

Ecommerce Matters 5



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“If Facebook were a country it would have the fourth largest population.”

Welcome

Welcome to our 5th issue of Ecommerce Matters.

Despite the turbulent stock market, the difficult economic times and the changing political landscape 2010 is proving to be a busy time for anyone involved in ecommerce in the financial services market.

Through this period AT8 has continued to work closely with Financial Product providers, distributors and technology companies, keeping closer than ever to the ecommerce trends, benefits and issues.

We have been sharing our thoughts and experiences in articles in the press, through our twitter community and our regular blogs. Ecommerce Matters seeks to bring the highlights of these thoughts together in a single read.

We Hope you enjoy it!

Social Networking

I recently heard some fascinating stats about social networking:

- If Facebook were a country it would have the fourth largest population!
- The second largest search engine in the world is YouTube
- YouTube has more content on it than the entire broadcast output of US TV stations, since TV began
- Radio took 38 years to reach 50 million users, TV took 13 years, the internet 4 years, the iPod 3 years. Facebook added 100 million users in less than nine months! iPhone applications hit one billion downloaded in 9 months
- There are 200,000,000 blogs of which 54% update at least weekly, 34% post opinions on products and brands
- 78% of consumers trust peer recommendations

In short social networking has a massive power in the market today and yet is still relatively untapped by the Life and Pensions market.

How can social networking help though? Well I believe it is a brilliant tool for

enhancing market awareness, keeping regular proactive contact with clients, supporting customer service, performing market research, listening to customers and prospects. The list is endless.

Companies need to think out of the box. Social networking for many has brought down the barriers associated with privacy and personal information (often to a worrying extent) and this creates enormous opportunity for those with the appetite for information on their clients and prospects. A new service Blippy illustrates this perfectly; it allows consumers automatically to push out purchase details (sourced from their credit cards and retail accounts) in a style not dissimilar to Twitter. It then allows discussion on the purchases. Personally I find this quite baffling that individuals would expose themselves to this level of public scrutiny but they genuinely do – and in doing so provides a wealth of information to retailers, be they high street or financial brands. The lesson is to take nothing for granted and to think creatively.

Another scary example is the openness the more progressive brands have to feedback. Taking on user generated comment in a bold manner, companies like HSBC actively seek feedback, positive and negative and publish both on their websites. While the concept is scary, it has logic at the heart of the proposition. If clients have negative feelings it is better to know about them and address them. If your service is genuinely market leading, keeping tabs on market sentiment can enable companies to address issues as soon as they arise rather than waiting for resentment to build up, by when recover of the damage to the brand becomes really difficult.

We live in a world that when service is received it is instantly posted on different social media and communicated around the world. This can be passively achieved or positively encouraged. Those brave enough will add features to online



facilities to let people post tweets or place comments on Facebook about their service. Firms will provide financial tools to look at their financial position and may share some of the information generated (e.g. Buying my Annuity as Open Market Option made me £x a month better off). The means of communicating is expanding rapidly and should be embraced.

The Life and Pensions providers are behind the times with Social Networking and many say it is not appropriate for such sensitive products. This is very dangerous. A recent survey by Datamonitor showed that consumers are already using online resources to get financial advices with over 50% of respondents claiming to do so. While I accept this is largely for simple products that is in part because they can't yet access much information for the more complex products. We are seeing some movement and companies like Friends Provident are now tweeting but the industry is still behind the curve and lagging other traditionally conservative industries such as Banking.

IFAs are beginning to embrace Social Media – there is already an IFA Twitter league and a very active IFA Twitter community; Distributors have video on YouTube; Social Forums such as IFALife have active discussion groups. LinkedIn has several active groups that discuss issues such as RDR. If providers don't join these forums they will miss out on some of the key conversations

RDR – Thumb nail sketch of the March Papers

Three Papers were issued at the end of March 2010 below is a quick bullet point summary of some of the points might be quite useful...

