

CSC

'AT RETIREMENT': ARE YOU READY TO CATCH THE WAVE?

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1. 'AT RETIREMENT' - A BURGEONING MARKETPLACE

A customer's view of 'at retirement' needs is much broader than many providers within the industry see them. That view is likely to include:

- ▶ Many different financial requirements, such as regular income and one-off major expenses occurring at points within retirement
- ▶ Diverse potential funding vehicles - such as pensions (DC pension pots, DB schemes), property (primary residence, owned buy to let properties), inheritance lump sum, sale of business, insurance payoffs and disability payments, etc.

That view is underpinned by powerful market dynamics:

- ▶ The population is ageing fast, as people are living longer
- ▶ Birth rates are falling
- ▶ Governments are encouraging individuals to take personal responsibility for post-work incomes
- ▶ People have much greater variety in their lifestyles, so need more flexible retirement income solutions.

In the UK alone, more than 1,450 people are turning 65 every day. As a result, conservative estimates suggest that today's annuities market is expected to double within the next three years. Securing just one per cent of this market equates to approximately £200m of assets for providers.

As for profitability, the average margin for managing annuities is significantly higher than for margins generated by most pre-retirement products.

In summary, there is a fast growing demand for 'at retirement' income solutions and services across the globe, and a massive business opportunity for providers.

Securing just one percent of today's annuities market equates to approximately £200m of assets for providers.

Some key questions to ask yourself:

- ▶ What is your current proposition in the 'at retirement' market?
- ▶ Is it strong enough to appeal to the target market?
- ▶ Do you already have access to a potential target market?
- ▶ Do you already operate in the pensions (pre-retirement) market?
- ▶ Do you have enough customers who would be attracted to your proposition?
- ▶ Do you have the right access to customers - are you dealing with the right types of adviser?
- ▶ Do these advisers already operate in this market?
- ▶ Do these advisers have the necessary skills and attributes to operate in this part of the market, and are they adequately trained?
- ▶ Do you have the right products to offer?
- ▶ Which products should you manufacture and which should you white label?
- ▶ Do you already have existing assets you could leverage - distribution channels, aggregation tools, management information systems etc?

CREATIVITY
WHEN THE GOING
GETS TOUGH, THE
TOUGH DO THINGS
DIFFERENTLY

A recession may seem like the wrong time to be trying new things, but innovation doesn't have to be risky, it can be about using proven technologies to do things in new ways, which can be vital when times are tough.

And it is never too early to be looking beyond the recession, the fact remains that every downturn has winners and losers.

2. BOTH EXISTING PROVIDERS AND NEW ENTRANTS CAN SEIZE THE OPPORTUNITY

Despite its potential scale and profitability, the ‘at retirement’ market today is underdeveloped:

- ▶ Products and services are limited in range and flexibility
- ▶ Existing providers are understandably reluctant to introduce innovative offerings at a time of volatile conditions right across the financial markets – especially whilst traditional annuity products are easier to administer and still enjoy relatively good margins
- ▶ New entrants – potentially with new solutions – are nervous about entering a marketplace where buying habits are still unformed, and the market is currently dominated by a small number of providers
- ▶ Advice and guidance for consumers – a critical component in ‘at retirement’ provision – is patchy and limited. Many advisers are ill equipped to support the consumer during their transition from pre to post retirement
- ▶ Many advisers believe that the more innovative products that have so far reached European shores – such as variable annuities – are too complex and difficult to explain easily to consumers.

Although not an auspicious start to this embryonic market, the ‘at retirement’ market will expand along with the greying population and with it the need to provide adequate income over the rest of the individual’s lifetime. It is a major new opportunity for providers and advisers to develop highly profitable and enduring new lines of business by meeting the needs of today and tomorrow’s retirees.

