



thinkpiece

Promoting debate and fresh thinking in the financial services industry

The future of financial distribution and advice: listening to consumers

Nick Hurman

Summary

- This paper summarises the ongoing research by AEGON into future models of financial distribution and advice, with a specific focus on what consumers want.
- Presently, the current system is plagued by a number of problems, including low financial capability, overly-complex products, and low levels of trust in the financial industry. However, this research suggests that consumers can become engaged and confident with financial services—if industry changes how it talks to them.
- Consumers have identified what they see as the ‘perfect’ attributes for an adviser: high-quality advice, easily accessible, trustworthy, proactive, flexible, committed to long-term relationships and always keeping it simple.
- The research produced five new advice and distribution models: a financial guru for holistic advice; a financial coach to assist with planning and motivation; a drop-in centre for specific problems or needs; a personal shopper to simplify choices and provide tailor-made solutions; and a financial superstore that would offer products for those who have a good idea what they want.
- The onus must be on the industry to develop products and services in a way that genuinely meets consumer needs, and on the regulators and government to encourage and enable such developments. The way forward is through joined up thinking, between the regulator, advisors and providers. Only then will we see the development of innovative, market-led solutions to the UK’s financial advice gap.

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CII Introduction: as the models for financial distribution face major changes in the upcoming Retail Distribution Review, the industry must better engage and communicate with consumers to meet the challenges of a new era. In this, the CII's sixth Thinkpiece, AEGON'S Nick Hurman explains how their research proves that consumers want to be better at buying financial products and will change their habits to do so—as long as the industry accepts its own responsibility to become more transparent and user-friendly. Now, more than ever, the customer will always be right.

'We have a system which serves neither the producer of the services nor the consumer of the services. It is doubtful whether it serves the intermediary either.' Sir Callum McCarthy, FSA Chairman, 16 September 2006

It is nearly two years since Sir Callum McCarthy opened the debate over the future of retail distribution at Gleneagles. In his speech, Sir Callum made clear that he was looking for the industry to lead the development of solutions. Since then, much good work has been done by the trade and professional bodies, individual companies and the regulator to develop reforms. But the true test of reform is whether we serve the needs of customers better.

Finding a fresh perspective

When AEGON were first considering how best to bring a fresh perspective and stimulate a broad debate in the autumn of 2006, we came up with a simple question: How can the consumer's voice be heard in the debate? After all, if we cannot produce products and services for consumers in the way they want, where and when they want them, we won't have a business or even a viable market going forward.

But how should we ask the consumer? There is a great deal of research demonstrating both the low financial capability of UK consumers and their increasing disengagement with our products and services. We needed to do something quite different if we were going to understand what the customer actually wants and believes. So we decided to try out some techniques from the world of public policy and approach this issue in the way that a government might address deep-seated economic and social challenges, such as the national debt or nuclear power. We weren't at all sure what we might find out or even if it would be of use. But we held the belief that we could only help bring about real reform if we put the customer at the heart of what we were doing.

With that in mind, AEGON commissioned in January 2007 a specialist research house, Opinion Leader, to work with us to develop a truly customer-centric model for long-term savings, investments and life assurance markets.

The style of research that they recommended was deliberative. This is a type of qualitative research which gives consumers the opportunity to shape their own agenda and reach their own conclusions in extended workshops. We have now run three phases over the last 18 months involving over 140 participants broadly representative of the mass-market for financial services in the UK. The results have proved fascinating and challenging. They provide a fresh perspective on how distribution reform could improve the market for consumers.

What consumers told us

First, the research highlighted a number of problems with the current system: low financial capability; complex products making it difficult for consumers to make choices; low levels of trust in the financial industry; financial advisers being viewed as 'salesmen' rather than acting solely in the consumer's best interests; the deferred nature of benefits meaning people put decisions off and short term issues such as high levels of debt acting as a barrier to people planning for the long term. It became clear that consumers need to be enabled and motivated to act; essentially, they are looking for help in order to help themselves.