Policy Statement PS10/6 with Final Rules following what was proposed in CP09/18 (June 2009)

Consultation Paper CP10/8 with proposals for how commission and remuneration are disclosed in respect of Pure Protection business – reconciling differences between COB and ICOB rules

Discussion Paper DP10/2 with much anticipated proposals for how Platforms will be regulated

Key points (summary of the summary)

- Most of what was proposed by the FSA in the June 2009 Consultation Paper CP09/18 relating to adviser labelling, non-advised services and adviser charging are being taken forward
 - The final rules have **removed** the proposed requirements for Product Providers to monitor adviser charges – the so called ‘decency test’
 - ‘**Restricted Advisers**’ will no longer be required to use a ‘mandated’ form of **wording** when disclosing their advisory status (but status disclosure will still be required)
- The FSA has set out proposals for Product Provider **commissions to be disclosed** where Pure Protection products are sold alongside investment advice
- Where advisers elect to sell **Pure Protection** products under the COBS rules, rather than under the ICOBS rules, they will not be required to apply adviser charging requirements
- A strong and consistent emphasis on **establishing and maintaining systems and controls** – we believe that technology will be a key mechanism to support this requirement
- The FSA acknowledges that changes to some of the rules and proposals may be necessary once the outcome of the **European Commission’s work** on Packaged Retail Investment Products (PRIIPs) and the review of the Markets in Financial Instruments Directive (MiFID) are known
- **No factoring will be allowed for Adviser Charges**
- **No dilution of Professional Standards** (including QCF level4 threshold) being applied to independent and restricted advisers (with the only exception being Basic Advice)
- The FSA’s conclusions on whether **increased professional standards** should be applied to pure protection advisers will be published in June.

Market and Distribution

- As expected ‘**Adviser Labelling**’ will require advisers to describe their services as either ‘**Independent**’ (unbiased and unrestricted) or ‘**Restricted**’ (single-tie, multi-tie, simplified, or basic advice)
- The definition of ‘**Retail Investment Products**’ now extends beyond ‘packaged products’ to be much more wide-ranging and this may be amended further depending on the PRIIPs review
- ‘**Relevant Market**’ comprises all retail investment products that are capable of meeting the investment needs and objectives of a retail client... it is possible for this to be focused such as on ‘ethical’ investments or maybe on what products are suitable to meet the needs of charities or trusts – but it is felt this will be the

exception not the norm

- It is not proposed to introduce a new regime for regulating **'Simplified Advice'**
- There will be **no 'safe harbour'** from how the Financial Ombudsmen (FOS) may deal with customer Complaints under Simplified Advice, the FSA has said that the best way of avoiding problems will be to ensure that advice given to customers is 'suitable' to their needs
- **'Basic Advice'** will continue for 'Simplified Stakeholder' products
- **Money Guidance** was not specifically covered, but the timing of the recent publications coincided with a national roll-out of Money Guidance following pilots in the NE & NW of England

Adviser charging

- As expected, **Adviser firms should only be remunerated through adviser charges** for any investment advice on retail investment products that they provide to retail clients
- The final rules will require firms to **disclose** charging structures for services ('menu' of charges) and total specific adviser charges (price of the meal chosen)
- **The FSA does not intend to set expectations of firms' charging structures.** However, it has said that it may publish examples of good and bad practices following further discussion with the industry (most likely when it has more experience/evidence of what is being done)
- **Ongoing charges** may be made for ongoing services. However, firms must provide:
 - **details of the ongoing service** and associated charges, along with how clients can cancel the service
 - **a clear explanation** of the ongoing service and charges in way that is fair and not misleading
 - **monitoring systems and controls** that ensure clients receive the ongoing services they have agreed to
- Advisers will not be able to receive additional income outside of adviser charges in relation to **Distributor Influenced Funds**
- When determining whether product provider commission can continue to be received on **'old business' sales** made before the new adviser charging rules apply, firms will have to assess whether the product is essentially unchanged (commission can continue to be received), or if the change has materially resulted in the product becoming a different product (the new adviser charging rules will apply)
- **Adviser Charging for vertically aligned businesses** applies in a similar way to other distribution models with a clear separation of product and adviser charges with no cross subsidisation
- Debate about **Fund manager charges** revealed complexity and potential for tax charges when looking at issuing different share classes to enable charges to be recovered. The FSA feels that it is better to deduct charges before the investment allocation is made (Wrap Platforms often use Cash Account)
- **Non-advised services** will not be subject to adviser charging rules at this stage

