



Bringing in the Harvest: The Future of D2C Platforms

Altus

BUSINESS SYSTEMS & CONSULTING
FOR FINANCIAL SERVICES

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Bringing in the harvest: the future of D2C platforms

KEY POINTS

- Post-RDR, power is shifting inexorably to the consumer
- The consumer experience is the new 'product'
- Social media is engaging and powerful but can be damaging if not managed carefully
- Value is critical, especially where assets and tax benefits are identical
- Charging transparency highlights what consumers are really prepared to pay for 'service'
- Brand is king – successful brands with consumer loyalty can sell anything
- Today's separate financial services comparison websites and social media apps will morph into a single client engagement interface

“Post-RDR, power is shifting inexorably to the consumer.”

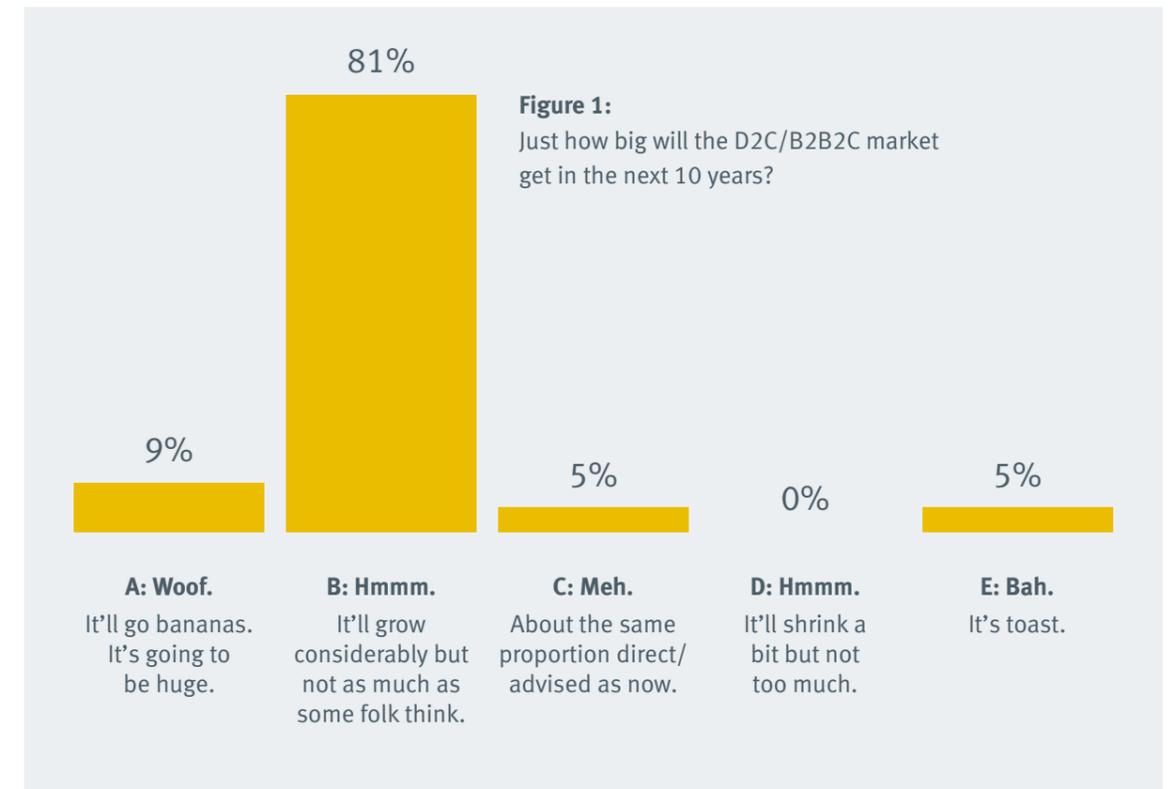
REDEFINING THE CONSUMER

There is a popular saying in financial services that “products are sold not bought”. For many years the economics of distribution in retail financial services reflected this. There was a tendency on the part of manufacturers to focus efforts on appealing to the advisers who shifted their wares rather than the consumers who ultimately paid for them.

A movement to refocus on consumer needs has emerged in recent years with online product comparison services and other self-service technology beginning to increase the market power of consumers. This trend has been accelerated in the retail investment sector by the RDR which has radically changed the commercial landscape. As a result a new paradigm is evolving. Consumers, now universally faced with the stark reality of agreeing and paying explicit costs for the services of an adviser are beginning to research financial products for themselves, using a range of technologies now at their disposal. And this new-found empowerment hasn't gone unnoticed in the boardroom.