Six core needs

The research identified six core consumer needs, and it is a pretty demanding agenda:

1. **Providing the necessary skills:** Public education campaigns and financial education starting at school should be provided;
2. **Making it easier to make choices:** Simplifying information, such as providing comparative performance/league tables and independent 'best buy' recommendations;
3. **Providing help that is designed around consumers:** Advice should cover the range of consumer needs and consider each individual's situation. As well as being easily accessible (e.g., a locally based drop in centre), quality of advice and continuity of care must be in place;
4. **Building confidence in the advice provided:** A number of ideas related to separating 'helping' from 'selling' advice. Others were about building the credibility of existing advisers, with help to judge their performance and different ways to reward them;

5. **Developing products that can be relied on:** Future products must be more predictable and flexible; and
6. **Motivation to keep going:** Could we see financial version of motivational groups like 'Weight Watchers' to encourage good money habits?

Some of these ideas are new, but others are not. This suggests low awareness or questions the effectiveness of current approaches.

By asking consumers to think about better ways to meet these needs, the research also highlighted the key qualities of the 'perfect adviser'

Quality of advice: understands all consumer requirements and available solutions.

Accessibility: there wherever/whenever consumer needed them.

Trustworthiness: has consumer's best interests at heart.

Proactivity: provides updates and alerts on a regular basis.

Flexibility: adapts to consumer's circumstances and changes in the market.

Continuity of care: relationships start from childhood, stays with consumer for life.

Simplicity: easy to understand and no jargon.

A call for change

Overall, the research built a clear programme of five actions that consumers saw as the necessary building blocks of a truly customer-centric model.

First, people recognise the need for building better financial capability, through improvement of skills and confidence, plus earlier engagement with financial advice that would continue for the long-haul.

Second, information should be simple to understand and use, with more standardisation of formats and fewer caveats. The implications of these changes will also need careful management.

Third, there is a demand for new types of 'helping' financial advice. This advice would be truly independent - clearly on the customer's side - and designed to 'help' rather than 'sell'. A range of advice should be provided that is affordable and accessible. Consumers also need to be motivated, such as through peer support.

Fourth, traditional 'selling' advice should be reviewed. Typical financial advice needs to be reconsidered to build customer confidence. The traditional, commission-based model in particular needs to be critically re-assessed with systems

developed to enable consumers to evaluate performance.

Finally, products need to be tailored to individuals' needs, they must be adaptable to changing circumstances, and be easy to switch between providers while providing greater certainty of performance.

Consumers' advice and distribution concepts

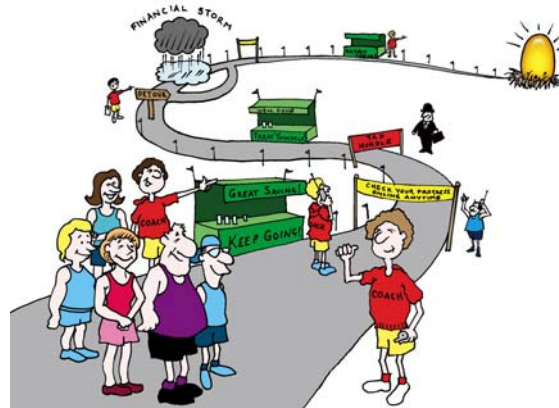
Putting together the many ideas generated by the research, we edited them down into the following concepts using the consumers own language. The first three provide 'helping' advice, whereas the other two concepts allowed for 'selling advice' but emphasised the sales process.

The Financial Guru



The guru is an independent expert giving high-quality, holistic, ongoing and personalised financial advice. He or she is separate from product selling, and someone to whom the consumer can build a long-term, trusted relationship. The guru is proactive but never pushy; the consumer is in charge.

