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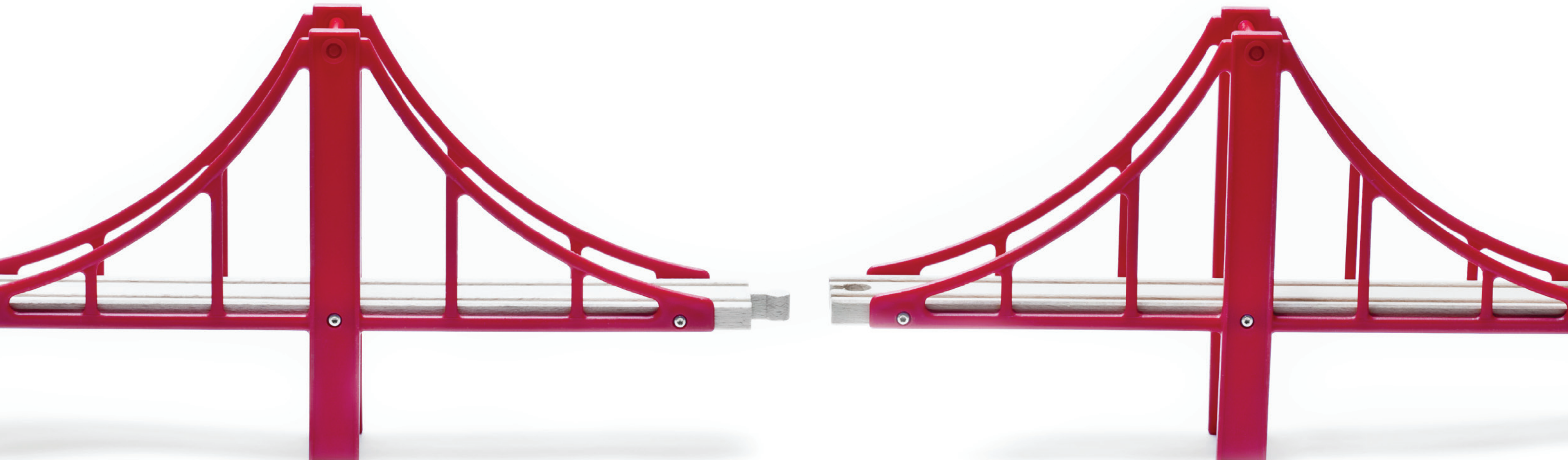

Bridging the advice gap
Delivering investment products in a post-RDR world

A Deloitte Insights report

Foreword

An opportunity for retail investment product providers?

The introduction of the Adviser Charging regime (AC) in the UK from December 2012 will significantly alter the priorities and behaviour of customers and financial advisers alike. The resulting shift in market dynamics represents a unique and potentially exciting opportunity for product providers especially.

Deloitte LLP commissioned a survey of more than 2,000 UK adults to understand how consumers will react to the new rules (part of the Retail Distribution Review, or RDR), which will replace an advice framework based largely on commissions.

The survey suggests adviser charging will transform purchasing behaviour as customers become more aware of adviser costs. Many customers are likely to opt out of advice completely, partially opt out, or seek much higher levels of service for the charges they will incur. A third of customers will respond to AC by doing their own planning, research and administration.

At the same time, Independent Financial Advisers (IFAs) and bank advisers are likely to de-prioritise a large proportion of their customers as they move upmarket to defend profit margins. This is based on their understanding that customers with lower levels of savings will be less willing or able to pay adviser charges.

Combined, these changes mean that there will be up to 5.5 million disenfranchised customers who will either choose to cease using financial advisers or lack access to them. These customers, who account for 11 per cent of UK adults, will represent a significant post-RDR advice gap.

Customers in the advice gap will be a major opportunity for product providers, including insurance companies, investment managers, banks and wealth managers.

Deloitte LLP has identified four target customer segments in the advice gap:

- the disenfranchised wealthy,
- tech-savvy savers,
- mass affluent orphans and
- mass market orphans.

