Who Will Serve the Middle Market?

Full Report

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A 2011 Report

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EXECUTIVE SUMMARY

Governments, companies and financial advisors are grappling with the problem of how to serve the ‘middle market’, that great mass of consumers on average incomes and paying basic tax that make up the majority of financial consumers. This report concentrates on the distribution channels and products used to service this group now and on how the picture might change in the future.

The countries studied are the United Kingdom and the United States, but the lessons from these markets are applicable to other developed markets.

United States

Middle-market consumers in the States are generally reckoned to be those households with incomes between $35,000 and $100,000. They comprise approximately 57 percent of the U.S. population, and many of them are underinsured.

LIMRA conducted research in the United States to find out what concerns middle-market consumers when it comes to financial services.[1] The research found that the middle market wants:

- Enough money for a comfortable retirement
- Adequate hospital/medical coverage
- Adequate resources to replace income if a primary wage earner can't work
- Adequate life insurance coverage
- Adequate savings for their children's education costs

Medical and hospital coverage has not to date been a European concern, but the rest of the middle-market concerns can be replicated for other developed markets.

The LIMRA research shows that few households have achieved their goals or feel they have adequate coverage and resources to replace lost income or to pay for long-term nursing care needs. They also don't believe they are on track to having adequate savings for their retirements or for their children's educational needs.

One reason middle-market households haven't achieved their desired levels of protection and accumulation products is that financial security products compete for any money left after, first, paying bills for everyday living expenses — and, second, on the 'extras' such as holidays and consumer goods that are important to middle-market households.

The current financial climate will exacerbate the challenges the middle market faces in having enough discretionary money to fund all financial goals. The housing collapse and financial industry bailouts were not yet on the horizon at the beginning of 2008 when the middle-market consumers were surveyed, yet they already had high debt and low savings and were behind schedule in accomplishing their top financial goals.

Seventy-two percent of middle-market consumers want to speak with professionals about at least one financial product or service.

Table 1: U.S. middle-market concerns

A lifetime income plan	41%
A retirement savings plan	40%
Setting up a will	35%
A debt reduction plan	29%
Investment advice/product information	28%
Plan to protect income if wage earner becomes disabled	24%

[1] *The Magic of the Middle Market*, LIMRA, 2010

An interesting fact to emerge from this study is that the U.S. middle affluent sector doesn't see *itself* as either wealthy or affluent. It is also noteworthy from the study that middle affluent households have not lost faith in their financial advisors during the recent market downturn, with a significant number reporting increased confidence.

U.S. Middle-Market Distribution Preferences

As part of its study LIMRA asked respondents what their distribution channel preferences are for purchasing financial products.

Table 2: Consumer distribution preferences

Category	Internet	Direct mail/phone	Workplace
Motor insurance	27%	26%	2%
Life insurance	18%	13%	14%
Long-term care insurance	16%	14%	14%
Retirement income plan	12%	6%	11%
Estate plan	11%	7%	3%

Although this study dealt only with non face-to-face customers, it is the case that many consumers prefer to buy without meeting face to face. Many middle-market consumers are not just willing but *prefer* to buy financial products without face-to-face meetings.

If they were in the market for life insurance or long-term care insurance, more than 4 in 10 people surveyed say they would prefer to buy without meeting face-to-face with financial professionals. Buying insurance on the Internet is especially popular with consumers under age 35 while purchasing by mail or phone is most popular with consumers ages 55 to 64. Consumers still prefer to meet face-to-face with professionals for complex activities such as estate planning and developing retirement income plans.

Life Insurance and the U.S. Middle Market

The LIMRA study also examined how life assurers are approaching the middle market. The study found that life insurers not currently targeting the middle market have reasons to consider doing so. In fact, life insurance sales are proving to be a bridge to sales of other financial product offerings. For instance, life insurers find that customers who purchase life insurance are much more likely to purchase additional financial products. In addition, according to LIMRA and consumer advocates, the middle market is underserved and underinsured. Currently U.S. households on average carry enough life insurance to cover two to eight years of income replacement, while LIMRA recommends enough coverage to replace seven to 10 years of income.

Although the middle market comprises 46 percent of all households, it represents 58 percent of the 'protection gap', which LIMRA calculated in 2010 to be the 35 million U.S. households that have no life insurance cover whatsoever (which in itself was a dramatic increase from the 24 million households lacking cover in 2004). Each middle-market household requires an additional $125,000 in life insurance to close their protection gaps, thus creating an estimated annual premium potential of $11.4 billion in total for the middle market.

For some insurance companies, middle-market product development is also seen as an excellent capital deployment opportunity. Reduced customer scrutiny and simplified underwriting required to issue the policy create increased margins, some of which are retained and not passed to the consumer in exchange for increased underwriting and persistency risk. In addition, the increased use of Internet technology and non-traditional distribution systems are making it operationally affordable to serve this market. Market surveys show that middle-market consumers use the Internet to educate themselves on life insurance products. Although the Internet is currently a minimal source of sales it is helping to remove the fear barrier that prevents many middle-market consumers from purchasing life insurance.

In addition, the Internet is leading an increasing number of insurance professionals to contact prospects electronically. Middle-market life insurers have launched interactive websites to educate middle-market consumers and help them answer questions they may have about life insurance.

Some insurers that currently serve the middle market are reporting up to half of current sales are a result of these direct distribution channels: mail, Internet, telephone and email. These insurers also report the middle market has growth potential. Segmentation of the middle market, proliferation of non-traditional distribution systems, expansion into new markets (banks and financial planning), and deeper penetration into existing markets are all potential sources of growth.