- **No inducements** that conflict with adviser obligations to act in the customers best interest and that do not enhance the quality of service for the client
- It was proposed that '**Factoring**' services would not be allowed by Product Providers, but following discussions with the industry and OFT, the FSA has decided they should ban factoring and loan funding of adviser charges from whatever source

Platforms

- The FSA has raised a number of issues that are likely to result in changes to the way Platforms are regulated under RDR
- They have re-labelled Platform Providers as **Platform Operators**
- They want to look at how **Platform Operators are remunerated**, how adviser charging should operate through the Platform and how independent and restricted advisers use Platforms
- They want to improve **transparency of charging** so that it is clear to the customer what they are paying, for what service and what value they get as a result of using a Platform
- The FSA acknowledges **Platforms are a service**, but says they have product characteristics and ownership relationships that could cause potential issues and conflicts
- The FSA is proposing to **prohibit payments from Product Providers to Platforms** in respect to advised retail investment business.
- Platforms will be expected to obtain and validate instructions from a customer to pay adviser charges.
- The FSA emphasises the importance of the transparency of cash account charges and the way in which cash accounts are managed and funded.
- The FSA has proposed to prohibit product

- providers from deferring, discounting or rebating **product charges** in a way that could appear to offset any adviser charges
- There are mixed views about whether using a **single Platform** can be independent
- 'Vanilla Wrappers' not necessarily being a Provider Product was also raised
- Platforms will not necessarily be expected to offer all Product choices or all funds
- The issue of **assessing need, choice, value and both current and ongoing suitability** as well as best execution will most likely create a subsidiary **need for 'research and selection review'** functionality/software services and we are aware of developments being at an advanced stage for such services

This is a very brief (believe it or not) summary and there is much that we have not included or expanded upon. There are significant implications for Providers, Distributors and Services and Technology suppliers. All have major interdependencies and so need to consider not just how they are directly affected but how other parties will be and how they might respond as a result

The Rise of the Smartphone Apps

We're currently in the process of putting together a new report looking at all the solutions' vendors and one of the interesting by-products of the research is the number of suppliers who are adding smartphone apps to their product portfolios. Companies like Distribution Technology, True Potential and others are really pushing hard the sort of services that are more accessible whilst 'out and about' with clients or prior to a face-to-face meeting.

There's been a lot of noise this year around the manufacturers, with HTC's new baby, the [EVO 4G](#), selling out in the US and, of course, the [Apple iPhone 4](#) being launched

The AT8 crew are all iPhone 3G (or GS) users, and so we followed the launch of iPhone four and have now procured our first one. There are some real benefits to the new device:

- Bigger battery = longer standby/talktime – from a personal perspective, I really need this
- Smaller form factor – should fit in my shirt pocket even easier now
- Higher resolution screen – I'm looking forward to seeing this 'in the flesh'
- Video Conferencing – using a new open standard called FaceTime and utilising a new front facing camera, but only using Wi-Fi at the moment
- Higher resolution camera – up to 5M pixels, with LED flash

I must say, it looks good, too – I like the metal finish and also the glass front and back, which should add to its durability. The big question is, though, can it shake off the competition of an ever-growing adoption of



Google's mobile operating system Android, with its latest incarnation, codenamed FroYo, hitting the newer devices now – I'm not sure and Steve Jobs in his recent interview at the [D8 conference](#), appears to shrug off the competition – certainly, Apple are manoeuvring away from Google, with the inclusion of Microsoft's Bing and Yahoo search in the new iPhone operating system renamed iOS 4 – incidentally, iOS 4 can also be loaded onto some more modern iPhones and iPods, with it being available for iPad's later in the year.