Each customer segment represents an opportunity for the provider who can serve it with the right blend of route-to-market (e.g. direct-to-customer, adviser or other partnership), delivery format and pricing.

Here, we explore the implications of AC for customers and providers and set out our thoughts for the way forward. For those executives who are affected by the issues discussed, we welcome your feedback and comments.

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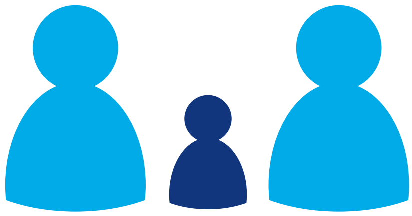
Bridging the advice gap
Delivering investment products in a post-RDR world

The Adviser Charging regime (AC) will be introduced in the UK from December 2012.

87%
of customers who purchased a savings/investment product via a bank adviser in the past three years assumed the advice process was 'free'.

32%
of customers would be likely to do their own financial planning, product research and administration so that they would not need an adviser.

27%
would be likely to go direct to the provider.



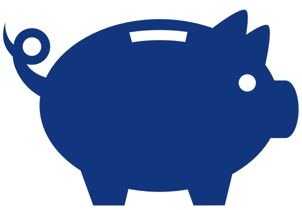
24%
would be likely to reduce the number of times they use an adviser.

Most large IFA firms (and high street banks) are channelling resources towards customers with at least
£50,000
in investable assets.

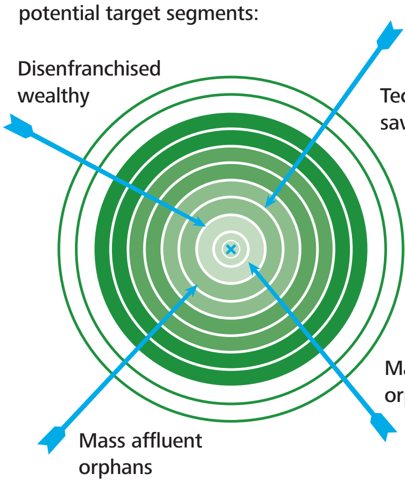
There will be up to
5.5m
disenfranchised customers who will either choose to cease using financial advisers or lack access to them.

These customers, who account for
11%
of UK adults, will represent a significant post-RDR advice gap.

In the advice gap, there will be up to
1.8m
'wealth poor' adults with £10k – £30k in cash savings and up to
0.7m
'wealth modest' adults with £30k – £50k in cash savings.



We identify **4** potential target segments:



Each customer segment represents an opportunity for the provider who can serve it with the right blend of route-to-market (e.g. direct-to-customer, adviser or other partnership), delivery format and pricing.

The impact of adviser charging on customers and products

Increased awareness of advice costs will change consumer behaviour

Adviser Charging (AC) is likely to transform customer purchasing behaviour across large swathes of the UK population, our research shows. The simple reason is that customers will become more aware of adviser costs and question the value of advice they receive.

With advisers set to introduce charging across a wide range of products and services, the new regulations are likely to have a significant impact on the retail distribution landscape. AC will apply to all financial advisers that take commission from product providers for recommending retail investment products to customers, and will require advisers to levy explicit charges.

After many years of receiving 'free' advice, or advice which appeared to be free as a result of a commission-based adviser remuneration model, customers are likely to respond negatively to explicit charges for advice.

The potential impact is large. According to the survey, 87 per cent of customers who purchased a savings/investment product via a bank adviser in the past three years assumed the advice process was 'free', with the provider incurring the cost.

