

So when tackling the RDR 'elephants', an independent view on RDR progress can be vital and may also help deliver successful outcomes that attract fees and enable clients to transfer the financial risk to the provider.

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Embracing the RDR

16 February 2011 by Chris Davies, Managing Director, Engage Partnership

With less than 24 months left to the Retail Distribution Review (RDR) implementation and full compliance, market research has found most organisations affected still do not have a clear understanding of their own position or indeed that of the regulator in meeting their RDR requirements.

Moreover, there is a clear indication that the RDR now has unintended consequences that have the potential to severely hamper even the best-positioned company.

There are currently clear RDR elephants in any retail financial services company boardroom that need to be tackled sooner rather than later, for example:

- The effect that VAT charging will have and on what it will be charged.
- The potential removal of insurance company commission from the expense side of the I-E taxation system.
- The true cost of the RDR to the taxpayer and organisations.
- Communication and level of adviser charging, product design and services.
- Platforms' and wraps' position on bundling or unbundling of charges.
- Consumers' appetite for payment of fees.
- The role of IT and restricted or independent advice.

With problems stemming from plenty of regulatory stick being brandished and very little carrot offered, we believe there are RDR best-practice processes for firms to follow.

We argue that organisations' compliance with RDR requirements should be assessed on three levels:

- Value chain transparency
- Engaging and maintaining client relationships
- Efficient and controlled processes

We see these three specific areas as critical for all parties affected by the RDR changes. Together they bridge the gap in breadth and quality of current research and the FSA consultancy papers. If even one element is ignored, this will result in a regulatory review for non-compliance and the potential loss of client trust and support.

We use what we call transparency indices to assess levels of RDR compliance. To our knowledge, transparency indices have previously been used in relation to county corruption and to sovereign wealth funds.

Using these indices it is possible to assess compliance with individual RDR processes and their constituent process-steps – as well as aggregate a total transparency index score across the entire organisational RDR delivery value chain.

The indices aim to:

- provide a useful indicator to members of the public in deciding whom they should engage.
- be a prime indicator of Treating Clients Fairly (TCF) outcome three.
- be an indicator of the potential impact of recommending or utilising any other business in the delivery of the engaged services.
- allow product and service providers to ensure they are adding to transparency and not decreasing it.
- encourage reflection on time-honoured practices in relation to the spirit of the RDR.
- encourage the removal of historical cross subsidies which hitherto have been hidden.
- add to public confidence when paying for financial advice.

In our view, these indices provide insight and understanding for the RDR challenges faced by business, harnessing hard evidence and engaging disparate views from industry and international perspectives.

With the right support, organisations may change and adapt as effortlessly as possible to the RDR and yet remain competitive, transparent and profitable, whilst retaining customer trust.

With Hector Sants' heavily defended RDR directives now in play, it is clear that the UK financial services industry needs to begin to believe in itself and realise the important relational role it plays in supporting consumers' financial needs and lifestyles. The 'transparency' buzzword is to be befriended, not shunned.

By spelling out their worth through transparent value chains, financial organisations can clarify both what they do and the value they add, which will only give their clients peace of mind like never before.

'Product flogging'

Financial sales need not remain in the perceived murky parameters of "product flogging". After an assessment for RDR compliance, armed with full knowledge of their value chains, organisations can sell their skills, expertise and time without fear of reprisal, being proud and confident in their worth and professionalism.

Organisations do not have to trip or fall at the first hurdle of RDR but will be able to transition smoothly to the new world-order post-December 2012 with the right help.

So when tackling the RDR 'elephants', an independent view on RDR progress can be vital and may also help deliver successful outcomes that attract fees and enable clients to transfer the financial risk to the provider.

Remember: when major change threatens, winning business managers seek input from diverse sources who may have unique insights, even if only to validate what is being done.

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