Successful providers will need to:

- ▶ Offer flexible products
- ▶ Have targeted, responsive sales and marketing
- ▶ Ensure that risk management is underpinned by quality data
- ▶ Have efficient systems and processes
- ▶ Be agile in terms of operational and product development to meet future market needs.

Existing providers should focus on:

- ▶ Retaining current customers by introducing more flexible solutions
- ▶ Converting pensions customers seamlessly to ‘at retirement’ solutions
- ▶ Improving adviser and consumer understanding and communication to ensure customers receive good quality guidance and advice
- ▶ Maximising the efficiency of their operations.

This will help to maintain market share and profit, as well as maintaining barriers to entry.

New entrants would be well advised to:

- ▶ Find out which segments of this market they wish to target
- ▶ Recognise the size of the opportunity for them, and not be afraid to invest for the long-term even in the face of short term market volatility
- ▶ Be bold in bringing innovative products to market that meet the target segment needs: they can create new buying habits in this immature market
- ▶ Act quickly to challenge existing providers – a shake up is needed
- ▶ Develop individual relationships with consumers, maybe with a direct distribution channel – personalised advice is key in this market, and many existing providers and intermediaries are not good at it.

This will provide a new line of business that should be more profitable than business generated from pre-retirement products.

The ‘at retirement’ market is a major new opportunity for providers and advisers to develop highly profitable and enduring new lines of business.

3. EXISTING PROVIDERS: LEVERAGING THEIR EXPERIENCE

RETAIN CURRENT CUSTOMERS BY INTRODUCING MORE FLEXIBLE SOLUTIONS...

Ironically, just at the time when 'at retirement' consumers are starting to recognise the need for different income solutions, a liquidity crisis in the financial world has rocked their confidence as purchasers, and is threatening their financial freedom.

For those still investing, the most attractive products often seem to be those - such as annuities - that offer some form of security or guaranteed return. Yet current rates for annuities are making these products less appealing. A recent consumer survey found that some 25% of people considering purchasing post retirement incomes are no longer planning to go ahead because the guaranteed rates of return are so low. In addition, it now costs 30% more than a year ago for an individual to purchase an annuity of the same value.

Hardly surprising then that this lack of consumer confidence, even in well proven products, has made many existing providers unwilling to invest in new and innovative products and services. Indeed, many have been actively put off by the performance of the handful of more flexible and customer-responsive products on the market. A number of insurers that have ventured into variable annuities, for example, have suffered serious effects on their balance sheets in recent times.

Economic conditions will change and existing providers have a major advantage over new entrants in this market if they can retain their base of customers, and develop and cross-sell innovative propositions that offer customers what they need long-term.

CONVERT PENSIONS CUSTOMERS SEAMLESSLY TO 'AT RETIREMENT' SOLUTIONS...

The pre retirement market includes many of the same players as the 'at retirement' market. There is therefore a similar opportunity for pensions providers to build on their customer relationships in order to cross-sell new products in the 'at retirement' market.

The traditional buying characteristic in the annuities market is inertia. However, with diminishing annuity values, the market dynamic is likely to change. The consumer is much more likely to be willing to shop around for the best deal. Pensions providers need to take a proactive stance in offering annuities, and other 'at retirement' solutions. Unless they do, customers could be ripe for cherry picking by the existing providers that have adapted to this marketplace or indeed the new entrants.

IMPROVE COMMUNICATIONS TO MAKE SURE CUSTOMERS GET GOOD QUALITY GUIDANCE AND ADVICE...

'at retirement' is about managing and maximising ALL existing and potential retirement funding vehicles such as ISAs that customers have built up over many years, property inheritance etc, that are traditionally outside many people's concept of 'retirement' money.

However, the current advice and product paradigm is largely focused on income per year or per month, and does not take account of the particular needs of the customer 'at retirement': for regular income, and to cover specific one time costs such as funding a child's wedding, university fees, or a retirement 'dream' purchase, for example.