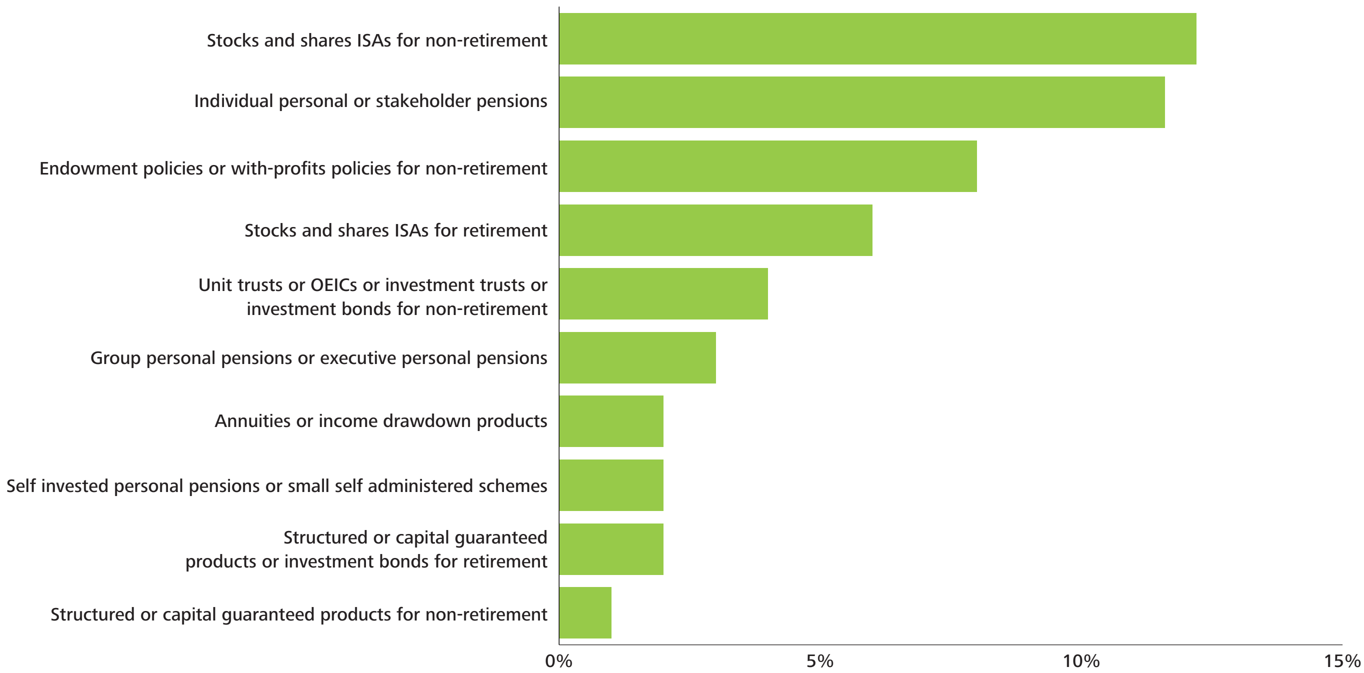
In addition, with financial advisers required to disclose charges, customers may be surprised by the high cost of advice, and as a result seek greater control over what they pay and to whom.

RDR impact centred on stocks and shares ISAs and personal pensions

RDR encompasses a broad scope of retail investment products. Some 32 per cent of the UK adult population (15.7 million people) own an 'in-scope' product.[1]

The most popular in-scope products are stocks and shares ISAs held for non-retirement (12 per cent of UK adults) and individual personal or stakeholder pensions (also 12 per cent of UK adults) (Figure 1). Sales of these products are likely to be most affected by the new AC regime.

Figure 1. Percentage of UK adults who own savings/investment products in-scope of AC



Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Sample size: 2140 (UK adults).

