FORTUNE FAVOURS THE BRAVE

CSC

BUSINESS SOLUTIONS
TECHNOLOGY
OUTSOURCING

CSC

"We see significant opportunities for those organisations that are willing to evolve their distribution models and take a fresh approach to the market. As IFAs move to service the HNW and mass affluent consumer, other players in the market should be looking at solutions that target the needs of the mass market consumer in a cost-effective fashion. Technology vendors, such as ourselves, are developing innovative products that not only allow the on-line purchase of products but, possibly more importantly, assist with consumer education. The technology available today can truly enable a multichannel and compelling customer experience.

The research we conducted with NMG Financial Consulting before developing our product offering confirmed that consumers are happy to receive much more of their financial information via the internet. The industry as a whole needs to be more creative with both explaining their products and also attracting consumers over the web, potentially looking at how other sectors have achieved this."

Richard Stevenson, Chief Executive, Focus Solutions

www.focus-solutions.co.uk

FORTUNE FAVOURS THE BRAVE

Opportunities in the distribution of financial services are ripe for the taking but only those with visionary leadership, the will to battle for brand recognition and the foresight to leverage technology to serve customers well, need apply.

The evolving distribution landscape is hotting up. Everyone knows that good savings' habits need to be re-established and that the UK market desperately needs savings vehicles to ensure those in the mass market save enough for their retirement.

However, the proposed changes in the FSA's Retail Distribution Review are not sufficient to achieve the far-reaching structural change required to the overall business model.

Now is a critical time for industry players to re-evaluate their attitudes to risk and strategies for this market, if they are to have any chance of success. They need to wake up to the fact that the distribution of savings to the mass market is very viable. Providing these services are delivered cost-effectively, with sufficiently good customer service, via a brand that can build confidence with wary consumers, players stand to seize significant revenue opportunities and steal the march on others in the industry, too tentative, or too weary, to bother.

Tackling the savings gap and engaging the consumer is an achievable goal.

FORTUNE FAVOURS THE BRAVE

"Clearly the traditional product provider is faced with a dilemma which is arguably even more challenging than that faced by intermediaries in the build up to 2012. Asset accumulation via intermediaries is increasingly becoming the province of low margin, Solvency II poses problems for providers positioned for asset decumulation, especially where guarantees are concerned and insurance business would appear the only area left unaffected. To fill the gap left by a reduction in traditional product sales, a number of providers with existing presence in other product lines, such as insurance, will undoubtedly make a play to access smaller investment portfolios and regular savings by leveraging from their existing brand, through a 'guided architecture' offering. One outcome of RDR is likely to be an increased reluctance for intermediaries to cater for this type of customer so independent advisers will feel less threatened by a direct offering than in previous years. A technology proposition which underpins this guided sales process will be essential, and may make the difference in what will be a hugely competitive market."

Phil Young, Partner, threesixty services LLP
www.threesixtyservices.co.uk

The distribution of financial services products to the mass market urgently requires change.

DISTRIBUTION MODELS IN THE UK LIFE AND PENSIONS INDUSTRY

The distribution of financial services products to the mass market urgently requires change. The need for the recent FSA Retail Distribution Review (RDR) shows how dysfunctional the UK model has become in its attempts to address the nation's need to provide adequate savings vehicles for the mass market.

If the current recommended changes go ahead it will only prove that the lobbying efforts of providers and the distribution community have triumphed over the need for change and the application of common sense and judgement.

Rather than address how to get the UK population back into the habit of saving, these recommendations would only preserve the status quo. But how can we stop the retirement time bomb that awaits the mass market? And who will step into the breach and provide or distribute the products so desperately needed?

It would seem that the IFA community, irrespective of what additional burdens the regulator places upon it, will continue to target ever more up-market customers willing to pay fees or place significant assets under their supervision. The 'value' will increasingly get shared between platform providers, distributors and asset managers leaving the provider model under increased pressure and a huge swathe of our society un-served.

However, serving the mass market represents a very significant opportunity for those organisations with the vision, leadership, brand equity and customer reach to step up to the challenge.

WHAT ASSURANCE BANCASSURANCE?

It was always assumed that the high street banks would be the natural refuge for mass market customers with simple product needs. The reality is that, to date, most banks have polarised their offerings between their wealth management divisions who naturally compete with the IFA sector and their bancassurance channels, which tend to sell life, savings and investment products as an add-on to their core banking offerings, often without the added cost and complexity of an advice component.

If RDR is implemented, some banks (if we ignore the current state of banks' reputations for the moment) will be eagerly anticipating droves of higher net worth customers heading their way as IFAs cease to be willing or able to serve them. However, couldn't their attentions be equally focused on how they could be better serving the mass market especially if a 'guided sales' model becomes a feature of the advice landscape.

PROVIDER OPTIONS

When direct sales forces died out, most UK providers focused on IFAs and other forms of intermediated distribution. Given the demise of some of their core product lines, notably with-profits business and bonds, and the rise of fund supermarkets and wrap platforms, these organisations are increasingly being squeezed out of the value chain.