With one eye on the 'long tail' of less affluent clients who may well be frozen out of the independent advice sector, proposition teams are being set to work designing direct-to-consumer platforms. These might be offered by the provider itself, or via advisers, but the end result is the same.

Providers are notoriously shy about disclosing proposition development plans, so we asked them instead how they viewed the future of the D2C space. Nearly 20 businesses responded to our anonymous survey of platform CEOs and senior staff, representing well over 90% of the accumulated AUA in UK platforms right now. The results, summarised in the following graph, speak for themselves, with 90% of respondents expecting considerable to huge growth in the D2C market.



So while D2C may not be the only future, it is certainly an opportunity that many providers are taking seriously and we expect to see a rash of new propositions hit the market later in 2014 and into 2015. But how does an organisation that has spent so many years viewing distributors as its clients, win the hearts and minds of consumers?

This paper paints a vision of what that transformation will entail.

“The interaction a provider has with their client is the product they are offering.”

THE TROUBLE WITH INTANGIBLE PRODUCTS

Regardless of how you draw the lines and definitions, all financial services products are intangible. Our industry is fundamentally based on the storage, manipulation and transmission of data. There is no physical bauble sat on a shop shelf somewhere to be picked up, held or admired.

To compound the challenge of intangibility, consumption is often deferred for long periods. Consumers can be decades away from receiving financial benefit from their investments and, in the case of some life insurance policies, they probably wish to postpone that benefit payment for as long as possible.

The trouble with such ethereal products is differentiation; how do you persuade the consumer that your 20-year promise is better than your competitor's? The key lies in recognising that, in the absence of physical characteristics, it is the way you interact with the consumer that must become the product.

What is consumer experience and why should I care?

“A tool at your disposal and also a benchmark against which you will be tested.”

Anyone who reads technology or design articles will no doubt have come across the term ‘user experience’ (often shortened to UX). It is used frequently in a variety of different scenarios so it is worth defining exactly what we mean. There are a number of different definitions, but the International Organisation for Standardisation provides a pretty good baseline.

“A person’s perceptions and responses that result from the use and/or anticipated use of a product, system or service.”
(ISO 9241-210:2010)

How we define user experience is particularly important in financial services. Why? Because the level of online interaction varies greatly between products and providers.

It can be tempting to treat user experience as a synonym for web design but, in truth, it involves a far broader assessment of all interaction between your business and the consumer. For this reason, we prefer the term consumer experience, and use it to describe the holistic nature of interaction with your client base.

The benefits of a strong and holistic consumer experience include client retention, cross-selling enhancements and increases in consumer advocacy, which can in turn lead to increased profits and market share. The Institute of Customer Service recently published a report that showed an increase in consumer satisfaction directly related to an increase in growth and market share growth¹ while a Temkin report from 2012 shows a direct correlation between consumer experience and loyalty².



¹ Institute of Customer Service, 2013, UK Customer Satisfaction Index July 2013: The state of customer satisfaction in the UK (page 10-12)
² Temkin, B. 2012 (1): The ROI of Customer Experience (Temkin Group Insight Report)

