



IT'S TIME FOR MEANINGFUL CHANGE

The opportunities and challenges facing
the wealth, life and pensions industry

This paper has been authored by Pádraig Floyd.

Pádraig Floyd is an award winning freelance financial journalist and writer and has covered wealth, life and pensions matters since 2000. Pádraig has also produced many white papers and other thought leadership material for corporate clients across the wealth, life, pensions, asset management, investment consulting, insurance, accounting and general finance sectors.





Pádraig Floyd

What's going on?

Many providers in the financial services sector are looking for opportunities to transform their business models by improving middle and back-office technology and operating models. Though for some, this has proved to be a challenge.

What does this mean?

If organisations cannot transform their technology and processes, they will find it hard to transform their business model to become more responsive to client needs and improve the customer experience.

It is well documented that in the digital world, providing high quality user experience with multiple touchpoints for client engagement leads to stickier, more profitable business.

Alongside this, the development of the digital economy has raised consumers' expectations from experiences in other industries such as e-commerce. This places new expectations on wealth, life and pensions to deliver similar experiences for their customers.

Why should you care?

The increased capability to interconnect financial platforms and the demand from consumers presents providers and distributors with considerable challenges. Ones that could signal future problems if they do not evolve. And fast.



Executive summary

- 01.** Digital transformation is no longer an aspirational choice for providers and distributors in the wealth, life and pensions sector. It is essential if they are to adapt their business models to the needs of the market in the 21st century.
- 02.** An over reliance on legacy systems that require excessive manual interventions make existing models inefficient, yet increasing complexity, regulation and data security are driving up maintenance costs.
- 03.** The sector must transform its operations if it is to reduce costs, meet the demands of regulators and improve consumer outcomes.
- 04.** Capital expenditure on new digital platforms has failed to meet these challenges over the past two decades.
- 05.** The COVID-19 pandemic has been a catalyst for change, amplifying the development of the digital business world and broadening its appeal to the consumer.
- 06.** The demand for remote working as part of the new normal post COVID-19 environment increases the pressure on legacy systems.
- 07.** Legacy is only part of the problem. New disruptive businesses are being launched that need access to a new type of partner who can manage their middle and back office needs at the same speed they are developing.
- 08.** This presents traditional outsourcing companies with considerable challenges. Business Process Outsourcers must be capable of serving all areas of the market with efficient, modern technology backed by human resource that is knowledgeable and experienced.
- 09.** While there is a demand for change within providers and distributors, those charged with effecting change operate almost independently. Management teams must take ownership of the transformation agenda and be seen to be leading from the front.
- 10.** Providers and distributors who fail to evolve will find themselves increasingly marginalised. Big tech businesses have shown interest in the financial market and there are no incumbents who can compete with the strength and depth of their distribution not only to individual consumers, but increasingly small businesses, too.

The here and now

Digital transformation is no longer an aspirational choice for providers and distributors but a commercial imperative

But transformation faces the same old problems about understanding, resourcing, and most importantly, engagement. Too many rely upon, or find it hard to extricate themselves from, legacy technology and the inflexibility of the operational models which that legacy enforces.

The life and pension industry is facing the same problems as banking and insurance, but its own digital transformation journey is 10 to 15 years behind. Arguably, the wealth side of the industry has made some advancement through the evolution of investment and wrap platforms. But those same providers, along with life and pension offerings in the same family, have struggled to innovate these products in the same way.

CUSTOMERS ARE THE PRIORITY

We all want to provide the best possible service for our customers, but inefficient technology results in an excessive amount of manual interventions. This compounds errors, adds complexity and leads to operational risk and higher costs.