Successful middle-market life insurers are also excellent providers of customer service. Best practices include providing 24/7 online policy information portals and establishing retail customer service centers. For example, retail customer service centers are normally staffed by two to three persons and tend to be located in retail shopping centers with significant amounts of foot traffic. A retail customer service center can be less expensive than an agency or brokerage office, and providers report increased penetration in states with or near customer service centres.

UNITED KINGDOM

In the UK, website comparison site unbiased.com conducted research to find out what financial concerns were most important to UK consumers.

Table 3: UK consumer financial concerns

Personal retirement planning	38%
Investment and savings	27%
Mortgages	14%
Isas/Oeics/Unit Trusts	13%
Personal stakeholder pensions	11%
Taxation planning	7%
Personal protection	5%
Equity release	4%
Investment trusts	4%
Savings for children	3%

Retirement came out top, with personal protection a long way down the list. This reflects the ageing UK population and their worries about the effects on their retirement prospects in the economic crisis and in the face of increasing longevity and the move away from final salary pension schemes.

The Retail Distribution Review

The Retail Distribution Review (RDR) in the UK will abolish commission payments for financial advice in favor of fees. This is widely predicted to prompt a realignment of the UK financial advice industry.

Many Independent Financial Advisors (IFAs) are predicted to abandon the middle market altogether, to concentrate on the high-net-worth sector. Leading UK IFA firms are already segmenting clients according to their wealth and not their individual needs, and either offloading non-fee-paying clients or reducing the intake of new clients unable or unwilling to pay fees. The number of advisors with a tendency to service middle-market clients has declined from over 31 per cent in 2009 to 27 per cent in 2010. The trend is being driven, in part, by hard-up investors either unwilling or unable to pay fees.

Research and strategy consultancy CoreData found that very few active investors would be prepared to pay more than 1 per cent of their investable assets to access a platform and receive advice. (A platform can be thought of as a funds supermarket or wrap platform dealing with consumers directly or through their advisers. Its core function is generally described as providing access to a diversity of investments but with consolidated administration.) Furthermore, a large proportion would be unwilling to pay more than 0.5 per cent of their asset levels. With estimates that advisors need around £2,500 per client to 'economically justify' having them as customers, advisors will therefore be attracted only to clients with between £250,000 and £500,000 of net disposable assets.

High-net-worth or emerging high-net-worth clients with higher balances, on the other hand, are much more likely to pay for fee-based advice. A bias towards more high-net-worth clients threatens to disenfranchise large segments of the investor community, creating ‘advice orphans’.

These findings are given credence by Sanlam UK Head of Distribution Nigel Speirs. In a 2010 interview, Mr Speirs opined that independent financial advice is likely to be commercially unviable for big distributors after the RDR. Mr Speirs claimed the RDR will mean the workload involved in delivering independent advice becomes too high for bigger firms, and as a result Sanlam is reviewing its position on independent advice with a view to moving its IFA firm Buckles to a restricted advice model (advice on a limited number of products or providers).

Consultancy Ernst & Young (E&Y) has predicted double-digit growth for non-advised distribution channels in the UK as providers try to boost new business.[2] E&Y says life assurers will increasingly try to find new routes to market by selling direct to consumers, and 2010 saw many firms developing new propositions to meet the needs of the middle market.

As a result of the need to provide low-cost distribution to consumers who will not pay fees, E&Y expects non-advised businesses to grow by at least 10 per cent, despite general stagnation in life and pension new business, as the industry prepares for the impact of the RDR. Looking further ahead, the report says total advisor numbers will fall 25 per cent to around 20,000 by the end of 2012. (It also predicts strong interest in the ‘restricted’ advice channel, with a 50/50 split between independent and restricted advisors expected by the time RDR is implemented.)

Aviva UK has revealed plans to build an in-house distribution channel to sell products direct to consumers as it anticipates advisor numbers will be cut in half due to the Retail Distribution Review. Aviva expects the number of IFAs in the UK to drop from around 21,000 to around 10,000 by 2013, creating a provision gap, which it would target with a team of tied advisors. The firm suggests that 40 per cent of its UK life client base of 6.9 million have no active advisors.

Aviva also intends to pursue a renewed focus on the middle market. The company claims this strategy plays to its strengths and is less competitively crowded than the more affluent sectors. It says that this sector is not only distinctive but more profitable than targeting the super rich. Aviva expects the corporate market and tie-ups with banks and building societies, such as its joint venture with Royal Bank of Scotland, to be profitable routes to the middle market in future.

UK assurer Standard Life’s head of platform distribution, Chris Divito, predicts that IFAs will be able to service mid-market clients profitably after the Retail Distribution Review if they develop Web and phone-based arrangements. Mr Divito claims that there is no need to provide a face-to-face service when assessing risk profiles or collecting client information.

He commented: *‘I totally disagree that IFAs cannot service their mid-market clients. I think it is possible for advisers to conduct a wealth management service without the need to carry out a face-to-face quote or risk assessment. It is possible to do a fact-find over the phone and a risk assessment via the Web. The IFA just needs to work out how much time needs to be devoted to each client.’*

[2] *A Happy New Year? UK Life and Pensions Outlook 2010*, Ernst & Young, 2010

Products

LIMRA's study of the middle market gave these characteristics as making up the perfect middle-market life insurance product:

- Simple and transparent
- Transaction-based
- Flexible benefits
- Affordable

Advancements in technology are making it affordable to reach out to these prospects. However, tailoring and serving up middle-market products is only half of the battle. The life industry also needs to educate the middle market on the benefits of owning adequate life insurance coverage and to dispel the perception that life insurance is just for wealthy people.

In the UK, Legal & General has launched a regular contribution corporate cash Individual Savings Account (ISA). The WorkSave cash ISA accepts contributions direct from payroll and can be topped up online using a debit card, with a minimum regular contribution of £50 per month. L&G says it is the first regular contribution corporate cash ISA product in the UK.

