SIXTY SECONDS ON REGULATION AND MARKETING EFFECTIVENESS

Mention regulation and the immediate response is a big groan and a whinge about the costs of compliance. There is still plenty to be done in the area of regulation but how has it impacted on marketing effectiveness? Is it a help or hindrance when it comes to marketing financial products and services?

Regulatory Conflicts

MCOB3 introduced much needed change to the mortgage advertising rules. For example, dispensing with the requirement to include a typical example was a real plus as this was largely only read by anoraks. Furthermore, for brokers this information was sometimes difficult to obtain from certain lenders.

For FSA regulated mortgages there is no reason why making all financial promotions ‘clear, fair and not misleading’ and ‘balanced’ should impact on marketing effectiveness for most mortgage products – unless a firm’s marketing strategy is to produce misleading material, even if only to get the phone ringing to sell a different product.

As there is no restriction on how to display the prescribed information which must be included in all financial promotions, subject to meeting certain conditions on matters such as prominence, marketing departments continue to have plenty of scope for creativity.

However, a number of problems persist. It is impossible to produce a compliant product specific advertisement except for lifetime trackers, discounts or fixed rates for the mortgage term. For all other products the requirement to quote an APR and the requirement for the financial promotion to be ‘clear, fair and not misleading’ are mutually exclusive.

The average life of a mortgage today is about three and a half years and the average life of a mortgage deal even shorter as many borrowers who don’t move home or remortgage effect a product switch with their lender.

As the APR is normally calculated over 25 years, the shorter the term of the initial mortgage deal the more misleading is the APR. For example on a two-year deal 92% of the interest charges used in the APR calculation will never actually be paid by the borrower if they switch to another deal, as most do, after the two-year year package expires. In addition amortising the charges over 25 years instead of two has the effect of understating their impact, although the impact of assuming an irrelevant interest rate for 92% of the mortgage term is much greater.

For FSA authorised firms regulation is negatively impacting buy to let product advertisements as two APRs should be quoted, although this requirement is widely abused. One APR should be based on FSA rules, that is product specific, and the other in accordance with the Consumer Credit Act which requires the maximum rate which the firm expects at least 66% of people responding to the promotion, whether they buy that mortgage or another one, to obtain.

Furthermore BTL promotions by FSA regulated firms should carry both the FSA and the CCA risk warnings, although one largely duplicates the other. It was bad enough that the FSA and the Department for Trade and Industry did not come to a sensible compromise on this before M-Day but for this fiasco to still impact on financial promotions is inexcusable, although the situation should improve after 31 October this year.

Prior to M-Day misleading comparison advertisements were common and I expected MCOB3 to bring about their demise. However, since M-Day Britannia, Nationwide, HSBC and Woolwich have all used comparison adverts. In my view these have all been seriously non-compliant as all they generally compare is the interest rate, 'go to' rate, APR and fee.

The implication is that nothing else is important, which I presume is not the FSA's view. Whatever action the FSA has taken behind the scenes about non-compliant financial promotions, they need a high profile action against such non-compliant promotions in order to send out the right message. It is unfair on firms trying to get it right that others get away with such blatant abuse!

Ray Boulger **SENIOR TECHNICAL MANAGER, JOHN CHARCOL**

Unnecessary Complexity

Football started off as the world's simplest game. All you needed was a ball, two goalposts and two teams. The rule: score as many goals as you can.

As time has passed, governing bodies have installed rules in a bid to make the game fairer and more transparent, mostly for the benefit of the paying public. Those rules serve their purpose but have conspired to make the game increasingly controversial, and more importantly, harder to officiate.

So what is the point? This piece isn't about football. However, it offers a useful analogy when we assess the development of our own 'game', the financial services industry over the past few years.

Are there more rules to follow? We understand that there needs to be regulations in our industry. Consumers need protection from unscrupulous operators. But more importantly, the industry needs to ensure that its customers understand what it is they are buying.

Financial products are becoming ever more sophisticated and need more handholding from financial advisers. A good recent example of this is the growth of equity release mortgages. These are becoming an increasingly popular way for customers to access their capital to supplement their retirement income. However, it is a complicated and time-consuming process for both providers and financial advisers to complete thoroughly.

At a broad level, this government has been particularly active in its regulatory regime. For example, financial institutions have had to grapple with the Financial Services and Markets Act 2000, which created the super-regulator, the FSA.

And this year, we've had new pensions simplification rules that came into force on A-Day 6th April. While we acknowledge that the rules do simplify the pensions regime, the impact on providers to review their product ranges, write and rewrite marketing literature and train staff has been time consuming and costly.

What's more, with pensions becoming an increasingly hot political potato, we can expect further pension developments in the coming years. In fact, as product providers seek to gain competitive advantages and build their business, added levels of product sophistication in all areas will bring about more legislation in all areas over the years.

What does this means for us? As people and organisations that are trying to market successfully financial services products, we are caught firmly in the middle. We have to struggle with new rules and interpret them - they're never written in plain English or in a way that is cost effective for consumers and profitable for our companies.

This is a tricky balancing act. Marketing, encompassing product development, marketing support, training and sales, is time consuming and a significant cost to a business. The relationship between a firm's compliance and marketing people is obviously a key relationship in this regard.

And that brings us back to our football analogy. There is often a lack of consistency among compliance officers, the referees of our game. That is why you find that companies often take very different approaches to a particular product area or compliance problem. It tilts the level of the playing field and can reduce the effectiveness of our marketing efforts.