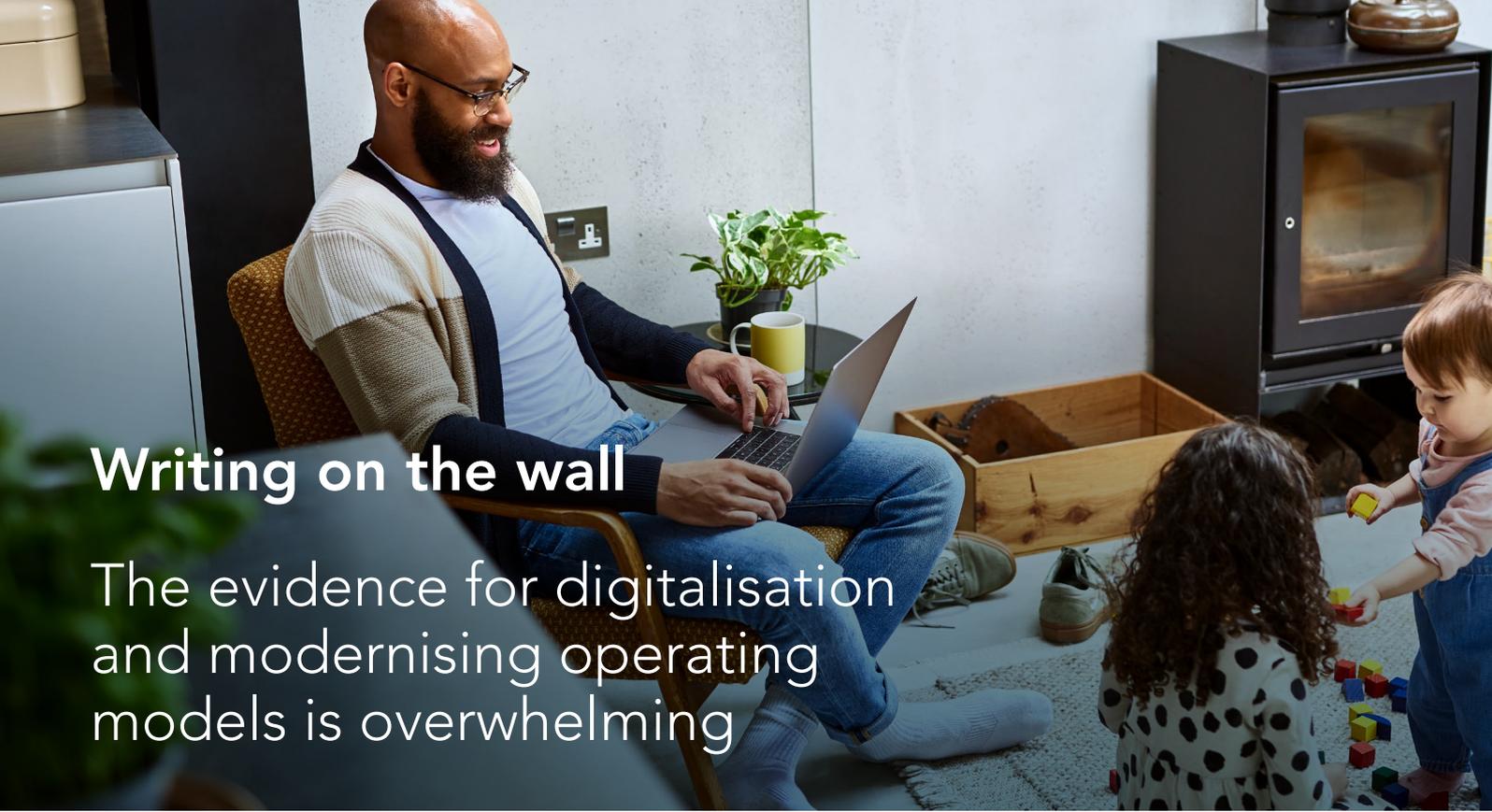
Maintaining high standards of customer service is essential because the pressure is increasing from all areas – regulatory scrutiny, data security – forcing up costs, whilst margins are being constantly squeezed.

With an inflexible technology architecture, a much greater proportion of change investment is spent on just keeping the lights on.

This inevitably restricts an organisation's ability to innovate, develop new products and services, develop new distribution channels, etc.

There isn't time to wait. The pace of change is getting quicker, while consumer expectations are growing even faster.

The sector should seek a transformation to produce a virtuous circle that reduces operational costs yet delivers insights that improve customer outcomes. This, in turn, improves the balance sheet.



Writing on the wall

The evidence for digitalisation and modernising operating models is overwhelming

For years, providers and distributors have been chasing new ways to manage their businesses more efficiently, removing the number of touchpoints for manual intervention, but largely without success.

A great deal of money has been spent in the industry over the last 15 years on new technology platforms that are discrete from the legacy ones. Some of those that started as proprietary builds have already been re-platformed because they were not capable of evolving in the ways necessary for today's market.