L&G managing director, workplace savings Tony Filbin said three medium sized businesses are planning to roll out the product in 2011, while several larger companies have been lined up for later in 2011. L&G says the WorkSave cash ISA gives employers a flexible savings plan, which should appeal to all members of staff and can play an important role in kick-starting long-term saving among younger employees.

The UK Government is committed to introducing a range of 'simple' financial products, which it believes should be straightforward enough to be purchased without regulated advice. Given that consumers have in recent years developed an increased reliance on the Internet and comparison sites for product research, the Government believes that focusing simple products on non-advised channels will help support consumers in taking responsibility for their decisions.

The Government is keen to ensure that complexity is not a barrier to saving, and believes that simple deposit savings products would be of benefit to the market and would deliver clear benefits to consumers.

The Government also believes that there could be a clear benefit in giving people easy-to-understand protection products to help them understand what they are purchasing and the benefits. Products such as term life, critical illness, and income protection cover are the insurance products most likely to benefit from simplification.

The benefits of a new simple products regime should outweigh the costs, both for individuals and the industry. By placing the responsibility for product design on to the industry and consumer groups, the products developed should be profitable for providers and appealing to consumers. For providers, 'simple' products may provide an easier and potentially cheaper sales process.

Ideally, simple products would have a limited number of standardised features. Highly differentiated product features within the category of simple products would be likely to inhibit effective comparison. Ideally, also, ‘simple’ financial products should develop clear brand recognition. This will be an important way of building trust and sustainable demand.

Direct Distribution Case Studies

The launch of a UK website offering independent financial advice on pensions is being promoted as the dawn of a new age of distribution to the middle market. Churchouse Financial Planning has unveiled planmypension.co.uk, an online service offering ‘straightforward and uncomplicated’ advice on pensions and annuities in return for a fee of 1 per cent of the amount invested.

Planmypension.co.uk is the brainchild of Keith Churchouse, director of Guildford-based Churchouse Financial Planning. In order to receive advice, Churchouse clients complete a short online fact find, submitting additional questions should they wish. They will pay a fee of 1 per cent on the amount invested and then receive full advice via email. Churchouse will also receive trail commission of up to 0.5 per cent where available.

UK based advisors CPN Investment Management intends to offer online generic financial advice to consumers for an annual fee of £49. A personalised financial planning report is also available for £350.

CPN claims to offer ‘top-level’ advice and information on ISAs, pensions and investments. Subscribers are promised ‘simple, straightforward and clear’ information on products as well as research and forecasts from the firm's financial advisors. CPN says consumers can also use the site to check their own advisors’ recommendations. Advisors from CPN Investment Management and its appointed representative business, Agora, will contribute to the website.

Online company Directlife promises that it can make it simple and easy for consumers to obtain life insurance quotes at discounted prices by reducing the amount it earns from each insurer.

The My Money Works service from Scottish Widows is a workplace benefits platform being built to offer an increasing range of financial education and other benefits and is an early example of the sort of solution that may emerge in both the corporate and individual markets.

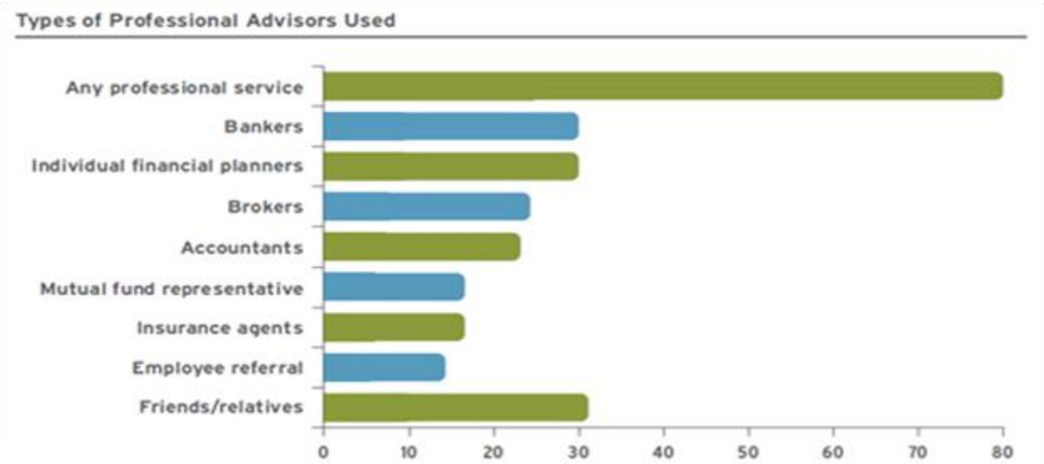
HSBC bank has forecast that it will shortly be giving customers the ability to see the value and balances of a whole range of financial products apart from their accounts. HSBC is not alone in this, as other major banks are considering this route. Barclays Bank, while announcing its withdrawal from traditional, face-to-face financial advice, has at the same time been building a powerful wealth management service, where technology is a core part of the proposition. It becomes clear that big numbers of consumers will shortly be able to get detailed access to their investments as easily as they can log on to their bank accounts.

It is also becoming clear that comparison website providers will soon make their presence felt in investment advice and other areas that financial advisors believe are their own exclusive preserve. We are likely to see many deals in future between services that may have been built on selling credit cards and general insurance products but clearly have wider ambitions.

THE MIDDLE MARKET AND FINANCIAL ADVICE

A primary need of the middle market is for financial information and advice. Middle-market households use a variety of personal and non-personal sources. The LIMRA study of U.S. consumers found that they favor the use of professionals, with 8 in 10 indicating that they have used some type of financial advisor for investment advice.