Clearly they won't go down without a fight and the industry could reinvent itself via one of the following four ways:

1 To develop platform based distribution capabilities to compete with IFAs and the wealth management players directly. It would be natural to assume those providers who have invested in purchasing IFA firms would consider this an obvious starting point. *However, this strategy will be fraught with danger as these organisations essentially risk switching off a source of revenue by declaring war on the distributors who have been their lifeblood in recent years. Also, this is likely to become a more crowded marketplace as asset managers develop their retail offerings yet further.*

2 To retreat deeper into core manufacturing, concentrating on service excellence and price efficiency in a few niche product lines, such as annuities, and distributing these through existing intermediary relationships and third party affinity deals including tie-ups with banks and retailers. *Key to success will be managing the cost base as this model will have very low margins, which will continue to sustain pressure and therefore, this is highly volume dependent.*

3 To build on an existing presence in the corporate pensions market to expand distribution options through the worksite. *Increasingly, this approach will need to consider an open-architecture model where the distribution model allows for other product providers to place their products with the same employer. At what point will a pension manufacturing capability morph into a worksite distribution offering?*

4 To return to mass market distribution of packaged products sold directly to consumers; leveraging a technology led model and some form of guided sales process. *This model could compliment the worksite approach and is one that most IFAs would see as non-competitive. Indeed it offers up some interesting potential for collaboration between providers and IFAs (and IFA networks) to better serve existing IFA customers who neither need nor can afford the high costs of face-to-face ongoing financial planning.*

GETTING THERE

Oddly enough, option four is getting the least focus from the industry, yet it's the model that can provide the greatest value to the industry and to society as a whole.

Any organisation willing to step into this market will require vision and visionary leadership, imagination and an ability to service customers well.

We must also remember that encouraging customers to part with their money will require trust in the brand. This could see the provider market essentially split into two. Those with brand strength and customer reach will migrate increasingly into the distribution space and those that don't must concentrate on core manufacturing and employer branded worksite propositions. It should be said that an organisation that can develop more directly owned and managed distribution offerings will have less mouths to feed and can therefore expect to benefit from better margins and less sensitivity to volume. It will be interesting to see how some of the more consumer-friendly brands, including some of the Mutuals, respond to this. →

MASS MARKET 'ADVICE'

As most consumers in the mass market are likely to be employed, the workplace remains a relatively unexploited point of distribution. As pension schemes become increasingly defined contribution based, the need to better inform employees of the choices and risks associated with retirement saving will increase significantly. Employers will be under considerable pressures to look at broader benefit offerings and services to remain competitive. Providers with established corporate pension offerings should use this to expand their distribution offering in the workplace. Of course, it's only natural that employers will be keen to lead with their brand and won't want to be too tied to a single provider so this will require some 'open architecture' when it comes to additional products.

Those that have neither the scale or competence for 'factory' manufacturing, nor the customer reach will surely need to question their long term viability.

> Any organisation willing to step into this market will require vision and visionary leadership, imagination and an ability to service customers well.

Key to unlocking the mass market opportunity will be how to advise consumers in a way that minimises both cost of distribution and risk.

Consumers have already demonstrated that they are willing to go the self-service route and technology adoption is on an increasingly steep upward curve. Aggregation sites will continue to have some value for commoditised products where the advice component is small. However, the need for most consumers to be able to conduct simple financial health checks and make informed decisions on products, without the need to resort to a full financial planning episode, is obvious to all.

The ability for providers and distributors to provide this on-line capability with seamless links to call centres and ultimately face-to-face financial advice for those who have identified more complex needs, will be key to making the sales model work financially.

Sadly, it would seem that the millions of individuals in the middle income 'mass market' are not seen as viable to many organisations who imagine that set up costs to serve this group will be far outweighed by the returns, especially as capital is an increasingly scarce and vital commodity. But this isn't necessarily the case and certainly the technology infrastructure would be the least of the challenges.

The technological building blocks to deliver this type of proposition are already well established and many organisations already have the core tools in place. In fact, the infrastructure to launch such a proposition could be built within just a few months.
The bigger investment will be in customer reach and developing brand identity or the 'education' factor to sufficiently explain to consumers the responsibilities they owe to themselves to do the right thing.

Perhaps the real issue here is the organisation's inertia or a preoccupation with preserving existing distribution models and frankly, a lack of confidence in the ability to execute sufficient change. Suffice to say 'though, that if the RDR proposals for a guided sales model were implemented, this would be a significant enabler of this type of service.

However, the industry should not be waiting for instruction from the FSA (or it's replacement were we to undergo a change of Government) on how to make this happen; it's incumbent upon providers and distributors to drive the agenda and the regulator and politicians from all parties should support the industry in their efforts to better serve consumers.

> "The shift from DB to DC has imposed significant investment and longevity risks on employees who are ill-equipped to deal with them. Supporting employees in dealing with these difficult choices is vital. Doing so may also transform take-up rates and average contribution levels, making it economically attractive to providers. Keeping transaction costs low through effective use of technology is also key to unlocking this market."

John Taylor, Market Director, Pensions, Scottish Widows
www.scottishwidows.co.uk

To find out more about our experience in your industry or discuss a particular need, email **EMEA-finance@csc.com**

Worldwide CSC Headquarters

The Americas
3170 Fairview Park Drive
Falls Church, Virginia 22042
United States
+1.703.876.1000

Europe, Middle East, Africa
Royal Pavilion
Wellesley Road
Aldershot, Hampshire GU11 1PZ
United Kingdom
+44(0)1252.534000

Australia
26 Talavera Road
Macquarie Park, NSW 2113
Australia
+61(0)29034.3000

Asia
139 Cecil Street
#06-00 Cecil House
Singapore 069539
Republic of Singapore
+65.6221.9095

About CSC

The mission of CSC is to be a global leader in providing technology enabled business solutions and services.

With the broadest range of capabilities, CSC offers clients the solutions they need to manage complexity, focus on core businesses, collaborate with partners and clients, and improve operations.

CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client's unique requirements.

For more than 45 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.

The company trades on the New York Stock Exchange under the symbol "CSC."