



▶ **GETTING READY FOR THE RDIP**

By Chris Nott, Baringa Partners

There are three years to go before the Retail Distribution Implementation Programme comes into force, and it would be easy to dismiss it in favour of other pressing concerns. But this would be a mistake, argues Chris Nott of Baringa Partners. Early adopting product providers have the opportunity to secure competitive advantage from enhancing sales and servicing models now, rather than focusing purely on compliance for the 2012 deadline.



The retail investment market is where the majority of the public comes face to face with the world of finance. Every year thousands of people put their faith and their pension plans in the hands of financial advisers. For the most part that faith is justified. However the number of mis-selling cases in recent years demonstrates that there are significant consequences when that faith is misplaced or abused.

As a result, the FSA has been reviewing the entire sector and put in place a number of proposals that will be fully introduced by 2012. The result is the Retail Distribution Implementation Programme (RDIP), designed to improve clarity and transparency for consumers and raise professional standards – as well as public perception – among purveyors of financial advice.

But it is not just consumers who are set to feel the impact of the proposals. Product providers – like distributors – will need to adhere to the directives introduced by the RDIP, and will have to make significant decisions about implementing changes to their strategies and operating models. As a result, providers and distributors of retail investment products are facing a significant compliance programme over the next three years.

They are also presented with significant opportunities – particularly those who can see beyond their immediate mandatory obligations. For example, since the cost of switching investments will be borne by consumers, the amount of customer ‘churn’ is likely to go down. Less switching will reduce the average cost of an investment to the provider. This will create opportunities for providers to reduce the cost of an investment to the consumer and increase profitability through growing their market share.

Those providers who are willing to see the RDIP as a chance to gain a strategic advantage and invest accordingly are likely to increase their distribution

capacity, operational efficiency, the quality of their services and consequently profitability. Distributors will now be obliged to recommend products that best suit consumer needs, so providers that have an innovative and flexible product set, and a slick customer and distributor servicing proposition, will be more likely to increase their market share. By reviewing strategies, operations and processes in preparation for the new regulations, there is every chance that providers will identify efficiencies that can deliver potential cost savings and thus improve profitability.

However, it is not all plain sailing. There are likely to be stormy waters ahead as a traditional industry adjusts to the sizable changes the RDIP will bring. Not only will providers need to present a flexible, adaptive product set, they will also need to find compelling pricing models and servicing offerings for advisers to secure the strongest distribution channels. That will need to be done in what is likely to be a shrinking market. A natural attrition and consolidation in the adviser sector will result in additional competition for productive and effective distribution.

Successful providers will need to find ways to retain their distribution capacity in a radically altered market. They also need to ensure that the offering is distinctive enough to stand out from the crowd, and attractive enough to be selected by consumers and distributors.

Because the advisers that do remain will have much more stringent requirements, and providers will need to ensure that their distribution channel is kept up to date with its changing product portfolio. They will need to provide more competitive products that are not dependent on attractive commissions to generate sales. They will also need to commit to delivering clarity around the services they provide as well as better marketing to both consumers and advisers in order to generate sales. In other words, a provider will need to present itself as a firm that delivers what



consumers want, and with whom it is easy to do business.

But perhaps the most significant change is that providers need to come to terms with the idea that the market will become far more collaborative and interactive. Providers will no longer be able to keep customers and advisers at arm's length. Instead we are much more likely to see a model in which successful providers will enable customers and advisers to penetrate their infrastructure further than ever before to create products that can be bought and serviced with a far greater degree of automation.

For all these reasons, one of the first things that providers will need to consider is an investment in new or upgraded technology. There are application and infrastructure adjustments to be made in order to support the new charging structure and distribution models. There is also substantial competitive differentiation to be derived from web-service platforms that enable online servicing and straight-through processing.

However, there is more to it than functional changes to systems and processes. There is a cultural shift that is required, one that places renewed focus on the quality of customer and adviser servicing, and long-term relationship building.

Culture shifts do not happen overnight. Delivering technological change does not create the necessary new mindset. And so if providers do wish to take advantage of the undoubted opportunities that the RDIP presents them, they need to start planning now to ensure that their strategy, their operating models – and, equally importantly, their staff – are aligned with the demands of the market.

Providers need to look at compliance with the RDIP and the opportunities it presents as a full-scale change programme, with all the political and cultural challenges, communication skills and strategic planning that such a programme entails. Early analysis of the exact implications of the RDIP, followed by planning for the delivery of the business and IT change required to support it will be essential if product providers are to deliver a winning strategy for the post-RPID world.

Nonetheless, all the change skills in the world will not be enough if the RDIP project is simply regarded as yet another mandatory chore. It is the provider that sees it as a chance to review strategy, and develop streamlined, efficient and more profitable products and processes that will ultimately succeed.

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