MOTIVATIONS FOR A DIGITAL FUTURE

There are several market drivers for a radical transformation of the industry.

Each of these interacts with three key challenges faced before COVID-19, but which have been impacted and amplified in different ways.



Changing shape of consumer needs for wealth accumulation and decumulation through their life cycle approaching/ in retirement



A need for providers and distributors to continue to evolve and transform as market conditions and business strategies change



Change management, technology costs, operating efficiency and regulatory/risk controls having a significant impact on P/L margins



Proposition innovation, customer service expectations and digitisation of business processes are all seen as key to future success



The new target operational model (flexible hours and home working) has dramatically changed the way companies will operate and be located



Modern API-led technology, self service, simplification of processes, alongside robotics (RPA & AI) shaping the future landscape



Three key market drivers towards a digital future

Legacy: Legacy systems are costing some providers a fortune to maintain. They also present challenges for distributors to interact and integrate with them. Much of the technology budget associated with these old platforms is not developing or improving them, but simply keeping the lights on. That is an unnecessary drain on both the provider and its distribution relationships.

Regulation: Then, there is consumer protection. Individual consumers have greater interaction with the markets than ever before. Defined contribution (DC) pension arrangements, stocks and shares, ISAs and income drawdown all expose individuals to investment risk. Regulators have responded with ever increasing regulation to protect consumers from not only the markets – and arguably, themselves – but conduct on behalf of some financial services entities deemed unethical or even illegal. As greater controls are introduced to protect vulnerable consumers against decisions they are not capable of making, the need for monitoring and checks and balances increases.

Consumer: Though consumers benefit from increased protection, their demand for digital first is a key influence on the push for product innovation, multi-channel servicing and digitalisation in general.



CONSUMERS ARE CHANGING RAPIDLY

This last consideration for change is incredibly important. Financial services consumers are now increasingly demanding access to digital products based on the service and solutions they see in other industries.

The standard narrative that digital is only in demand from so-called 'digital natives' among millennials and generation Z is no longer valid.

The first millennials are now approaching middle age and face the same financial planning problems their parents did. What is different is the willingness for all ages to engage with digital platforms. The pandemic has seen the rapid development of an interest in personalised services. These services were being developed before COVID-19, but they have been adopted much quicker as a result.

In 2018, the growth in app-based banking was expected to outstrip online banking by the following year¹. In 2019, it was estimated that the use of banking apps would exceed branch visits by 2021. However, the COVID-19 pandemic has wholly altered the digital consumer landscape.

What began with banking and online services such as shopping has extended into food delivery, but is rapidly working its way into insurance, life and pensions and other financial areas.

A report by Morgan Stanley and Oliver Wyman in 2020 showed that digital engagement with wealth managers had increased by a factor of between seven and ten since the pandemic began².

¹ <https://www.bbc.co.uk/news/business-44166991>

² <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/jun/Global-Wealth-Management-Report-2020.pdf>

Digital engagement Wealth Managers in Q1 2020



SOURCE: OLIVER WYMAN ANALYSIS

THE NEW NORMAL

However, those that have resisted digital will continue to do so. And therefore, all channels need to be supported, and systems need to be more flexible. This has been emphasised within the last year due to the way that homeworking has developed.

Workers will need to access work – and therefore systems – remotely. The whole world looks very different now than it did a year ago.

Why the Wealth, Life and Pensions must intensify the need for change

The pandemic has significantly accelerated the need for a more radical transition to digital, even more so given that many providers have struggled to properly plan and implement change in the past year

The digital business of the future is here now – at least in spirit. Those given the responsibility to lead the charge, such as transformation directors, have been appointed in many provider and distribution businesses. Still, there's a backlog of change built up that needs to be satisfied.

Consulting firm EY's 2021 outlook³ for the life and pensions industry highlights that COVID-19 has accelerated digitalisation but also emphasised that companies must ensure the ad hoc processes they developed are sustainable.

CULTURAL EXCHANGE

Those in charge of digital transformation say there is a desire for change. But while they may have the job title, some have found it very difficult to deliver change.

Transformation directors have to act as an evangelist, head of procurement and chief implementation officer. This is one of the reasons they struggle to get the job done. They cannot do it alone because there are often too many moving parts. And as we have discussed, each of those moving parts is misaligned or require considerable lubrication.