Figure 1: U.S. use of professional financial advisors



Source: LIMRA

The top three advice channels are bankers, independent financial planners, and friends or relatives, each cited by 3 in 10 middle affluent households. These were followed by brokers and accountants, indicated by 1 in 4. One in 7 each reported using a mutual fund representative, an insurance agent and an employer retirement plan representative.

An interesting result of the 2008 financial crisis is an *increase* in middle affluent consumer confidence about using advisors. Four in 10 of those using financial advisors report that they have more confidence in their advisors since the crisis, with 1 in 7 indicating that they are much more confident. This continued faith in professional financial advice on the part of middle affluent consumers is quite noteworthy.

A fifth of affluent households prefer to do their own research and make their own investment decisions, although close to half would like access to or are open to suggestions from professionals. Three in 10 want professional advice or paid investment management.

In addition to professional advisors, middle affluent households use a mix of traditional and online media to assist in investment decisions. Nearly half turn to websites, including the specific sites of financial institutions and those of financial magazines, newspapers and newsletters. Print media, including newspaper and magazine articles or advertisements, and business programs on television or radio are also among the most popular sources of investment information and advice. *No single type of information or advice channel dominates among middle affluent households*. They use a mixture of modern and traditional channels and personal and non-personal sources to a significant extent.

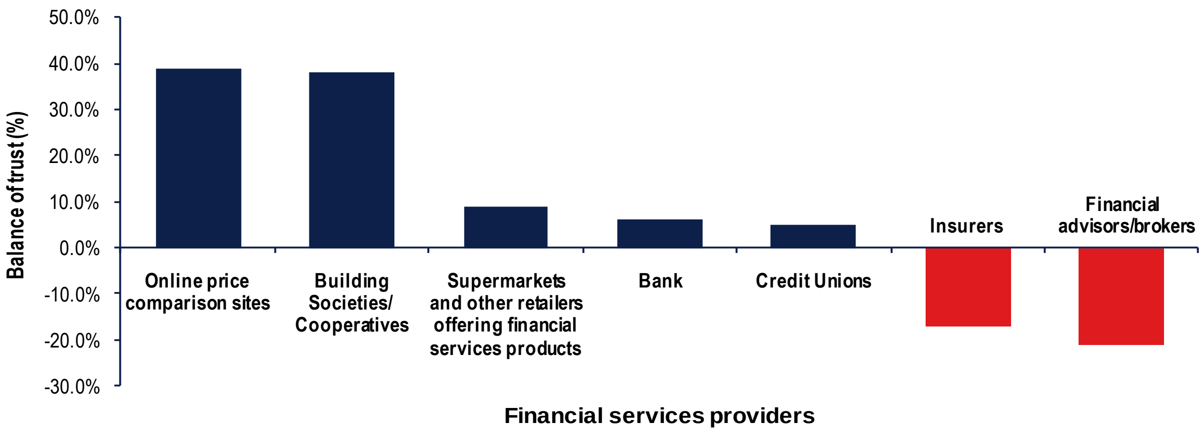
A study by Mintel of UK consumers found that overwhelmingly Britons rely on family and friends (43 per cent) for financial advice, with only 27 per cent consulting independent financial advisors.[3] Other sources include websites and newspapers and financial magazines.

Will Consumers Pay for Advice?

A survey by consultants KPMG has found that only a third of UK consumers would be willing to pay anything at all for an hour of professional advice. And of even more concern for those advisors switching to fee-based models post-RDR, the research found of those consumers willing to pay, around half would not consider a sum over £50, only 1 per cent would be willing to pay £200, and only 22 per cent would pay anything for in-depth annual reviews of their finances. However, the report also establishes that 50 per cent of consumers would trust IFAs the most for financial advice, significantly more than banks or insurance companies. Elsewhere a survey by the Association of British Insurers of 2,500 Britons to find out their attitudes to financial advice revealed that over half of them may not be prepared to pay for financial advice, and a third think such advice would be worth less than £300.

One problem that financial services companies in the UK face is a lack of trust.

Figure 2: UK consumer lack of trust in financial services



Source: *Datamonitor Financial Services Consumer Insight 2010*

It appears that insurers and financial advisors are the least trusted of financial services providers. However, these figures should be interpreted with some caution. It is hard to see that banks, for example, would be more trusted than insurers after the financial crisis of 2008. And there is some evidence to suggest that consumers are becoming disillusioned with price-comparison websites, as the prices quoted often do not reflect the actual prices obtained by consumers on application.

[3] *Consumers and Financial Advice*, Mintel, 2010

Simplified Advice

'Simplified advice' is a concept that is in the process of being developed in the UK in response to the Financial Services Authority's Retail Distribution Review. It is designed to increase consumer access to advice for those who do not need, or cannot afford, existing advice services, and thus would seem suitable for a middle-market audience.

The FSA describes simplified advice as a streamlined advisory process under which personal recommendations are made to retail consumers in relation to a defined group of low investment risk financial products. The need for streamlined advisory processes reflects a wider public policy objective of encouraging retail consumers to save for their medium- and longer-term financial needs. It would be delivered either face to face, by telephone or via the Internet and be affordable for the less well off customer. Its key benefits would focus on straightforward savings, investment and protection needs more cost-effectively than full advice. It would be tailored for smaller transaction sizes than the full advice model. The service would also be highly automated and deliver suitable, personal recommendations to customers with acceptable risks and safeguards.

Figure 3: Consumer advice needs

Simplified advice processes are intended to operate as a middle-tier service, falling somewhere between comprehensive financial planning advice on the one hand and execution-only services on the other hand. In part, this recognises the fact that full financial planning advice continues to be the preserve of mass affluent and high-net-worth retail consumers and is unlikely to be attractive to other retail consumers, whether on cost grounds or because of the comparatively straightforward nature of their individual circumstances and needs.

