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REGULATORS CRACKING THE WHIP: A business needs to treat customers exceptionally to differentiate itself, according to Viresh Maharaj at Sanlam Corporate Sales and Marketing.
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A history of bad practice

FINANCIAL FIRMS: POWER DYNAMIC ASKEW

Companies have been built on designing products for shareholders more than for customers.

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Moneyweb

The debate that's been stirred up by the Momentum-Ganas case, and the way it tested the idea of "treating customers fairly", has raised an interesting question: why should financial services have to be forced to treat its customers fairly?

Surely giving customers fair treatment is the least any business can do?

How would any beauty salon or wellness spa survive if they were content to just be fair to their customers?

Skewed power dynamic

It's worth remembering that financial services are, after all, services. So why should clients in this industry be grateful just to receive treatment that's fair to them?

The power dynamic is clearly wrong. In most service industries, the client has the influence. If you don't receive the treatment you expect, you take your business elsewhere. This has not been the case in financial services, however. As Sanlam corporate sales and marketing chief executive officer Viresh Maharaj recently said, there's a combination of factors making the financial services industry unique.

The financial services industry is unique.

1. Long-term nature

Most financial products are designed to deliver an outcome over many years, or an obvious example. You will only need it once, and that may be decades after you purchased it. In the interim, there's no way of testing it.

You may pay premiums over all that time, expecting your beneficiaries to receive the benefit, but there's no way of being certain they will. And apart from a lower premium from a different provider, what might possibly induce you to change your insurance?

2. Information asymmetry

There's a huge asymmetry of information in financial services. It's a complex space, and clients are almost always at a disadvantage. When you go to the hairdresser, you likely have a good idea of what you want your haircut to look like afterwards. If you invest in a unit trust, however, do you have a clear picture of what a well-managed portfolio looks like?

3. Intermediation

The industry is highly intermediated. It's not the norm for clients to be in direct contact with service providers. More often than not there's a broker or financial advisor acting as a go-between. Thus the industry often sees the intermediaries as their clients more than the end-customer.

4. Legacy issues

The industry has a history of poor practices it has been allowed to get away with for far too long. Companies have been built on designing products much better for shareholders than for customers.

The advice industry is becoming more professional, but the conflicts of interest inherent in it aren't easily overcome. At least we've now accepted that it's not good enough and regulators and legislators have made it clear they will require more