In addition to legacy technology is legacy culture. This is a major obstacle to overcome for some providers.

It manifests itself in different ways, most often in resistance to new ways of doing things. This attitude is prevalent and to a degree understandable but restricts the development of transformation.

While a single individual may be charged with transforming the organisation, it requires a company-wide commitment at all levels for the project to be a success. And that starts at the top.

Without the senior management team and board being fully engaged with the process, the transformation will be limited, at best, and its benefits unachieved.

³ https://www.ey.com/en_uk/news/2020/12/ey-uk-life-pensions-l-p-outlook-2021



The BPO of the future must embrace transformation, multi-channel delivery, be consumer facing and enable future change at an increasingly rapid rate

A PIECEMEAL APPROACH WON'T WORK

Infrastructure and culture must be tackled systematically and simultaneously. Some organisations would see the solution as technology based and buy in systems that are better at managing the problems they are facing now. But that is exactly how the industry developed its perennial legacy problem in the first place.

Another solution that became popular in the 1990s was business process outsourcing (BPO), which handed off non-core processes – or even problematic areas – to a third party to remove internal blockages. But a problem shared is not necessarily a problem halved.

It often failed to address fundamental issues, but the BPO of the future must embrace transformation, multi-channel delivery, be consumer facing and enable future change at an increasingly rapid rate.

Legacy is not the only technology issue faced by many providers. Neither is it limited to the large incumbents. Small organisations, startups, or even new divisions of established players who want to launch new products face a different challenge. They don't have a problem with legacy systems, but building middle and back-office capability is difficult without licensing or building proprietary systems.

Future success and rapid growth on sub-scale infrastructure creates a problem that is realised later down the line, resulting in the re-platforming cycle starting all over again.

Traditional providers and new world disrupter businesses need transformation partners that offer modern systems and modern administration solutions which will evolve rapidly aligned to changing market needs.

A 21st century outsourcing partnership

A new kind of outsourcing relationship is greatly needed across the industry, including provider and distributor propositions

Retirement is good example of how providers and distributors wish to create a broader proposition. This may include later life lending alongside more traditional products of annuities and drawdown. In time, this may lead into the development of new hybrid products to satisfy demands for financing long term care.

There are multiple challenges to achieve the modernisation craved in this sector. It represents the 'perfect storm', combining characteristics of historic legacy, new product innovation, multiple traditional silos – savings, income, mortality, loan and & underwritten products – that must operate in tandem, digital and multi-channel delivery, and personalisation to satisfy each individual's needs.

Each of these areas must be addressed to enable a holistic new retirement proposition. An outsourcer must be able to support the proposition, launch new products to market and enable organisations to piggyback existing skills, capabilities and technology without having to build it themselves.

That outsourcer needs to be capable of delivering efficient modern technology, underpinned by strong capabilities and skilled staff with sector-specific knowledge and experience.

And they need to be able to assure businesses that they will be able to do it, not just today, but tomorrow and over the life of the relationship.

TAKING A LONG VIEW

This in itself requires a change in mindset from the industry – and not just on technology or processes. It requires the management leadership to adjust their approach to outsourcing.

A longer-term view about the benefits of digitalisation is required. They must understand that digital transformation is not going to happen overnight. They must also recognise that technology will not achieve this transformation alone.

The industry has already experienced a cycle of re-platforming after considerable expense and little return on investment.

This requires a top-down commitment to the project because otherwise, as transformation directors will know from experience, without it, some elements don't even make it past the planning stages.

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If providers and distributors fail to keep up with the market's evolution, they'll find themselves facing extinction

START AS YOU MEAN TO GO ON

Here lies the final obstacle to finding the parts to a new way of doing business: the procurement process. There has been a move towards centralised procurement at many providers over the past decade. Stung by poor value investment in technology and partnerships that have failed to deliver what was promised, companies have given procurement to the experts.

Focus for a tender needs to move to procuring a business partner for the longer term, not just a point in time solution for the current need, and that involves a much broader exchange of vision and thinking than is allowed for in the traditional RFP

The cost alone in terms of time and effort invested by both provider and supplier into these tender processes is significant. The road to transformation must begin with a frank and open conversation with the management team. This process needs to be owned by the organisation as a whole, not a single individual, to achieve an efficient, joined up narrative.