So far, several UK firms have come up with versions of simplified advice. IFA networks Lighthouse Group and Sesame Bankhall have both launched basic advice services, while advisor firm Buckles has launched a simplified advice pilot. Smaller firms have also entered the space. Churchouse Financial Planning has been offering the low-cost, online simplified service planmypension.co.uk since 2007.

The Lighthouse model will be for the use of members of trade union Unison, after Lighthouse signed an exclusive deal with the union's 1.3 million members. The service will be based on an online decision tree and make use of Lighthouse's call centre.

Buckles is piloting a basic advice proposition as a precursor to launching a simplified advice model. The service is only part-simplified as, although Web-based, it involves advisors guiding clients over the phone.

Aviva Life UK claims it has come up with a product solution to help with simplified advice processes. The product, described as a technology-based decision-tree centric solution, would be aimed at people who are saving for particular goals, such as their children's university fees, and who want passive and non-risky investments. The process would require a facilitator to help people navigate their options, but Aviva argues that this person should not be qualified, as this wouldn't be economical for the smaller IFA.

Distribution Channels for Reaching the Middle Market

Distribution Trends

Worldwide, insurance products move along a continuum from pure service products to pure commodity products. Initially, insurance is seen as a complex product with high advice and service components. Buyers prefer face-to-face interactions and place high premiums on brand names and reliability.

As products become simpler and awareness increases, they become off-the-shelf, commodity products. Sellers move to remote channels such as the telephone and direct mail. Various intermediaries, not necessarily insurance companies, sell insurance. In the UK, for example, retailers such as Sainsbury's and Tesco sell insurance products. In many countries, for example the Netherlands and Japan, insurance is marketed using post offices. At this point, buyers look for low price. Brand loyalty can shift from the insurer to the seller.

In other markets, notably Europe, this trend has led to bancassurance — banks entering the insurance business. The Netherlands led, with financial services firms providing an entire range of products including bank accounts, motor, home and life insurance, and pensions. Other European markets have followed suit. In France over half of all life insurance sales are made through banks. In the UK almost 95 per cent of banks and building societies are distributing insurance products today.

As markets have developed, so has market segmentation. Many financial services companies now see their efforts focused on the higher end of the consumer market, the so-called high-net-worth or affluent sector, because this is where they view the greatest profits are to be made. This end of the market is mostly serviced by the specialised wealth arms of banks and by financial advisors specialising in wealth management. Financial services companies have very little interest in servicing the poorer end of the market, which is largely left to the state to provide for. This has left a large consumer segment which has been dubbed the ‘underserved’ middle market. This is a potentially huge market which providers have sometimes struggled to reach in the past. Providers that successfully crack the problem of how to reach this market will reap rich rewards.

Wealthy individuals tend to use specialised wealth managers. The low-paid look to the state to provide. But there aren’t enough high-net-worth individuals around to carry an entire industry, and the low-paid won’t have enough money, so the industry must look to the middle market for the bulk of its profits. How might the middle market be served in the future?

Bancassurance

Banks are well placed for serving the middle market. In mature markets, nearly everyone has a bank account and will at some stage of life have contact with a bank. Banks are predicted to be amongst the winners in the new distribution landscape. The advantages of bancassurance:

- Big customer base with potential access to almost 100 per cent of the population
- Large number of branches
- Qualified employees
- Brand awareness and confidence
- Knowledge and understanding of the customer
- Potential for cross selling with banking products
- One-stop shopping for the customer

Banking networks are in most cases middle-market channels, as acknowledged by their relatively simple products and straightforward processes. Some limitations and drawbacks of bancassurance:

- Distribution regulation
- Increased complexity of advice
- Negative perception of banks after the financial crisis
- Customer use of other distribution channels
- Limited customer relationship with the bank

Bancassurance is particularly prevalent in Europe, with France, Spain and Italy leading the way. In the UK, bancassurance has lagged, mainly due to the practice of provider companies distributing their products through a network of Independent Financial Advisors (IFAs).

The advent of the Retail Distribution Review could pave the way for UK financial services to move closer to the European model, allowing banks to gain a greater hold on middle-market advice. Lloyds Bank Group recently indicated that its strategy, via its insurance operation Scottish Widows, will be a renewed focus on bancassurance in order to profit from the mass market advice gap post-RDR. Lloyds has calculated that, of its 30 million customers, more than 17 million are potential bancassurance customers. Lloyds' current penetration of this customer group is 2.1 million, which the bank will seek to build by a further 1 million by 2014. However, it may not be possible to deliver this advice on a face-to-face basis in bank branches, if a recent survey by Ernst & Young is correct: E&Y calculates that it would cost banks £200 per customer for face-to-face financial advice. Ernst & Young claims this would make it uneconomic for banks to offer financial advice to the middle market. Ernst & Young says that the mass market and the typical bank customer will not be enthusiastic about paying the sort of fees that make offering the advice attractive, and that, contrary to popular belief, the success of mass-market bancassurance will not be straightforward post-RDR unless it can create radically new business models.

An indicator for the future may be the announcement by Barclays Bank that it will be closing its advice arm, Barclays Financial Planning, and exiting the face-to-face advice market for retail consumers. The bank will continue to offer advice to high-net-worth clients through Barclays Wealth and Barclays Stockbrokers, but will no longer give retail clients advice through its branch network. The bank is instead looking to develop an online execution-only service for middle-market clients. Barclays comments that it sees strong trends amongst consumers to purchase and manage investments online, trends it expects to increase steadily.

It won't be easy for the banks to stamp their marks on this market. The qualifications and advisor charging proposals set out in the RDR may be a headache for small advisor firms, but they will demolish the advice model of a retail bank which focuses on volume sales made by junior staff incentivised by commission. This challenge is so great that the future of the middle market is more likely to be in online services rather than the branch-based sales model that exists across Europe.