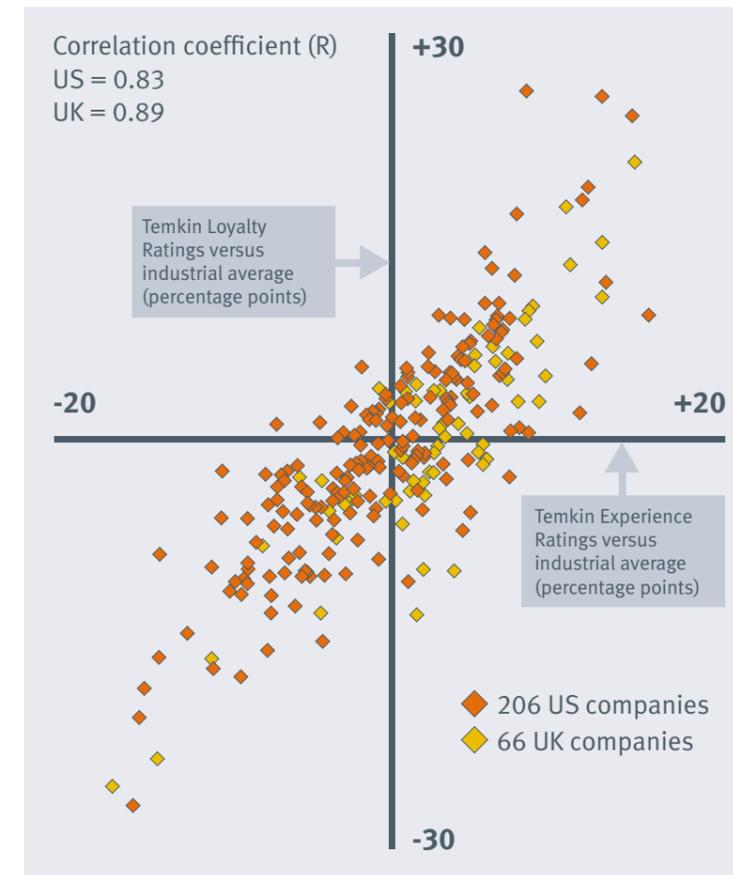


Figure 2: Companies with a better level of customer experience show a better level of customer loyalty (Temkin, 2012 (1): 6-10)

Apple offers an excellent example in this field. While their product offering is strong, it is supplemented by an excellent level of consumer experience, delivered in a holistic way. Their omni-channel delivery of product and service has resurrected a company which, in the mid-1990s, was languishing and transformed them into one of the most trusted and recognisable brands in the world today³.

An associated benefit is the relationship developed between the business and its clients. Relationships create the ties that bind, forming the basis for value growth in the longer term. While this has long been recognised in financial services it hasn't always been acted on in practice. Providers who want to reap maximum reward from their client base need to move away from an approach based on transactions to one which is instead built on relationships. Tesco has invested millions of pounds over two decades to build up a databank of client information via their Clubcard scheme for exactly this reason⁴.

³ Millward Brown. Brandz Report (2013)

⁴ European Case Studies for Marketing Management, Chapter 5: Creating Customer Value, Satisfaction, and Loyalty, Case Study: Tesco

Look around you

“Looking outside of Financial Services for inspiration is a positive step.”

With a few exceptions most financial services companies are well behind the curve in terms of consumer experience, especially when compared to consumer retailers⁵. One common defence is that financial services companies are not technology firms. Putting aside for a moment the fact that technology has long been fundamental to running a business selling intangible products, the same argument applies to supermarkets, clothes shops or travel agents, yet the consumer experience exhibited in these types of businesses often far outstrips that of financial services organisations.

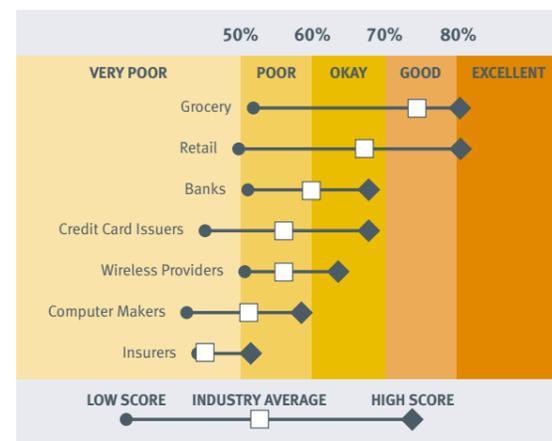


Figure 3: Banks, credit card issuers and insurers all score far lower than grocery and retail sectors for customer experience (Temkin, 2012 (2): 9)

Because of this relatively poor comparative position, looking to other financial services companies for inspiration will only get you so far. Insularity and narrow thinking are the enemy here, yet there is still a tendency within the sector to focus on what direct competitors do and not what consumer experience market leaders do. Looking outside of financial services for inspiration could well be the secret to transforming your proposition.

Companies currently outside the financial services space are undoubtedly looking in for business diversification and market disruption ideas. It may sound far-fetched as you read this, and at the moment these examples are purely hypothetical, but would any financial services company really want to have to compete with the Apple Wrap, the Google Master Trust or the Amazon Wealth Management Service given the collective consumer experience mastery of these businesses?

Ironically, financial services companies get all the information they need to create exceptional and tailored consumer experiences by virtue of the data-based products that they sell. The chart below is based on the application process for a series of different products in differing sectors and highlights the rich data set already available to financial services firms compared to other industries. Consider also that current account and credit card providers essentially hold data on almost every purchase in their client’s lifetime and the potential for progressive financial services firms to innovate in the D2C space is clearly huge.