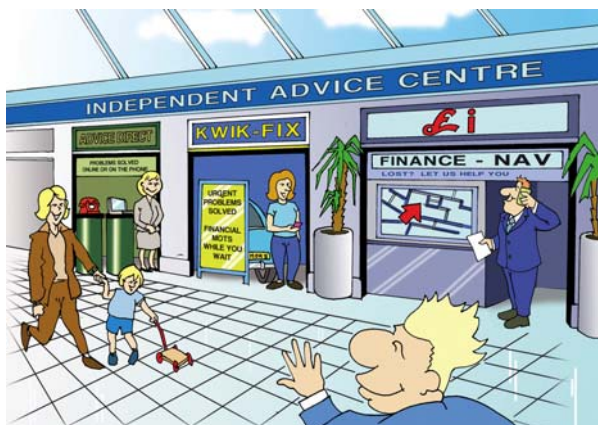
The Financial Coach



The coach gets people motivated for financial planning and keeps them committed. It is comparable to having a trainer or attending a financial 'Weight Watchers.' The coach also educates the consumer and focuses their behaviour and habits. Ideally, the coach would have solid

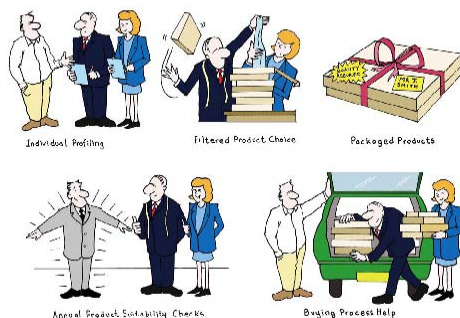
credentials but would not necessarily be an expert, although independent advisory and life-coaching skills would be ideal.

The Drop-in Centre



This would be an initial problem-solving service for people with specific financial problems or needs. It would be convenient and easily accessible, be it an actual physical place or through the phone or a website. It would be impartial, and run by Government. Advisers would need to be well-trained despite only providing basic advice—the goal is to point the consumer in the right direction by being easy to understand and informal.

The Personal Shopper



This person works for the consumer, helping to simplify all the available choices and provide products that are flexible and tailored to the customer's needs. They are independent, knowledgeable and up-to-date on, ideally, all products and brands. The shopper is professional and non-judgmental, with no 'hard sell' or pressure tactics.

The Financial Superstore



This service would make buying easier for people with straightforward needs or have a good idea of what they want. It could be delivered either through a website or a physical store, and would be available for late-night and weekend consultations. This service would be for people who have the knowledge and confidence to know what they may need. The assistants in the store would be trained to offer clear, simple information that enables easy comparisons.

Developing the concepts

Parallels can be drawn for some of these concepts with services already in the market. The financial guru is broadly aligned with the Independent Financial Adviser (IFA) envisaged in the proposed reforms, the drop-in centre could be one expression of the new Money Guidance service recommended by the Thoresen Review, and various on-line sites have elements of the financial superstore. Others, like the financial coach, are new. Consumers have drawn on the retail experiences they enjoy in other areas of their lives, and have asked, "Why can't financial services be like that?"

We then took the concepts and, in a second phase of work, played them back to some of the original research participants. They told us the ideas they'd generated had been well captured in these concepts. And interestingly, the participants began fitting the concepts together in different packages and envisaged moving between them to meet their needs as they changed.

During the final phase of research, a number of additional points emerged.

Engagement with the concepts

Consumers view the concepts as a 'package'. They spontaneously recognised how all five concepts could work together, and who and why people might use them in different situations depending on confidence/knowledge, personality/attitudes to money, lifestyle/circumstances or affluence. Starting off with an advice concept and then moving to a buying concept is the most intuitive way to move between concepts but many others were suggested. While some concepts were more popular overall, different consumers were aligned to different

concepts based on their individual preferences, circumstances and means.

How the concepts ‘feel’

The emotional aspect of planning and managing money was a strong theme. ‘Pre-meetings’ were suggested as an add-on to the Guru, Coach and Shopper concepts to ensure a ‘personal connection’. Receiving an empathetic and non-judgemental response was also prioritised as was having a ‘relationship’ with the service, particularly with the Guru, Coach and Shopper.