But don't hang the compliance officer. They are doing their best to understand complex legislation and give us guidance. We should continue to lobby policymakers to ensure they deliver sensible regulations. And like refereeing a football match, we reckon that a lighter touch generally makes for a better game - for the players, for the referees and for the punters.

Stephen Lowe **MARKETING DIRECTOR, INTERMEDIATED BUSINESS, PRUDENTIAL**

Stimulus for Creativity

In terms of Financial Services regulation I'm not convinced the landscape has actually changed that radically. Financial Services advertising has always, rightly, had strict regulations. Regulation is there to protect consumers who, through effective advertising, ultimately become our customers. It is therefore imperative that regulation is embraced fully and absolutely.

Whilst there has been no radical change under regulation, it has undoubtedly increased constraints across all product categories. The challenge financial institutions now face is maintaining an element of differentiation in the marketplace. Marketing campaigns have always been challenged to be highly targeted, customer-centric and cost efficient.

The plethora of products now available from providers - all of whom are operating within, and adhering to, the same regulatory framework - means the real skill of the advertising team has never been more critical. The challenge now is to think a little bit differently and be a little bit smarter in the way we connect with consumers.

Whilst Intelligent Finance's overall effectiveness has not been impacted, this can largely be attributed to the way we have changed the way we think. We have thought laterally. If we cannot relay some of our positive messages without reams of small print – how can we expect to let our customers know about them?

In several instances we have dovetailed our messaging with our PR campaigns. For instance, recently we launched our 'Beat the Base Rate' advertising campaign. This outlined via advertising how one half of our offset customers were effectively paying less for their mortgage than base rate. At the same time we launched our 'Real Rate' PR campaign.

This looked at the benefits of offsetting and illustrated the real rate our customers were paying for their mortgage and also illustrated how much they would have to earn on their savings before they would be better off outside of an offset portfolio. So we essentially attacked the same messages from a variety of different angles to huge success.

We have reaped the rewards in that consumers have gained a better understanding about offsetting through a combination of advertising and editorial, together with a satisfying uplift in offset business over the course of the campaign.

Regulation has placed every financial institution on the same firm footing and provided consumers with some peace of mind. It should also drive organisations to compete more smartly, bringing out newer, better designed, clearer products.

Today we see our market moving further towards tighter, positive regulation. It's up to all organisations to provide consumers with confidence that financial services provide safe, innovative products. If we can do this we would be in a position of strength rather than a weak one.

If we succeed, perhaps at some future date this could attract less stringent controls. Until that occurs, organisations will rarely talk about the market benefits of regulation, only the costs of compliance. I like to think that at Intelligent Finance we have embraced regulation to its fullest extent and indeed have grown stronger because of it.

Chris Mawson **HEAD OF PRODUCTS AND MARKETING, INTELLIGENT FINANCE**

Clear Communication

Does regulation make us more or less effective as marketers? In the past, many of us in the long term savings market might have unquestionably said "less" and lamented that regulatory caveats spoiled carefully honed strap lines or detracted from the impact of visuals.

But that's missing the point. This is a question that is fundamental, not tactical in nature. In recent months at AEGON we have found that the FSA's Treating Customers Fairly principles are very much aligned with our own move towards a more customer-centric strategy within our life and pensions businesses.

I believe that unless the long-term objectives of the regulator and the industry are fully aligned, we will find it hard to regain consumer confidence in the long-term savings industry and as a result we will fail to address the UK's savings and protection gap.We are rethinking our approach to long-term savings and looking to find new shapes and propositions which meet the changing needs and lifestyles of our customers in the 21st century – and we have restructured the business to help us do so more effectively.

Rather than relying on the products of the past, we are encouraging our people to look at the needs of customers as they are today, and how they are likely to develop in the future, and to develop propositions which anticipate these.

The recent launch of AEGON's 'Five for Life' investment plan, providing a guaranteed income for life, even once the capital investment runs out, is an example of this in practice. We are looking more closely at how we communicate with our customers, how we can ensure they understand what a product will do for them, and we are tailoring the communications process to engage them successfully.

Treating Customers Fairly has provided a regulatory underpin – if one were needed – to reinforce our chosen direction. We have aligned our strategic positioning of the customer at the heart of our business with our response to Treating Customers Fairly and this is proving an effective means of implementing transformational change within the organisation.

But while the industry must embrace Treating Customers Fairly, this cannot be seen as a destination. Anyone who has taken the time to step through their own customer experience lately will be aware of the reams of information that is passed on to customers before, during and after the purchase of a long term savings product.

Much of this is a regulatory prerequisite – evidenced by the language and presentation if nothing else – and developed with best intentions to ensure the customer is fully informed. But you do have to wonder how effective it is. Faced with a mountain of technical jargon, many customers may simply opt not to bother – thus defeating the purpose.

I believe that less, better quality, communication of this nature may in this case actually be more likely to be read, and therefore have more impact. We need to start by making sure that marketing materials are clear, accurate and easily understood by their target audience. If the industry adopts this as standard, many of the regulatory add-ons would be unnecessary.

As we move towards greater alignment of objectives, both the industry and the FSA must consider the practical implications – not just the theoretical design – of their proposals. Treating Customers Fairly encourages us all to put the customer at the heart of our thinking – surely the essence of marketing itself – and only by doing so will the industries regain the confidence of consumers.

Otto Thoresen **CHIEF EXECUTIVE, AEGON UK**