The opportunities presented as a result of this are often squandered though, as evidenced by the comparative analysis we’ve just seen.

A future state of mind

So what will the future look like and how can financial services innovators position themselves to take advantage? The rest of this paper outlines the Altus view on the future for consumer experience.

MASSIVE INTEROPERABILITY

“Whole of life platforms offering clients a single resource to manage all personal, social and financial interactions across all devices.”

The world has moved on from individual companies offering individual products which consumers access separately. The concept of an ecosystem for clients has taken over as the de facto way of operating in many areas of life. This isn’t yet the case in financial services although the idea of an investment and savings ecosystem has undoubtedly been an influence for the relatively recent development of retail wrap and workplace savings platforms.

As a consumer, there are huge benefits (and some risks which need to be managed) to having your details stored and managed in an ecosystem structure. For businesses, it provides a fantastic sales avenue with very strong client retention opportunities.

Consumers’ lives are made up of a complex mesh of information; storing and accessing all this information in disparate locations is not easy to manage. We believe that the ecosystems provided by a few companies will evolve into whole-of-life platforms offering consumers a single resource to manage all personal, social and financial interactions across all devices. Companies like Google, Facebook and Apple are already making inroads in this space.

Financial services firms have a habit of seeing the world through their own blinkers but, in this case, they need to recognise that their products may not be the natural centre of such an ecosystem. Instead, providers should be open and prepared to interact with other platforms and ecosystems as part of their day to day business. If they don’t, there is a real chance that some firms may be left behind.

Of course, the ecosystem offered by providers or third parties does not have to be limited to a web page...

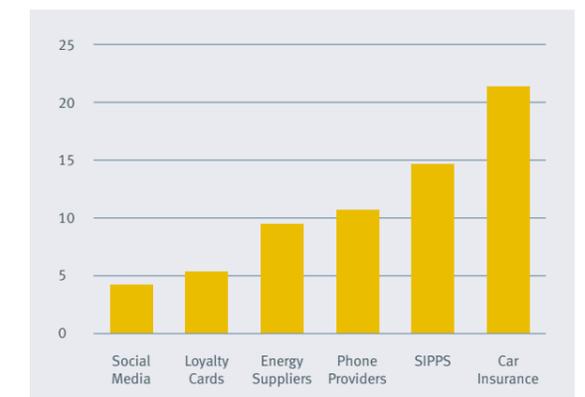


Figure 4: Average number of data items captured as part of the application process for different products/ services (Altus)

⁵ Temkin, B. 2012 (2): Where is Customer Experience Heading?

The internet of things

“Advancement on a global scale which companies cannot choose to opt out of”

For anyone who is not familiar with the concept of the internet of things, it describes the growing levels of massive interconnectivity and interoperability between physical devices. Specifically it is the prevalence of “uniquely identifiable objects and their virtual representations in an Internetlike structure”⁶. In other words, it’s the idea of all people and objects having their own unique identifiers that can then be used in many different ways in the online world.

Recent research suggests there are now more things connected to the internet than there are people in the world and this is set to hit 50 billion connected devices by 2020⁷. This level of connectivity opens up an almost limitless range of options for companies to manage relationships with their clients.

The current applications of this concept generally fall outside the scope of the financial services industry with the notable exception of the use of telematics in vehicle insurance (to gather information unique to a particular vehicle and how it is driven). This is because it has been focussed largely on machine-to-machine interaction which, on the surface, seems more suited to physical products and distribution. The phenomenon

however goes some way to demonstrate that the traditional pathways of information exchange are changing. The very nature of the ‘internet of things’ is indicative of advancement on a global scale which companies cannot choose to opt out of.

Hand in hand with the interconnected nature of devices is the fact that more data than ever before will be available about your consumers’ lives. While there are understandable security and privacy concerns around this, which are very much outside the scope of this paper, it should be clear to any product provider that access to even a small amount of this data could revolutionise the way the financial services industry develops to serve its clients’ needs.

We are near the point where annuity rates could be sculpted based on the contents of a client’s fridge, the last time they bought cigarettes or the number of times they have been to the gym in the last decade. You will be able to deduce someone’s ethical investment preferences based on the interactions they have with charities in their banking record and also the vast amount of demographic and psychographic data available via social networks. It’s not impossible to conceive the fact find in the advisory process being automatically gathered, assessed and recommendations made without needing to ask clients a single question.