The 1st – Exchange takeover of N4

The number of suppliers of technology solutions to the UK market has grown steadily over recent years. We have new and relatively new start-ups such as 2020 Adviser and True Potential, we have overseas companies entering such as Profida and Broker CRM. Alongside these, the established players such as 1st – The Exchange, Focus and IntelliFlo have been extending their reach, while systems like SSP, JCS and Plum have also been revamping their solutions. It could be argued that the market has become overcrowded and we have been predicting consolidation amongst the existing players for some time, (AT8 has just produced a report analysing the various vendor's solutions).

The process of consolidation began last year with the merger of two of the biggest players in the Mortgage market – Trigold and Crystal and this week accelerated with the acquisition of N4 Solutions (N4) by 1st – The Exchange.

There have been a number of weaknesses in the offerings from 1st – The Exchange including:

- Lack of an online solution for the adviser market
- A weaker point of sale offering for Corporate clients (Adviser Evolution failed to gain traction in this space)
- Lack of experience in delivering to large Corporate/Enterprise clients.
- The lack of a clear joined-up sales message across the various disparate product offerings – which often overlapped/competed with each other

The acquisition of N4 Solutions should help to address the top three issues but depending on how well it integrates N4, the fourth issue may be either resolved or exacerbated. There is a major rebrand that has been in the pipeline for the last few months to bring these brands together and it is our



understanding that this has been delayed to ensure the N4 products are included. This may help resolve the issue four. N4 was founded in 1999 by a management group with a successful track record and knowledge of the financial services industry. Rapid initial growth led to the company having 100 staff based in their 'rural' offices near Cirencester. The vast majority of staff has expertise in mortgages and financial services, as well as business consultancy and technology. The company considers itself to be stable, secure and successful. Based on the financial performance of the company, this view does not seem unreasonable. In July 2007 N4 was acquired by Experian for 'an undisclosed sum' (believed to be between £20 and £30 m)! There does not appear to be any specific figure available and even the Experian accounts that refer to acquisition expenditure of \$1.7bn only highlights two specific figures and groups N4 under 'other'. N4 produces and submits full audited accounts to Companies House (auditors are Baker Tilly). The company's financial results for the year to March 2009 are a turnover of £13.8m up from £9.5m (a 45% increase) and a profit after tax of £3.5m from £1.2m (a rise of 178%). Its Net Assets were £10m and employee numbers were up from 66 to the 84 referred to above.

Practice Management Systems

Despite the consolidation in the number of suppliers of practice management systems there are still numerous suppliers out there with a wide variety of systems. They each have a different focus on functionality, they each have different backgrounds and different pricing propositions. How can distributors choose between them?

The vendors do break down to a number of categories to ease choice though. There are a few mortgage specialists for example – lead by TrigoldCrystal and Mortgage Brain. Choosing a mortgage system isn't however a two horse race as IntelliFlo, 1st -The Exchange and Plum all have revitalised mortgage propositions.

There are also those with clear focus on financial planning end of the market with specialist planning tools linked directly to back office systems. Prestwood and JCS would fit into this category. The mainstream providers 1st – The Exchange and IntelliFlo have increasingly strong offerings in this space as well though.

