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Consumer protection: rising to the challenge of the RDR

The Financial Services Authority's recent Retail Conduct Risk Outlook (RCRO) has provided another opportunity for the UK industry to vent its views about who will really benefit (or not) from the Retail Distribution Review (RDR).

Indeed, in the RCRO report, the FSA expresses its concern that new business models emerging as a result of the RDR may actually create greater risks for consumers.

Concerns such as poor risk-profiling, unwarranted use of complex, illiquid, high-cost products and the use of convenient statistical data in wealth practices have been highlighted by the RCRO.

It may be worth taking a step back and reframing the debate. We need to look for areas of agreement rather than areas of disagreement before delving into the rights and wrongs of the RDR.

The FSA and the private banking/wealth management industry agree that becoming more customer-centric, being driven by customer needs and exceeding their expectations is a sensible route. This is not just for long term survival, but for sustainable success.

No one is denying that practices could be improved. Both from an ethical and an efficiency perspective, customers have not been treated to as open and transparent a product set as they could have been. Service levels have not been as high as expected given the level of fees or charges that are levied.

No one is arguing that consumers should not be protected from what the media likes to call 'sharp practices', whenever and however they occur.

We all agree that a more consumer-focused approach would be good for everyone. We all agree that a change in culture is needed and that an environment where that cultural shift is recognised and appreciated would be welcome.

But by seeing the debate as a regulatory issue, we risk missing the point. You cannot change a company's culture, let alone an industry's culture, by regulation. I can see what the FSA is trying to do and I applaud the intent.

The wealth management industry has a choice. Instead of the endless debate about cost and interference with market forces, the RDR and its impact on consumers as reported in the RCRO should be seen as an opportunity.

For example, Mark Cheshire, former chief executive at Lloyds Private Bank, has decided to welcome the RDR as a mechanism to force long overdue changes to the industry.

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"I see the RDR as a chance to return to old fashioned values with a modern twist" says Cheshire.

"We are all being told to make our business easier for our customers to deal with by improving service levels, providing better access and more efficient distribution.

"We are being strongly advised to understand our customers as individuals. We are being expected to demonstrate real expertise, with credible qualifications, detailed product knowledge and strong technical skills.

"How can we argue with that? I would expect the same of my doctor or my accountant. Why not my banker?"

To achieve cultural change we need more than fine words and a checklist. We need to provide a process and technology infrastructure that makes the right behaviours easier rather than harder.

We need skills and capabilities to strengthen our resolve and commitment. And we need to invest capital and time to make it all happen.

There is no doubt the RDR, and the FSA's quest for greater consumer protection, is a challenge. Our long-term future depends upon the satisfaction of our customers and we should rise to the challenge rather than fight it. ■

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BENCHMARK INTELLIGENCE ON THE WEALTH MANAGEMENT INDUSTRY
Private Banker INTERNATIONAL

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Financial News Publishing, 2011
Registered in the UK No 6931627