We’ve already noted that financial services companies often don’t use the data they already have to best effect, so the idea of integrating systems and approaches into such a vast array is challenging, but the scope for development in this area is almost limitless.

Things to make and do

Cynics will inevitably write off some (or all) of these ideas as pie in the sky and too academic to be a real concern for financial services at the moment. But several of them are already available and, regardless of whether you see the future of annuity calculations in your fridge freezer or not, the following section outlines some real and tangible concepts which can be used by firms now to increase engagement with their clients and enrich their propositions. In fact, to a greater or lesser extent, they already do.

BE MORE SOCIABLE

‘The concept of clients as advocates is particularly important.’

The world has gone social. Almost any website you access will give you the ability to share your content socially or have its own social community of users. Devices such as user profiles, community forums and integration with Facebook, Twitter and Pinterest (to name but a few) bring a social element to any form of online activity. Giving users the ability to interact with their peers and share content from your website will increase traffic and encourage cross-selling and consumer acquisition in the process.

The concept of clients as advocates is particularly important as social networks continue to develop and grow. Your clients will almost certainly be influencers of others and as such have the ability to improve or tarnish your reputation. A provider who understands their consumers’ role within online communities (both on and off platform) stands a much better chance of engaging with their clients and improving reputation and sales as a result. Of course, this is not a new concept and is not explicitly restricted to social media. Familial ties are something which can be studied and explored by providers in much the same way (although rarely are).

BE THE SINGLE SOURCE

‘One of the best ways to engage your clients more regularly and effectively is to offer to be the single source of information for their financial needs.’

Your clients are not just yours. There is a very good chance they hold current accounts, credit cards, savings and investments with other product providers. One of the best ways to engage your clients more regularly and more effectively is to offer to be the single source of information for their financial needs. As a user, the ability to see and perhaps even transact on all accounts from one central location is enormously appealing. Of course, showing off-platform assets next to onplatform assets with a nice easy link to initiate a transfer process also has large benefits in terms of asset aggregation and cross-selling to existing clients.

In addition to consumer specific holdings there are other ways of becoming the single source. For example, if you have a flexible web site for your clients you could offer them the ability to add market news information, sector data widgets and perhaps even a top fund manager’s Twitter feed. While none of these items sell your product directly, all of them add value to your proposition and give the client more incentive to return to your website. More traffic means a better brand reputation and increased ability to cross sell. Becoming this single source also builds the benefit of trust within the client/provider relationship, a value add which should not be underestimated.

⁶ Wikipedia
⁷ Cisco (2011) – The internet of things Infographic. <http://share.cisco.com/internet-of-things.html>

MAKE LIFE MORE FUN

‘A blank canvas for innovation and product differentiation.’

Gamification is “the application of typical elements of game playing (e.g. point scoring, competition with others, rules of play) to other areas of activity, typically as an online marketing technique to encourage engagement with a product or service”⁸. The application of gamification in other sectors is widespread and in some cases very subtle. The idea of collecting loyalty points at your supermarket to reach different levels of reward has been around for decades. Ranking users against each other in return for them completing actions such as reviewing products, commenting on topics and sharing content is common practice for online retailers while giving users badges and awards for completing certain actions can often be found in exercise and fitness applications.

Financial services have so far avoided the concept of gamification, possibly due to a fear that it detracts from serious products, but now a number of suppliers have taken the core concepts of gamification and developed products which explicitly target the financial services arena.

Points systems and rewards are in place where users collect points for sharing on social media, making payments or contributing money. In more complex examples users can benchmark themselves against anonymised savings or spending profiles of other clients or follow the investment decisions of key individuals (e.g. fund managers or day traders). They can become high scoring forum contributors and win Most Valuable Player badges as a result or even post their investment strategies for other users to view and assess. Possibilities in this area are vast and also vastly underexploited, offering an almost blank canvas for innovation and product differentiation.

⁸ Oxford Dictionaries: Definition of gamification (2013)

GET TO KNOW YOUR CLIENTS

‘Even basic levels of distinction can offer great improvement over one generic proposition.’

