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A question of leadership

The implications of the RDR on private banks and wealth management firms.

The FSA launched the Retail Distribution Review (RDR), a key component in the its quest to 'secure the appropriate degree of protection for consumers', in June 2006. Since then much has been written about the implications for private banks and wealth management firms. A large proportion of comment has focused on the structural and operational implications, but little has explored the implications for people and the leadership challenge that the RDR poses most companies.

In essence, the RDR is seeking to create a more consumer focused industry through regulation, and it is hard to argue against its intent: to ensure that advice is truly independent and reflective of investor needs; to enable people to understand fully the products and services that are being offered; to establish a transparent payment structure that eliminates bias in the recommendations made to consumers by advisers; and to ensure that advisers are properly qualified and knowledgeable about their products, services and customers.

But while the implications for products and processes, and even industry structure, cannot be ignored, the impact on staff and executives on a personal and individual level are equally significant, and might ultimately determine whether the RDR delivers the change the FSA is seeking.

With many private banks and wealth management firms required to embark on significant programmes of change, executives will need to ensure that these investments are properly coordinated and delivered, and that poor morale and decreasing levels of staff engagement do not prevent the realisation of an adequate return.

It is obvious that the success or otherwise of private banking and wealth management firms depends on the quality of its personnel. After all, wealthy customers are entrusting their relationships managers with their life's work. However, it was interesting to see that in the recent 'Futurewealth' survey of wealthy individuals conducted by Scorpio Partnership, the leading global wealth consultancy, no private bank even made the list. This is surely a worrying sign in the race to attract the wealthiest clients.

Some of the more enlightened firms see the RDR as forcing the 'people issue' as well as products, systems and processes. The RDR has led to many firms investing in the

development of their people at a level perhaps never seen before in the industry. The focus of the training and development goes beyond product knowledge, and includes relationship management skills, such as external awareness - learning from best practices outside the sector - so that advisors can better understand the wider world in which their clients operate and become accustomed to change. One private banker described this as 'the new normal'.

There will inevitably be some attrition of long serving staff. In addition there will also doubtless be an intake of a new type of banker, who may be recruited not for their private banking experience, but for their ability to build relationships, to interpret the world around them and develop more tailored and innovative solutions to demanding and increasingly international clients. Some banks are looking to bring in people at quite senior levels with no private banking experience, but proven expertise in wider markets, such as private equity, management consultancy or even Coca Cola.

One of the structural implications of RDR may be that private banks and wealth management firms look to outsource a wide range of activities, from the traditional back office function of IT to, potentially, asset management. In addition, many of the larger retail banks expect their private banking units to work more closely with their retail and commercial banking businesses. This will require a new capability in managing partnerships and complex stakeholder relationships and one that few executives have needed in the past.

The leadership challenge goes more broadly than being able to manage more productive relationships with a wider range of people and organisations. As leaders, executives will now be charged with ensuring the staff, who feel pressured and uncertain, to go along with these changes and positively embrace them. They will need to bring about a cultural shift in their organisations, which they themselves must wholeheartedly believe in. This represents a shift from being product or income focused to being truly client focused; adopting the perspective of the buyer not the seller and rewarding client satisfaction and retention rather than simply income. The good news is that this is a challenge faced by many other sectors, not just financial services.

However, for private banks, the scale of this cultural transformation cannot be underestimated. In a letter to the Financial Times in March this year, the writer complained that his account charges had risen by over 500% with no explanation and no promise of better value. We recently heard of a client who was greeted by their private banker with the welcoming news that 'despite not making much money out of you last year, we are happy to have you as a customer'. Some banks clearly have further to go than others.

So in addition to addressing the structural implications of the RDR, private banks and wealth management firms cannot ignore the people and leadership implications. Reward structures, career development, performance management, and recruitment processes will all be affected and the need for leaders and leadership development is obvious. The potential rewards for getting this right are considerable. Research suggests that despite the recession, the number of affluent and wealthy people will continue to rise. However the penalty for getting it wrong may be far worse, dictated by the customer more than the regulator.

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