services that they value, segmentation of services should be based on a customer's propensity to pay rather than their affluence
- Market size – the distribution strategy should span enough channels to access the market volumes needed to achieve the desired levels of sales where volume is based on number of customers and their savings ratio; a high number of mass market customers could be just as attractive as a small number of high net worth customers where competition is fierce provided the proposition (product and service) is appropriate
- Terms of relationship – the one certainty is that the needs of the customer will not remain static and hence a distribution strategy that fixes customers into one channel or product is unlikely to achieve the nirvana of loyal relationships leading to repeat purchases

What will the future of distribution of financial services products look like?

It is so difficult to predict the future and the status quo will always shape future thinking. So how do you scenario test the robustness and resilience of your strategy? How do you avoid the iPod affect on Sony or think of the microwave when we only had conventional ovens? Here are a few challenges that other retailers have faced.

- Provide enough useful information on the 'can' with short relevant disclosure.
- Embrace face-to-face and on-line instead of treating them as mutually exclusive
- Work towards simple-to-understand-products and services that are needed by segments of the market.
- Be clear about your proposition and your differentiator
- Allow for a renewal or upgrade to something better and brighter and make exit as good an experience as new business because the customer may return

It is easy to dismiss these challenges as not possible in financial services...other retailers said the same thing about their industry and ignored these challenges leading to catastrophic impacts on their businesses.



How should an intermediary or provider ensure that they are leaders in the revolution?

It is not necessary to wait for the full details of the RDR. Intermediaries and providers can start to review their business and how it will shape up to the demands of the customer. Here are a few areas that intermediaries and providers should consider.

- Build new distribution channels – the distribution landscape is in a state of flux. If you wait until the change happens, you will be too late to build a new distribution channel. Now is the time to start looking at the requirements of a new distribution channel. Do not make the mistake from the past of racking up huge development costs before launch. In so many other channels, customers are willing and enjoy being part of a collaboration with the provider and partaking in Beta Testing
- Build new service delivery – the differentiation in the future is likely to come from service rather than product; in fact, the industry has created a plethora of contracts that could probably be simplified to a few key building blocks but the key to success will be in the delivery. For example, a pension wrapper that can access a full range of investments should not be delivered in such a way where the customer preference is to look for pre-made solutions for customers like him
- Build self service tools – the customer should be able to self serve with tools and navigation being built to enable them to do so; making a proposition self-service does not negate the need for advice or planning but where a proposition is too complicated for self service, it is probably too complicated.

Be part of the revolution!

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