Research shows advisers are highly active among the 'mass market' customer base

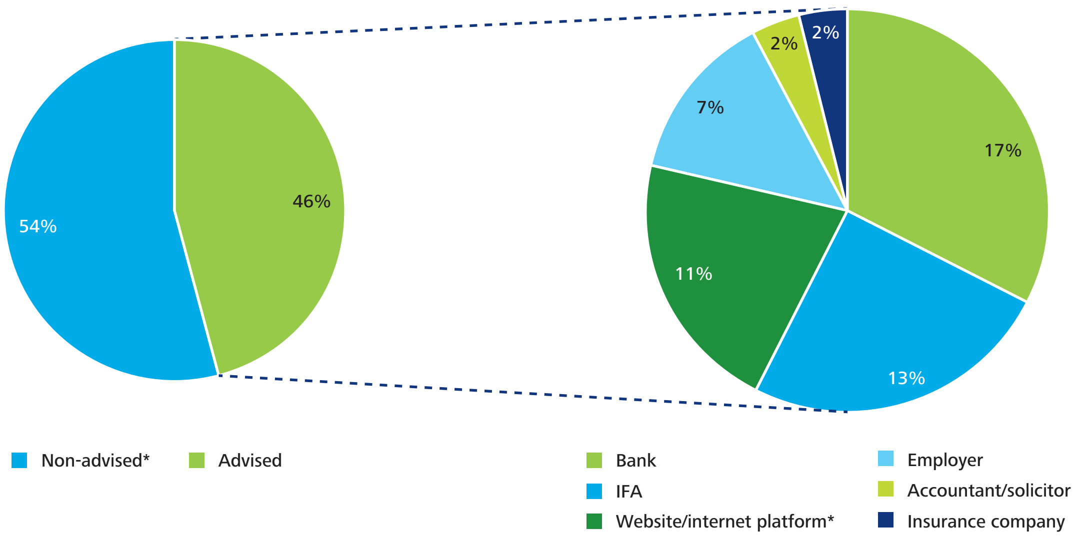
In addition, a high number of product owners will be affected. Approximately half (46 per cent) of those who bought savings/investment products in the past three years believed they did so through financial advisers (Figure 2).

IFAs and bank advisers are the dominant providers of advice, and were consulted by 13 per cent and 17 per cent respectively of those who purchased a savings/investment product in the past three years (Figure 2). More than 10 per cent of customers in the mass market segment (comprising 9.6 million UK adults) who purchased a savings/investment product over this period used a bank adviser, IFA or website/internet platform, underlining the broad impact of the new rules (Figure 3).[2]

Figure 3 shows the extent to which bank advisers, IFAs and websites/internet platforms have penetrated the major wealth segments in the UK. It is clear that financial advisers not only serve the wealthiest individuals, but also serve significant numbers of 'mass market' customers.

Bank advisers have the largest market share among mass affluent customers. Some 28 per cent of those with cash savings of £10,001-£30,000 who bought a savings/investment product in the past three years did so from a bank adviser. Banks also have a significantly higher penetration than IFAs among segments with under £5,000 of savings (15 per cent).

Figure 2. Percentage of UK adults who have purchased a savings/investment product in the past three years by channel



Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Sample size: 1139 (all UK adults who have arranged savings, investment or pension products (excluding mortgages) in the past three years).

Note: Respondents could also choose 'not applicable' and 'other', as well as multiple options, hence all responses do not total 100%.
*See research methodology.

IFAs occupy a more upmarket space. A third (32 per cent) of those with cash savings of more than £100,000 who bought a savings/investment product in the past three years went through an IFA. However, it is notable that they are also highly active among mass market customer segments.

Overall, approximately half (45 per cent) of customers with under £5,000 in savings who bought a savings/investment product in the past three years believed they did so through a financial adviser or other type of intermediary (e.g. website/internet platform).

Banks, IFAs and other advisers have been re-examining their business models to understand how best to proceed in a commission-free environment. Many firms are communicating their new propositions to their customers and the wider market. It is clear that they have reshaped their core services, and that there will be significant implications for large swathes of customers, particularly in the mass market.

Figure 3. Percentage of UK adults who have purchased a savings/investment product in the past three years through bank adviser, IFA and website/internet channels by cash savings level

Customer segment/ cash savings level		Bank	IFA	Website/internet platform
Affluent	'Wealth rich' £100k+ cash savings	23%	**32%**	14%
	'Wealth aspiring' £50k – £100k cash savings	21%	26%	22%
Mass affluent	'Wealth modest' £30k – £50k cash savings	21%	19%	24%
	'Wealth poor' £10k – £30k cash savings	**28%**	18%	15%
Mass market	£5k – £10k cash savings	12%	10%	14%
	Up to £5k cash savings	15%	11%	10%
Average		17%	13%	11%

Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Sample sizes: All UK adults who have arranged savings, investment or pension products (excluding mortgages) in the past three years at different cash savings levels; Up to £5k (293); £5k-£10k (116); £10k-£30k (171); £30k-£50k (82); £50k-£100k (76); £100k+ (56).