The tools are also divided into those that have come from a back-office background and those from a front office/POS background. 1st – The Exchange, Plum and IntelliFlo all have a very strong pedigree in the back-office and lead the functionality charts in this area along with True Potential. Focus and TrigoldCrystal have strong POS backgrounds, while Distribution Technology, JCS, CCL and Prestwood have built upon their original strengths of supplying sophisticated financial planning tools. 1st – The Exchange's recent acquisition of N4 improves their front office capability, especially in the mortgage area. While most of the vendors have now extended out from their initial position to support both front and back-office, True Potential has always supported the breadth of front and back-office functionality and has added depth to the functionality over the last few years, making them overall winners in the functional review.

Few of the vendors have shown that they can scale to support large corporate projects but Focus, Distribution Technology, Crystal and N4 have established capability here. IntelliFlo has made some inroads to the Corporate space with projects at AXA and AEGON (Scottish Equitable). The acquisition of N4 by 1st – The Exchange could be a springboard for them to extend into this space. For the smaller organisations, there are a number of aggressively priced systems available including Durell, CCL and Plum.

To help navigate this maze of supplier decisions AT8 have produced our Practice Management Upd8. Our report takes a comprehensive look at the suppliers, tracks their functionality, their integrations and their price points. It makes direct comparisons of their functionality at point of sale, the middle office and back office. We also look at the industry standing of each supplier and their key differentiators. The report is available at £2,500 plus VAT, contact marketing@at8-group.com or phone +44 (0)121 314 2504



Technology Roundtable - The use of technology by consumers to manage their personal finances



AT8 recently hosted a Technology Round Table discussion, sponsored by Sammedia, on the use of technology by consumers to manage their finances.

There can be little doubt now about the appeal of the internet to consumers. Many people, young and old, use it for entertainment, managing social lives, research, and of course shopping. Does its utility however spread to financial services? There seems to be considerable evidence of the consumers' desire for this to happen. According to Google, queries on terms related to Financial Advice and IFAs specifically have grown substantially over the past two years as the recession has sent the public seeking professional help with their finances.

Searches on the financial personality Martin Lewis were in the top 100 making him more searched for than David Cameron or Jordan last year! The barrier does not appear to be the appetite for online finances but is about the quality of the supply of these services.

To understand the dynamic we gathered some of the industry's leading figures to discuss their views on how best to engage the end consumer using technology.

The discussion was kicked off by Michael Free, CEO of Sammedia. Mike believes passionately that consumers

want to manage their finances online but that issues lie with the way we, as an industry, communicate with them. "We are an industry that is in love with tables of data" Mike explained, "Consumers come to us for information and we give them data tables or lists when what they really need is engaging information in graphical format that can be quickly interpreted and understood. We expose back office information that we think is important but the client finds irrelevant. Name, date of birth and address are a classic examples. The client knows who they are, where they live and their age, they don't need to be told this. They need relevant information when they first log on to a site – new wealth for example". Mike concluded that it was essential that financial sites focused on relevance to the consumer, simplicity and creating desire. "If we look at another industry, Apple has challenged conventional thinking, it put music in our pocket and the internet in our hand, they have stolen a market lead and done this largely by focusing on what people really need and design, both the aesthetics and usability – in doing so, they created desire for their products. Our industry also needs to create desire for its services and the only way we'll do it is by making our services relevant to consumers everyday lives and easy to access"

The group contain expert from Standard Life, Legal & General, Canada Life, LV=, Cofunds, Scottish Widows and Partnership. All actively participated in an lively discussion the details of which can be read on our website or on IFAonline.

Technology Roundtable Cont.

There was general consensus in the debate that consumers increasingly want to use technology more when managing their finances. The benefits of doing so were thoroughly debated but rarely contested. The disappointment in the room was clearly over the level and relevance of technology solutions in the market today. Product Providers and IFAs were seen as being behind the times compared to other industries and indeed when compared to the Financial Services sectors in other countries. Things are clearly changing and Partnership's web offerings and MoneyInfo were held up as strong examples of simplifying traditional processes to improve the client experience.

As the opportunity and need for better online services becomes clearer, it will be fascinating to see how the UK Finance industry responds.