DON'T GET LEFT BEHIND

The simple but unpalatable truth is that if providers and distributors fail to keep up with the market's evolution, they'll find themselves facing problems. They will see peers and competitors evolving and leaving them behind. And they are not the only ones to worry about.

Tech giants like Amazon and Google are already making overtures about combining social media with their vast platforms and moving into financial markets because they already have the distribution channels that traditional providers can only dream of.

Outsourcing will allow the provider to focus on what they're best at, which is the proposition.

The outsourcing partner in the digital business's brave new world has to offer a great deal more than before.

Those who seek only to offload the dirty and difficult jobs to a third party will fail. The old 'mess for less' approach is no longer a viable option.

Forward thinking companies need an outsourcer that is part provider, part consultant and can support the future business as it changes, as well as the current processes. One who can consistently execute and deliver modern technology, continuous improvement, business agility for change, a multi-product, un-siloed approach, superior multi-channel customer service, and intelligent data analytics to drive personalisation to each and every consumer.

That may seem like a shopping list full of wishful thinking, but in fact it is the very minimum that providers and distributors can – and should – expect from partnerships in the future.

CONCLUSION:

It's time for meaningful change

The wealth, life and pensions industry must overcome considerable structural challenges

While these challenges are no different from those facing other parts of the financial services sector, wealth, life and pension providers and distributors are some years behind their banking and insurance peers.

NOT GONE FAR ENOUGH

While there have been some positive developments in the wealth space, few of the technology and platform implementations have proved wholly successful or resulted in the business's transformation. There are several reasons for this.

The legacy problem has yet to be resolved, and the burden of managing it increases each year.

Regulators impose increasingly onerous requirements that place greater stress on legacy structures. The digital business world is turning the screw on providers and distributors as higher consumer and data protection standards are demanded of them.

Consumers, too, are upping the ante. The establishment of digital banking and the rapid growth of e-commerce has shown consumers that they can, quite often, have exactly what they want and when they want it. This mentality is then applied to other services which they believe could be tailored for their needs, not those of the provider.

Here are 3 key recommendation for wealth, life and pension organization to fast track their transformation and deliver a vision for the long term:

01. TAKING A STRONGER LEAD

Where organisations are trying to transform their business model, too much responsibility is sometimes being placed on too few shoulders who are not fully empowered to drive the project forward. Those charged with effecting change often operate with little support.

And so, a new mindset is required with examples set from the board level.

This requires replacing short-term targets with the understanding that transformation is a long-term project that will deliver a more efficient and sustainable business and operational model.

Management teams need not be responsible for the implementation process, but they must shape the culture that shows they are leading the charge from the front.



This technological superiority must be backed by high quality, autonomous technical knowledge and experience

02. TAKE A TRANSPARENT APPROACH

This requires businesses to be more creative in order to reach an understanding of the ultimate destination. This will require a frank – and sometimes painful – exchange internally and with partners if the business is to set itself on the right path. If they fail to evolve, their future must be uncertain.

Legacy is not simply an unfortunate complication. It is a problem the organisation has failed to address adequately, and it now presents a risk to the business's sustainability.

03. BUILD NEW PARTNERSHIPS

Third-party platforms and operational servicing models must be prepared to – and be capable of – delivering state of the art technology platforms that are as flexible and adaptable as the businesses they seek to support.

This technological superiority must be backed by high quality, autonomous technical knowledge and experience.

Outsourcing to a selection of suppliers to provide services will be determined by the ability to create bespoke solutions that meet the needs of clients and end customers. These businesses will not tolerate a one size fits all approach to service and support.

The capabilities of suppliers must also be all-encompassing. Strength and depth will be essential if they are to satisfy their clients, regulators, and consumers' demands.

They must have proven experience for different business needs and excel in specialist areas. There is no room for a Jack of all trades.

NOW IS THE TIME TO LOOK TO THE FUTURE

The wealth, life and pension market is at a watershed moment. Providers and distributors must evolve or accept their fate will be governed by the law of diminishing returns.

But if they can transform their businesses by resolving their operational challenges and innovating in new areas, their future will be secure.

To begin that journey, they must reflect on what kind of business they want to be in the future and then find a partner who will be able to help them deliver that vision for the long term.



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your transformation journey**

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