All of your clients are individuals who have different requirements. In some cases this distinction is a clear product-based divide (the low value Cash ISA client versus the high net worth discretionary client). In other cases, the differentiators between your clients are more subtle (perhaps based around gender, age or psychographic profile). While in most cases it is not possible for providers to offer clients a truly individual consumer experience, some basic levels of distinction can offer great improvement over one generic proposition. We are beginning to see this with flexible use of colour and embedded content in some website offerings.

Web front-ends can differentiate between clients both aesthetically and functionally. Products exist in the market which use various data items held by your systems (such as client metrics, product selection and past usage) to vary the physical appearance of the website which is presented to the client and the functionality it contains. Differing propositions might require very different interfaces based on the expected user base. A master trust offering might need to focus on simplicity and a clean user interface while a direct-to-consumer platform would need a richer and more feature-filled interaction.

This concept of client segmentation can be extended from a simplistic view where the provider takes responsibility for the content which is delivered to consumers, to a more interactive approach where end clients choose their own functionality. The concept of a platform app store has been bounced around before but the possibility of having (potentially chargeable) apps or widgets which can be embedded into a standardised website to give clients direct control over how their proposition is formed is an appealing one. The general advancements in web-services, open APIs and HTML 5 are bringing this approach closer to reality and there are a number of vendors offering aspects of this type of solution in the market today.

UNDERSTAND YOUR PROCESS

‘Modelling end to end processes remains an essential part of designing a D2C platform.’

With consumer experience in mind, the elegance and simplicity of an end to end process is paramount. A beautiful and easy to use website might allow a client to view all of their on and off platform holdings and provide the option to transfer those off-platform assets to the product provider in a slick and attractive way. If the transfer takes months however, and requires numerous stages of client interaction, the consumer experience will be poor and will reflect badly on both companies involved. Being able to automate processes like transfers and remove the requirement for interim client involvement not only reduces operational overheads but also enhances consumer experience.

It is important to remember that consumer experience is not always about technology. Death processing is one area where we have seen simple process failings which lead to widows receiving

payment demands relating to policies held by their recently deceased spouse. The most attractive and user friendly front end in the world won’t make up for this kind of process issue. Modelling your company’s processes and capabilities to highlight client touch points and then improve consumer experience remains an essential part of designing a D2C platform.

OFFER ADVICE IN A D2C WORLD

‘Successful providers will be those who move from product-centric to consumer-centric.’

The RDR has exposed the real cost of investment advice to many consumers for the first time and is inevitably leading to more selective buying. With this in mind it seems increasingly likely that clients will have varied advice needs throughout their life, using advisers and discretionary services for some events and products, while using direct offerings at other times and blurring the boundaries between advised and direct business.

Providing a link to advice for direct clients, and also a link to direct functionality for advised clients is a good way of ensuring continuity for the consumer. It also ensures that when a consumer looks for a different type of product or advice set up, they are less likely to do so elsewhere. Another opportunity to enhance and extend the relationship with that consumer.

The successful product providers will be those who genuinely move away from a product-centric approach towards a consumer-centric view of the world. Indeed, it is far healthier to think of particular transactions as being advised or not, rather than the consumers themselves – a concept that regulation still needs to catch up with.

Conclusion

“The days of compliance driven product and process design are numbered.”

Regardless of how companies view themselves internally, consumers see a service provider. As such they will value simple interaction, clear navigation and visual representations of information which give them full control of their investments. There are numerous techniques available to providers to deliver this, techniques that have demonstrated successful and measurable outputs in other industries but which are currently under-developed in the financial services sector.

Building an enduring relationship with consumers is vital for engaging and retaining them and opens up a host of cross-selling opportunities, while techniques such as gamification and social interaction can be used to engage consumers and transform them into advocates of your proposition.

The future offers vast opportunity for providers who are willing to embrace massive interoperability and connectivity and a series of pitfalls for those who are left behind the curve. As the Internet of Things becomes a global force in everyday life and the data available to providers about their clients grows exponentially, the days of compliance-driven product and process design are numbered.

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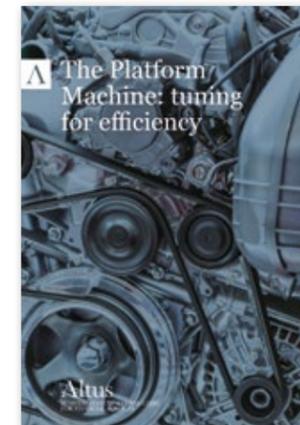
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