Editorial

It is sometimes helpful to have an outsider look at a discipline. Invited to write an introduction to this issue of the Journal, I would like to offer some ideas for both the researcher and the practitioner. I am prompted to this partly as a result of the current challenges facing financial services producers and intermediaries in the UK and other countries and partly to stimulate the debate and direction of enquiry.

The whole area of financial services has come under intense regulatory and media scrutiny, and in particular the practice, products and operations of providers. The sheer range and scope of recent developments in the UK have challenged the current *modus operandi* of the industry. The challenges in the UK range from new impositions on product specifications, for instance the charges, easy access and decent terms (CAT) standards and the proposed range of Sandler products; the investigations into financial product mis-selling, for instance endowments, precipice bonds, pensions and their attendant fines; through to growing customer mistrust of established providers and distributors and — probably more worrying — of their promises, as a result of specific problems such as the Equitable Life débâcle and the split-capital investment trust crisis. In other countries, financial services producers and intermediaries face other problems; for instance in the USA the recent investigation of research analysts at investment banks and business practices at mutual funds. Other examples could be cited.

Another point is that there is little doubt that the industry will have to adapt to a different environment going forward. The old business models seem increasingly redundant. The new channels of delivery

and service via the internet or G3 mobile networks are gradually making a significant impact on traditional methods. E-commerce methods seem here to stay if not to become the dominant means of distribution. These require different marketing skills. If the traditional agent/adviser route depended on expensive sales skills and distributed networks, the electronic alternative offers an information-intensive client-driven, but centralised, channel. The former may be seen as requiring people skills, the latter as requiring analytic skills.

One obvious observation is that the way financial products are designed, produced and sold is likely to have to change. While many existing products will continue with only modest changes, the regulatory pressure for better and cheaper savings products means it is likely that the industry will have to sell a whole new family of products. This presents a huge test in terms of deliverability and cost. In particular, it will be a tremendous marketing challenge to introduce these new products successfully and to reach customers effectively at an acceptable cost. This challenge comes just as the current low inflation environment has sensitised buyers to high service costs and poor performance. Within the industry the search must be on for better ways to promote and sell products.

By rigorously presenting insights and ideas on these issues that are relevant to practitioners this journal can make a positive contribution to future developments. In other words, the challenges facing the financial services industry present an opportunity for academic researchers to demonstrate the value of the discipline.

At the same time, the current turmoil in financial services presents researchers with a challenge. If they are to help practitioners they need to improve on the current models. To take an example from the economics of household behaviour — lifetime consumption theory — while the model makes sense it is weak in its prescriptive power. Yes, individuals will be savers until retirement and then they will subsequently use their accumulated wealth to live on. But the model provides very little guidance for financial services providers. There is nothing about the appropriate package of savings products and retirement products or when and how changes to the individual's investment portfolio should be made. There is little in the way of rigorous theory to guide advisers as to what should constitute an optimal portfolio. The task for academic researchers is to improve on the existing models and to make them more relevant to practitioners who are having to redesign what the industry does.

This suggests a possible research agenda. There are a great many questions in financial services marketing that remain unresolved. I will just mention a few of these. For instance, we know little about how individuals make choices between products and, perhaps more critically, how they integrate new products into their existing portfolios. For example, it always seems a curious fact that product sales seem driven by the end of the tax year. We need to understand the implicit thinking behind such apparently irrational behaviour. There is a commercial payoff. Those financial service firms that develop this scientific understanding of consumer behaviour will prosper at the expense of those that do not and, in so doing, are less likely to incur the wrath of the regulator. It will allow such firms to target the resultant investment needs of consumers more effectively.

In developing this scientific knowledge

the activities of academic researchers and a journal such as this become important, both as sources of current research and as vehicles for ongoing debate. The rigorous approach to knowledge creation used by researchers means that assumptions are challenged, put to the test and verified. Evidence-based theories and empirical analysis work hand in hand in stimulating lines of enquiry and refining and assessing assumptions.

From these issues one can see the makings of an agenda for taking forward research that is of practical interest to practitioners. One challenge is to identify how an individual firm is able to obtain a lasting competitive advantage. For the large majority of financial services firms the existing business model will no longer work. On the face of it, product imitation is almost instantaneous and in general the market caters for all consumers' requirements.

While generally true, I would question at least some of these assumptions. A casual scrutiny of the collective funds available to UK investors suggests that there are no truly global funds available. By this I mean funds which broadly track a market capitalisation-weighted index of the world's capital markets. Investment theory suggests such a fund should exist. Is the absence of such a fund a result of investor ignorance, indifference or a collective failure by the financial services industry to identify a particular product? In seeking to answer this question, researchers and practitioners might want to map existing products against those that theory suggests ought to exist. At the very least it might help practitioners to identify missing pieces of the jigsaw, as with the global fund mentioned above.

In addition, financial providers need to avoid being sucked into selling inappropriate products to customers. While instruments such as precipice bonds might be appropriate for a minority of

sophisticated investors it seems both reputationally and commercially dangerous to offer these alongside simple products such as deposit and savings accounts. The message here, as elsewhere, is the need for firms to know their customers. Surely, this does not just mean finding out more about individuals but actually being able to justify the promotion of a given investment opportunity as fitting into the individual's short-, medium- and long-term investment/wealth objectives. Hence the need to understand that a provider's product is just part of a totality of asset management by the consumer. In this regard new entrants without the legacy distribution systems built up by established providers have sought to take a more portfolio-driven view and have moved some way towards integrating across product categories. For instance, e-commerce firms such as IF (Intelligent Finance) and Egg have sought to promote wealth management to their client base — but even they have not stretched to what the consumer really requires: a fully integrated inter-temporal asset-liability service.

Success will come to those firms that are first to integrate the diverse asset components, dare one say 'classes', for the customer, and are perceived to provide

value-added services in wealth management. In this the value-added element is financial planning. This brings me back to the research agenda: it is important that practitioners look to the lessons from fundamental research and make use of the little that is known about how decisions are, and should be, made.

So where next for our understanding of financial services marketing? Thomas Kuhn¹ argued that the advancement of scientific thought does not follow a steady, cumulative acquisition of knowledge. Instead, he saw scientific advancement as a series of peaceful intervals that are then punctuated by intellectually violent revolutions in our understanding of the world. In similar fashion, the changes that are taking place in the financial services industry are sure to prompt a corresponding revolution in the practice and understanding of the discipline. Roll on the barricades.

REFERENCE

- 1 Kuhn, T. (1962) 'The Structure of Scientific Revolutions', University of Chicago Press.

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