Many advisers are ill equipped to support the customer who is approaching retirement. They feel that the more innovative products that have so far reached European shores - such as variable annuities - are too complex and difficult to explain to consumers. As a recent survey highlighted, very few (13%) UK distributors claim to have a 'reasonable' understanding of the variable annuity concept.

Intermediaries and providers' own advisers need to give better quality guidance to consumers - many of whom have acquired considerable experience in buying financial products over the years. They must get to grips with aggregating a wide range of consumers' financial portfolios, and be prepared to deploy sophisticated technical tools to assist them with the provision of highly valued advice.

MAXIMISE THE EFFICIENCY OF THE OPERATIONS...

Traditional annuity products are relatively easy to administer and manage. It is tempting therefore to allow inefficiencies to creep into the operating process. However, by contrast, administration of variable annuities and other newer hybrid solutions tends to be inherently complex.

It is essential that systems are optimised to create an operating model that can manage more complex products and services in future. Otherwise, costs will escalate, and business will be lost against new entrant competitors in particular, able to build their operating models from scratch, tailor-made for the needs of the 'at retirement' market.

It now costs 30% more than a year ago for an individual to purchase an annuity of the same value.

4. A LAND OF OPPORTUNITY FOR CANNY BUT CAREFUL NEW ENTRANTS

RECOGNISE THE SIZE OF THE OPPORTUNITY, AND DON'T BE AFRAID TO INVEST FOR THE LONG-TERM EVEN IN THE FACE OF SHORT-TERM VOLATILITY...

Growth in demand is accelerating faster every year. The potential targets for 'at retirement' solutions providers are immense. By 2050, the number of people over 60 in Europe will have doubled to 40 percent of the total population.

New entrants will need to invest significantly to catch up with the infrastructures already in place in existing providers. However, they have the major advantage that they are not hamstrung by history, or legacy systems and processes - that are not designed to administer tomorrow's more complex and flexible solutions. In addition, without comfortable revenues from traditional products, new entrants are forced by necessity to create innovative niche products. Managed properly, today's niche products could be tomorrow's mainstream answer to the retirement income crisis.

CREATE NEW BUYING HABITS IN THIS IMMATURE MARKET: TAKE A CHANCE ON INNOVATIVE PRODUCTS:...

The range of needs for 'at retirement' solutions is very broad, and presents a wealth of opportunities for imaginative responses. Typically, they include:

Asset protection

- ▶ Security of income throughout retirement years
- ▶ Ability to transfer remaining wealth to the next generation or to charities.

Cost of living protection

- ▶ Maintenance of quality of life in the event of health problems, inflation, changing interest rates, and market volatility etc
- ▶ Ability to pursue personal interests and plans such as travel.

Liquidity

- ▶ Ability to raise cash quickly to deal with major and unforeseen life-changing events

- ▶ Response to new accommodation needs: downsizing, home selling etc.

Longevity protection

- ▶ To guard against outliving one's assets.

Long-term care

- ▶ Funding and provision of long-term health care beyond basic state provision.

CHALLENGE EXISTING PROVIDERS...

This is a market that is going to require transformational change. The incremental solutions offered by existing providers - for understandable, and market driven, reasons - will not meet consumers' needs in future.

There were certainly signs of innovation in 'at retirement' product development before the liquidity crisis. Variable annuities and a few other hybrid products, for example, show what can be offered in terms of living benefits, investment opportunities, market risk protection, and longevity protection - including the element of guarantee that is now and will always be fundamental to the investment portfolio of a significant proportion of 'at retirement' consumers.

While existing providers may be stalling their plans for the future there is a big hole that will open up fast as economic conditions improve. Insurers, banks, and mortgage providers all have the chance to offer exciting products in this space.

DEVELOP DIRECT CUSTOMER RELATIONSHIPS... PERSONALISED GUIDANCE AND ADVICE IS KEY IN THIS MARKET...