Direct Distribution

1. Internet

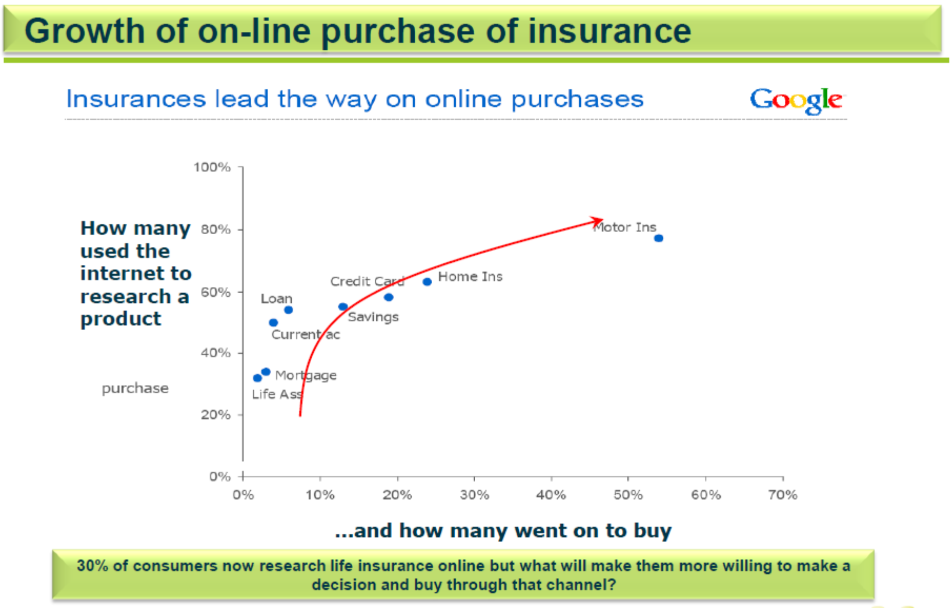
Insurance buyers are increasingly turning to the Internet, according to a survey by Accenture of consumers in the UK, France, Germany, Italy, Spain and Brazil.[4] The study emphasised that insurance websites and aggregators are gaining ground in all the countries surveyed as consumers actively seek better deals, have more options to choose from and are empowered by new Web-driven tools to be more selective.

Over a third of respondents purchased at least one of their policies online through an insurer's website or price comparison site, and an even greater percentage (43 per cent) plan to do so over the next 12 months. The trend is most significant in the UK, where 70 per cent of respondents plan to purchase their policies online over the next 12 months. This confirms the dominance of insurance websites and aggregators in the UK. Strong growth was also seen in France, Germany, Italy, Spain and Brazil.

4 http://newsroom.accenture.com/article

Currently the trend towards online purchase by buyers is slanted towards general insurance, with 40 per cent of respondents reporting that they prefer the online channel for buying general insurance products. However, the online channel is also gaining favour in the life insurance market, with 12 per cent of respondents saying they have purchased life insurance products through insurance websites or aggregators. Significantly, almost twice as many (21 per cent) say they plan to purchase life insurance online in the next 12 months.

Figure 4: UK online insurance purchasers



Source: LV=, December 2010

2. Mobile Delivery

The mobile delivery channel is becoming of increasing importance. Smartphones are usually bought by the technologically savvy and affluent. In the U.S. some 9 out of 10 middle affluent households own some type of mobile device. Eight in 10 have regular wireless or cellular phones. One in 4 have personal digital assistants (PDAs) such as a Blackberry, and nearly 1 in 7 have smartphones. Amongst these households, 9 in 10 have performed some type of financial activity using their mobile devices, particularly those with smartphones and PDAs. Balance inquiries are the most popular activity. Even amongst those who have not as yet performed any type of mobile financial activity, there is significant willingness to do so.

Australian vendor OmniLife has developed an application that enables advisors to provide clients with instant life insurance quotes on their iPhones. OmniLife provides access to quotes on 120 products from 13 life insurers. Among its features, OmniLife enables advisors to generate a range a summary and detailed reports from insurers, compare products and set varying commission levels for different insurers which will adjust premium quote results accordingly.

Aviva (UK) is launching an iPhone application to make pensions planning simpler and more accessible. The Aviva Time to Act application is a free download available to everyone; users can input brief details and contribution levels to work out how much extra money they receive from the tax authority and employer. They can also see how much their pension funds might grow and the possible value of their income when they retire.

Zurich (Australia) launched a new iPhone application in 2010 that allows advisors to provide life insurance quotes to clients from across Zurich's core retail risk product range, catering to the soaring number of planners who use iPhones and want faster, simpler technology to help clients buy insurance. It also features Zurich LifeXpress, which incorporates solutions that make quotations faster.

3. Platforms

A platform is a service used by intermediaries (and sometimes consumers directly) to view and administer investment portfolios. Platform providers offer a range of tools, which may be integrated with an intermediary's back office system or accessed over the Internet. These tools typically allow advisors to offer clients views of their portfolios, providing data on their overall asset allocation and risk exposure. Products can be selected and purchased through platforms, including life insurance products and a wide range of collective investment schemes. Some platform providers sell their own products as well as those from third parties.

Platforms differ in many ways, including in their pricing and charging structures and breadth of investment product range. Many platforms offer their services only to intermediaries, but a small number of platform providers have made their business-to-consumer interfaces key parts of their offerings.

As well as being technology services, platforms tend to involve a range of regulated activities, for example because they aggregate, and arrange custody for, customers' investments.

