Financial Services

Markets in Financial Instruments Directive (MiFID)

Umpteenth regulatory development or a far-reaching challenge for the client relationship?

Transforming a regulatory constraint, to place the client at the heart of the commercial approach

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Executive summary

Following the entry into effect of the Markets in Financial Instruments Directive (MiFID) a few months ago, we wished to update our study published in June 2007. This initial investigation sought to measure, only a few months after the introduction of MiFID:

- the level of awareness of Investment Service Providers (ISP), irrespective of their business: retail banking, private management, asset management, financing and investment banking and brokering/intermediation,
- the likely impact of MiFID on commercial policies and client relationship management.

This new study seeks to assess the extent and impact of changes made since November 1, 2007 by ISPs in terms of distribution and client relationship management and notably in the retail banking and private banking sectors.

We performed our procedures during the first quarter of 2008, when we met with business department heads and/or compliance officers of approximately 12 institutions, representative of these two sectors.

Six issues were discussed during our meetings.

1 – Strategic positioning and general approach of service providers

All institutions questioned currently comply with regulations. They can however be divided into two categories:

- "Pro MiFID" institutions, that used MiFID to their advantage and were able to seize new commercial opportunities through the regulatory compliance process;
- "MiFID compliant" institutions, that made the minimum changes necessary to ensure strict compliance with regulatory requirements.

The following challenges were identified by all study participants:

- regulatory compliance,
- improving client protection and satisfaction,
- strengthening knowledge of clients,
- improving commercial efficiency,
- differentiating the institution from competitors.

Service providers used several development levers as part of the MiFID project:

- adaptation of the distribution process (financial instruments and client relationship management),
- adaptation of distribution support tools,
- adaptation of the distribution structure,
- adaptation of service offers and their placement,
- access to new financial markets.

2 - Adaptation of distribution processes and the client relationship management

- Pro MiFID institutions capitalized on the introduction of these new obligations to profoundly shake up the relationship between the client and his advisor. They sought to focus this relationship on the quality of advice and adopted a stronger, more structured commercial approach founded on a proactive style. The Pro MiFID institutions also globalized, simplified and computerized their commercial methods, adopting a comprehensive approach to savings focused on the client and not merely on the products distributed.

Knowledge of clients was strengthened, multiplying the commercial benefits.

In a bid to simplify and harmonize texts, certain Pro MiFID institutions decided to integrate all regulatory obligations - MiFID, Delmas-Marsalet report and insurance intermediation - in order to bring their sales processes up to standard and adopt a similar approach for all financial products.

- Conversely, MiFID compliant institutions implemented few developments focused on the client relationship and distribution. These institutions generally adopted a less formal approach to client meetings than Pro MiFID institutions, notably with regard to asset distribution recommendations. The vast majority of MiFID compliant institutions retained a product approach to the distribution of saving products.

Few of these service providers capitalized on MiFID in order to multiply commercial benefits.

None of these institutions sought to merge the MiFID project with other regulatory projects.

3 - Adaptation or development of support tools

- Pro MiFID institutions either created new savings product distribution tools, or adapted existing computer systems to ensure compliance with MiFID requirements and enable the cradle-to-grave "supervision" of advisors and their management of the client relationship and commercial development. All these players use relatively short, simplified and standardized MiFID tests focused on the client and commercial efficiency. All support tools used are computerized and in the majority of cases (67%) are integrated into existing information systems.
- MiFID compliant institutions adapted existing tools or developed specific new tools to manage the information required by the Directive and administrate the "suitability" and "appropriateness" tests. The tools implemented were computerized within only 60% of the institutions questioned and integrated in only 20% of the institutions. The majority of MiFID compliant institutions use long and highly detailed MiFID tests, with a product rather than a client focus, in order to ensure scrupulous compliance with prevailing obligations.

4 - Adaptation of the distribution structure

- Pro MiFID institutions did not modify their distribution structure, either at sales force or client segment level. 67% of players cancelled or will cancel individual fees received on sales of products to avoid the risk of slippage (over-selling, mis-selling). Pro MiFID institutions invested heavily, up to €40 million in certain cases. These institutions implemented significant training programs, backed-up by e-learning solutions and heavily focused on distribution and client relationship management.
- In the same way as Pro MiFID institutions, MiFID compliant institutions did not modify their distribution structure at sales force or client segment level. However, all players in this category maintained a variable portion in advisor remuneration. These institutions allocated a lower budget (below €2 million) and sales force training was significantly less than that provided by Pro MiFID institutions.

5 - Adaptation of the product and service offer

- Pro MiFID institutions significantly increased the scope of financial products subject to MiFID (equity savings plans, life insurance, etc.). They did not change their pricing policies. The majority of Pro MiFID institutions adopted a differentiated approach by distribution channel, with price incentives.
- MiFID compliant institutions adopted a restricted scope of products subject to the MiFID. They did not change their pricing policies. The majority of institutions adopted a limited multi-channel approach, proposing the same product and service offer irrespective of the distribution channel concerned.

6 – Access to financial markets

- Financial market access services have not changed with the entry into effect of MiFID. They expect concrete results enabling them to diversify their service offer granting access to alternative trading platforms.

Conclusion

Since November 1, 2007, service providers have been completing the final MiFID adjustments and developments and updates are now entering a maturity phase.

Institutions continue, nonetheless, to consider a variety of issues in order to fully profit from the opportunities and benefits offered by the Directive.

For Pro MiFID institutions, the change has been far-reaching, seriously challenging the standard and unproductive opposition of regulatory compliance and business. Client relationships have been redefined and currently place the emphasis on protecting and satisfying the client, in order to increase loyalty. Certain institutions considered it was the right time to invest and improve below par commercial efficiency or client relationships.

Through this new type of bank-client relationship, the MiFID will generate new expectations and therefore a profound change in client behavior. Better informed, more consumer-oriented and more demanding, they no longer hesitate to place their service providers in competition. How best to attract and retain clients will be the major challenge of the coming years.

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