Current as well as future generations reaching retirement age will have worked at several jobs, for different employers. Whether they expect it or not, fewer employers will provide pensions that are adequate enough to fund their post retirement lives.

Taking proper account of their varied lifestyle needs and choices - some wanting or needing to work much longer than others, whether it be full-time or part-time, people will have

to plan a seamless transition from pre retirement asset accumulation through to decumulation at post retirement stage.

They will need to take responsibility for planning their own income needs. This will mean:

- ▶ Becoming accustomed to regularly reviewing and monitoring their savings provision, and ensuring that their portfolio of retirement related products and services incorporates the many features and benefits needed to support their changing lifestyles
- ▶ Expecting interaction with their income product provider that will be on the consumer's own terms, doing business wherever, whenever and however the consumer pleases
- ▶ Having access to quality, holistic advice to bridge financial and non-financial concerns, helping them manage their cash flow, and delivering their expectations and aspirations with
 - A clear understanding of the true cost of solutions and services, and therefore the trade-off between guaranteed income and risk
 - Comparisons of the benefits and the drawbacks of those products on offer.

New entrants to the 'at retirement' market have a fantastic opportunity to design distribution models that are really responsive to individual consumer needs. They can design more direct interfaces with consumers that are appropriate for the changing needs of this market.

By 2050, the number of people over 60 in Europe will have doubled to 40% of the total population.

5. OPTIMUM OPERATIONS: KEY FOR ALL PROVIDERS

Providers operating successfully within the 'at retirement' market must be able to manage complexity. To do this, and thrive and prosper, they need efficient and effective operating models. One of their biggest challenges is securing a model that provides for effective, real time data management of complex products. It must incorporate product pricing, marketing and distribution right through to guidance and advice provision, administration and ongoing servicing.

It is a challenge, but it is not insurmountable. These are some of the success criteria for establishing a well-managed and robust operating model:

To be successful in the 'at retirement' market, providers must secure an operating model that provides for effective, real time data management of complex products.

PROPOSITION

- ▶ A redefined proposition that includes new products and services, which takes into account the changing needs of the consumer as they transition from asset accumulation to decumulation post retirement
- ▶ Systems that can cope with different versions of the same product, so that local market needs are met, and are agile enough to permit new products to be launched as they evolve
- ▶ Providers are able to gain an accurate insight into not only existing, but also potential future customer segments.

SALES AND MARKETING

- ▶ Distribution support (e.g. guidance / advice tools) are bespoke to the different distribution channels, to help develop and manage client relationships longer term
- ▶ Use of data mining tools that keep products updated and in the market.

OPERATING MODEL

- ▶ A single customer centric operational framework that will enable products and services to be rolled out to new regions or countries, and that can be scaled up or down as market dynamics dictate
- ▶ Systems that can deal with multi-channels as well as administrative complexity
- ▶ For those providers operating across geographical territories, systems that can cope with multi-language, multi-tax and multi-regulatory regimes
- ▶ Robust systems, because existing and new systems may need to be run in parallel whether bought, rented or outsourced
- ▶ Ability to aggregate client holdings
- ▶ Management of different communication and delivery mechanisms such as call centres, web and face-to-face, that can support development and ongoing review of the client's account.

RISK MANAGEMENT

- ▶ The data is reliable, accurate, up to date and accessible to ensure risk can be managed
- ▶ The data is also monitored at a more detailed level more frequently than for other products in order to keep on top of risk.
- ▶ The right sort of technology is deployed that can pull together and collate the right information, regardless of the source, into a usable format and digest, providing all the necessary data from which key decisions relating to the management of the product can be made.

Where and when to begin?

If you would like to know more about how CSC can help you to assess your preparedness to capture the 'at retirement' market opportunity, please contact [Joanna Hall](mailto:Jhall56@CSC.com) on 0790 381 9077 or Jhall56@CSC.com to find out more.



BUSINESS SOLUTIONS
TECHNOLOGY
OUTSOURCING

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

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