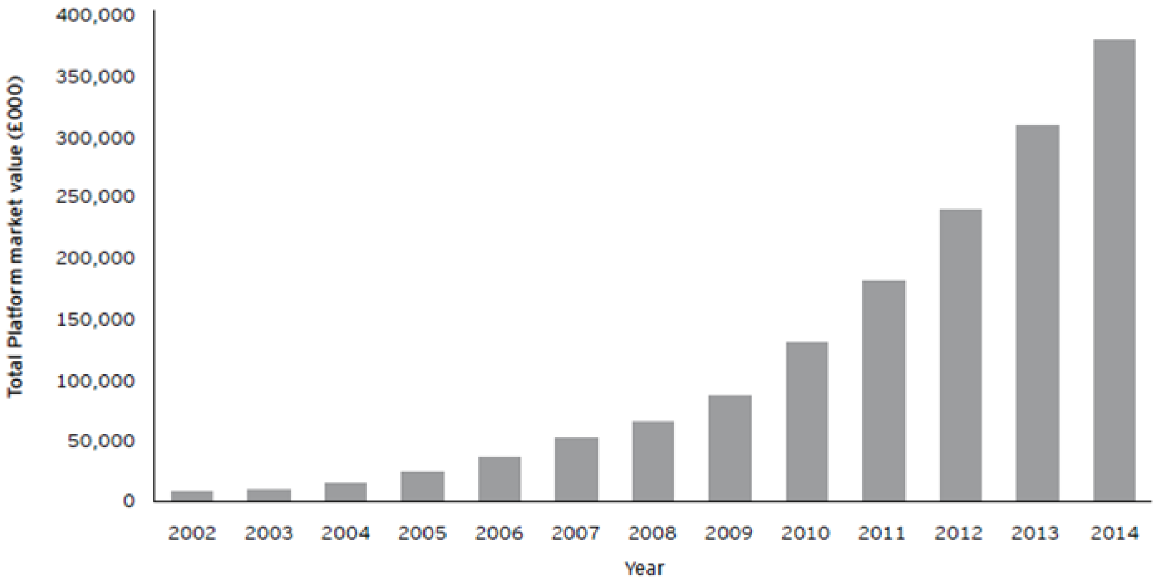
A number of primary motivators may encourage the use of platforms:

- Ease of administration
- Access to multiple tax wrappers, funds and share classes
- The ability to have a cash account (to hold cash and for rebates)
- E-commerce capabilities (online services, valuations and reporting)
- Support (implementation support)
- Ability to see a comprehensive view of customers' investments and to provide ongoing advice for these assets

Also, this type of business model has the desirable effect of increasing the sustainability and professionalism of intermediaries.

In the UK, platform use has accelerated over the past few years, with product providers reporting intermediary use of platforms for new business of between 30 per cent and 70 per cent. Ernst & Young sees the use of platforms growing substantially in the UK over the next few years:

Figure 5: UK potential growth in the platform market



Source: Ernst & Young Analysis and Insight 2011

Morgan Stanley has estimated the current value of assets held on platforms to be in the region of £40 billion, and Datamonitor has suggested that the pool of assets that could theoretically be 'wrapped' is approximately €2.8 trillion.

However, whilst recognising that platforms can bring benefits for both firms and consumers, if they are used to support improvements in the quality of advice and administration that consumers receive, the adoption of platforms may also lead to increases in complexity and costs to clients, without new, or valued, services being received in return.

Direct Sales Force

Some commentators are predicting that the advent of the Retail Distribution Review in the UK will bring about a return of the direct sales force. These views were given some substance by Legal & General group executive director for protection and annuities John Pollock, who said that L&G is expanding its direct sales force in anticipation of a significant reduction in IFA numbers. And Chris Gilchrist, a director of Churchill Investments, is of the opinion that the real opportunity from 2013 is rebuilding the old-style direct sales force as a new-style restricted-advice proposition, which could be far more profitable than the IFA distribution channel and might provide a better service to clients than the banks. If this is the case, then the wheel will indeed have turned full-circle from the days when direct sales forces were the premier means of distribution in the UK.

Face to Face

A physical presence is still the preferred option amongst middle affluent households for purchasing financial services. When opening a savings or investment account, visiting a branch or office is cited by three fourths of middle affluent households who took part in the LIMRA U.S. study, whilst fewer than half of all households cite telephone or online channels as their preferred methods for opening accounts.

Workplace Marketing

Workplace, or worksite, marketing is classically defined as the distribution of financial products, paid for by employees, but facilitated and endorsed by the employer. In the UK, this definition might be broadened by the advent of the Government-sponsored National Employee Savings Trust (NEST) scheme to encourage employee saving by auto-enrolment into pension savings schemes. It might encourage product providers to get involved with a ready-made market created by the Government initiative.

Other spurs to workplace marketing are the advances in Web technology coupled with lighter-touch regulation, higher product margins and lower cost sales forces, all ingredients for a new coming of age for workplace marketing. But will these factors on the supply side really stimulate this distribution channel?

The attractions of workplace marketing and the key ingredients for success are very similar. What is changing is the capability of some providers to develop workplace marketing as a significant alternative distribution channel. Both push and pull factors cause life offices to look again at the workplace:

- Life offices with heavy reliance upon the advisor sector and faced with uncertainty over the future distribution landscape have looked to exploit other routes to market, capitalising upon existing employer relationships.
- Composite offices, which have often run affinity and workplace schemes for general insurance, have looked at opportunities to leverage their product ranges and corporate connections.
- Collaboration between providers and multi-tied agents or ‘new model’ networks could produce an attractive proposition to employers.
- The small medium enterprises (SME) market remains largely untapped for individual sales, with advisors having focused on group schemes and director-level financial planning.
- The retail wrap concept can be transferred to the corporate market, potentially combining individual and occupational pensions with retail products and flexible benefits to deliver customisable and tax efficient solutions for employees.