Value of advice and preparedness to pay

Overall, participants valued the concepts and, more specifically, the separation of ‘helping’ advice and ‘selling’ advice. In addition, there appears to be a willingness to pay and take responsibility for buying decisions as long as consumers felt sufficiently informed about risk, protection (if any at all) and return. There is acknowledgement that ‘you get what you pay for’. This is a fascinating finding, needing further work.

Responsibility and accountability

Consumers acknowledged that any type of adviser cannot be held accountable for what happens in the wider economy which could impact investments. In light of this consideration, they stress the importance of having clear, honest and transparent information around risk, protection and return so that they feel empowered (more knowledgeable and confident) to make a decision.

Challenges for reform

Widening access to advice is a key outcome for reform and the insights that consumers have given us suggests we have a way to go before the RDR can deliver.

Advice matters because, done well, it helps overcome the inertia and other behavioural biases, which in our own highly personal mixtures, inhibits us all from doing what we should to secure our financial well-being. The concepts argue for choice and diversity - as well as professionalism and quality - rather than solely looking at how today’s limited range of services can be stretched to reach more people.

The FSA’s proposed definition of ‘advice’ is very close to what consumers mean by ‘independent’ advice – with highly qualified professionals advising on products from across the whole of the market. But our research suggests that consumers are looking for a range of solutions which deliver a combination of advice, guidance and sales in varying proportions. Usually, they are looking to use more than one of the five concepts outlined above, and in different sequences.

Creating an artificial divide between a single type of advice and non-advised sales, without considering other changes to the regulatory model, risks limiting the market and working against consumers’ intuition and preferences. It also jeopardises existing relationships, potentially leaving millions of people without the support they need precisely because it is not available in a form that they want to use. The Retail Distribution Review – and this means both the industry and the regulator playing their parts – should be about helping develop a plurality of models which would cater for mainstream consumers and expand access to all kinds of advice, be it ‘helping’ or ‘selling’.

Therefore, we propose:

- Consumers should not have to give extensive details of their financial position at each stage of the advice ‘journey’. The Conduct of Business (COBs) regime and supporting guidance should be reformed to proactively support ‘portable fact-finds’. This would facilitate the customers’ ability to move between concepts and create their own personal distribution experience;
- Consumers should be able to seek limited advice on specific issues. This would mean much clearer guidance, for example around ‘focussed advice’, to relax the requirement on advisers to ‘know your customer’ in these circumstances – the FSA said they would consider such guidance back in 2005. This would enable more services in the spaces set out in the drop in centre, personal shopper and superstore concepts;
- It should be easier for consumers to seek advice on changes to existing products. It shouldn’t be necessary to get full regulated, independent advice in order for customers to be advised to pay more into their pension or reschedule their mortgage payments. Again this would help enable services in the drop in centre, financial coach and superstore spaces in particular;
- Building on the Thoresen Review, FSA’s so-called ‘perimeter guidance’ should clarify that generic advice can encourage action without it being construed as regulated advice;
- The development of the FSA’s Treating Customers Fairly (TCF) requirements is critical to the success of this approach. Further principles-based regulation should be more amenable to alternative models. Industry guidance and case studies should be extended as part of TCF to show that alternative models to their single versions of advice and sales are both permitted and encouraged; and
- This means there is also an onus on the industry to develop products and services in a way that genuinely meets consumer needs. There needs to be joined up thinking, between the regulator,

advisors and providers, that encourages the development of innovative market-led solutions to the UK's financial advice gap.

AEGON's research shows that people can get very excited and enthused about financial services. Far from finding it boring and off-putting, people know it's a vital part of life. But industry and regulators need to reconnect with the way people talk and think about finance. They want help, and our job as an industry is to understand what that help should look like.

Only if these two concepts are brought together in a way that's meaningful to consumers, will we have a system that serves us all.

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