But all this may not be enough if employers are not sufficiently motivated. There is a reliance on employers wanting to offer core and voluntary benefit packages, whereas the market trend has been away from expensive DB promises and other perks towards flexible benefits and cash in lieu of benefits. With finance directors controlling many HR budgets, qualitative, soft benefits have been easy to dismiss in hard-nosed cost control programmes. This position is exacerbated by so few HR managers measuring their returns on benefit investments. With employer attitude being a key factor in the success of workplace marketing, providers need to educate employers and produce the figures to prove their value.

Issues that providers must address to make the workplace marketing of voluntary products viable are:

- Many providers are aware that take-up rates on corporate pension schemes, even those with attractive employer contributions, can be very low. How much more difficult will it be to attract and convert employees in relation to self-funded, voluntary savings and investments?
- Even in the U.S., questions have been raised over the cost-effectiveness of investments in Web technology due to low usage rates. One provider believes that schemes of less than 10,000 employees are uneconomic for this communication medium.
- To secure access to large employee bases, will providers be forced to offer ‘better than High Street’ prices to employees? The channel would then lose its appeal compared with commission-based sales to advisors, unless the proposition competed on other than price through the provision of a broad range of products, excellence in execution and differentiated tools and facilities.
- If the provider already provides products (pensions, general insurance) does this help or hinder the move to provide additional voluntary benefits? Will employers avoid too much commitment to a single provider?
- Placing a bet on direct distribution may risk existing channels; and what if workplace volumes are less than expected?

Future Trends

If the Internet is seen as the direct selling channel of the future, and the most obvious way to reach the middle market, then social media act as its marketing arm.

Financial services providers as a whole have been slow to recognise the need to communicate with their customers through online channels. It can be argued that companies no longer control their brands, and that this function has passed to the Internet and social media. Social networks are no longer used just for friendship purposes. Sites such as Twitter have developed to become powerful marketing tools, employed by many multinational companies. Sites such as LinkedIn have also become important places to network for business purposes. Customers are now viewing social networking sites in a far more serious manner.

UK research carried out by public relations agency Hotwire found that more than 4 in 10 people buy financial services as a result of recommendations from social networking friends. The findings reveal the increasing influence of networking sites such as Facebook and Twitter on the financial services products people choose. People are far more inclined to choose financial products and services based on recommendations than they are for clothing, air flights or car hire.

Additionally, more than 1 in 5 people say they pass on advice about financial services they receive via their social media tools, bypassing ‘experts’ in favor of social contacts giving advice on mortgages, investments and bank accounts. This contradicts the industry view that for most products consumers need face-to-face advice from advisors or independent brokers.

Consumers are increasingly accessing the Internet via their mobile phones. This is particularly marked amongst young people. Figures from the European Interactive Advertising Association *Mediascope* survey show that one quarter (24 per cent) of 16 to 24 year olds and one fifth (21 per cent) of 25 to 34 year olds already use the mobile Internet, spending 7.2 hours and 6.6 hours on it, respectively, per week.

LIMRA's 2011 Industry Predictions[5] report posited:

> *'With the growth of social media, blogs, Facebook and the like will become the major sources of information about buying insurance and financial products in 2011.'*

Forty per cent of the responding companies agreed with this statement, 53 per cent disagreed and 7 per cent weren't sure. One company respondent was quoted as saying: *"It will not be a major source but it will be an increasing source."* This suggests that some companies are not convinced yet of the role of social media in financial services and may not have a clear understanding of how to integrate them into their marketing strategies.

In the UK, the advent of the Retail Distribution Review is forecast to bring about a tiered advisor community. A group of qualified, whole of market advisors will serve the current affluent segments in retirement planning and more complex financial affairs, whilst mid-market based IFAs, relying on high initial payments, are already in retreat. Lower cost sales and improved productivity will see bancassurance and workplace marketing advance. Competition will be centered on quality of service rather than commission or product features.

[5] *LIMRA 2011 Industry Predictions*, 2011

CONCLUSIONS

The middle market consists of consumers who are trying to save money and are concerned about product prices. Middle-market consumers mostly have simpler financial needs than more affluent households. For instance, estate planning and wealth transfer might not be high on their lists of priorities, but retirement planning will be. The middle market is looking for ways to protect their income and their families in case of illness or loss of employment, to pay off their mortgages, and to secure their children's futures.

Servicing the middle market is a challenge to financial services. The most promising distribution channels are shaping up to be bancassurance, direct and workplace. Within direct, the rise of platforms and social media are pointers to the way distribution channels for the middle market will develop.

The market for advice in the future will be more multichannel than at present. Particularly interesting is the move towards 'self service'. A promising approach is the use of 'platforms' (online and mobile) which consumers can access themselves to manage *all* their finances in one location. The traditional IFA market will move further towards the high-net-worth sector.

Middle-market households are an extremely attractive market for financial services providers. To capture this market, which has proved a headache in marketing terms for financial services companies, strategies should focus on a number of areas that emphasise the unique and specialised financial aspects of this segment:

- The need for investment and retirement information is extremely important to middle-market consumers and should be offered through a variety of traditional and electronic media.
- Distribution will be the key to servicing the middle market. Bancassurance, direct and workplace marketing are shaping up to be the channels of choice.
- The temptation to go where the most money is (the affluent and high-net-worth markets) is strong. Insurers that wish to succeed in this market should resist the urge to move 'up market'.
- Profitable middle-market life insurers must find ways to reduce the costs of placing new business and maintaining in-force business.
- Successful middle-market life insurers should avoid striving to be all things to all people by segmenting the market and selecting their targets.

RELATED LINKS

These links are correct as of 12 July 2011.

LIMRA

Is There Magic in the Middle Market? (2009)
http://www.limra.com/abstracts/abstract.aspx?fid=10051

LIMRA 2011 Industry Predictions
http://www.limra.com/members/abstracts/reports/10697.pdf

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