Customer reluctance to accept adviser charges

Very few customers are likely to agree without question the adviser charges that will be levied from December 2012. In fact, many will be unwilling to pay, our research shows.

Customers are likely to stop using financial advisers, switch to cheaper sources of advice/intermediation or accept the costs but seek better quality service. Customer willingness to accept adviser charges is likely to be a function of wealth and the type of adviser consulted.

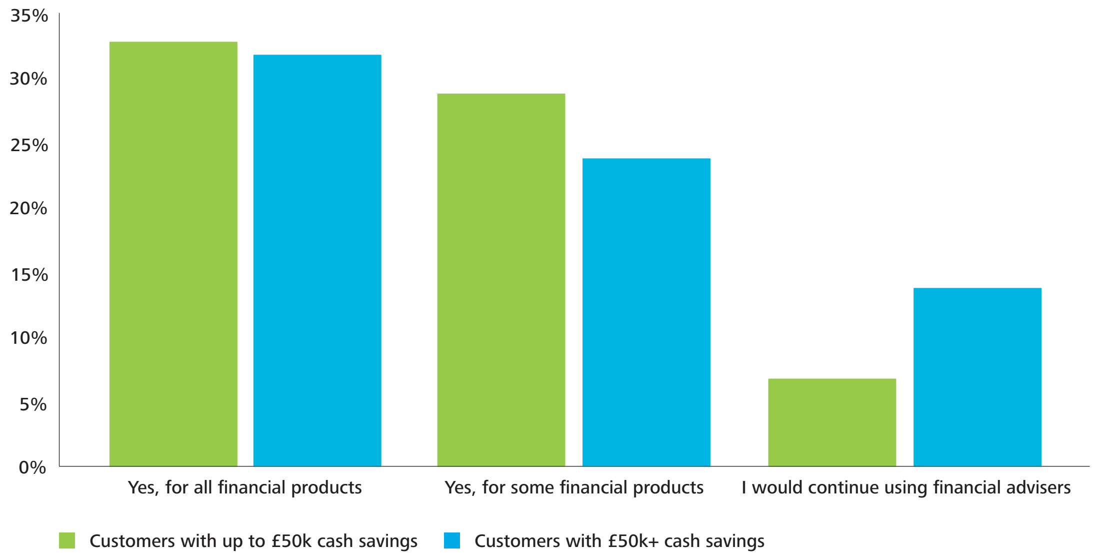
Lower wealth, mass market customers most unlikely to pay

Many customers are unlikely to accept adviser charges for the services currently on offer. According to our research, some 33 per cent of UK adults with less than £50,000 in savings, and 32 per cent of those with more than £50,000, indicate they would cease using advisers for all products if they were charged directly (Figure 4).

While many people are unwilling to pay adviser charges, a greater number do not intend to pay these charges at the levels likely to predominate. Some 56 per cent suggested they are likely to reduce the number of times they use advisers if charged a fee of £400-£600, or 3 per cent of their investment.

The wealth of a customer is the primary factor in determining willingness to pay adviser charges. According to the survey, mass market customers will be the least willing to pay after the introduction of AC. And those with more than £50,000 in savings are twice as likely as those with less than £50,000 to continue using financial advisers (Figure 4). This reflects the fact that the opportunities arising from good advice, and the costs from bad advice or not taking any advice, can rise in line with the size of a customer's investment. For example, there are significant tax planning opportunities which advice can reveal for affluent customers that do not exist for those who have smaller tax liabilities.

Figure 4. Percentage of UK adults who would cease using financial advisers if charged directly by cash savings level



Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

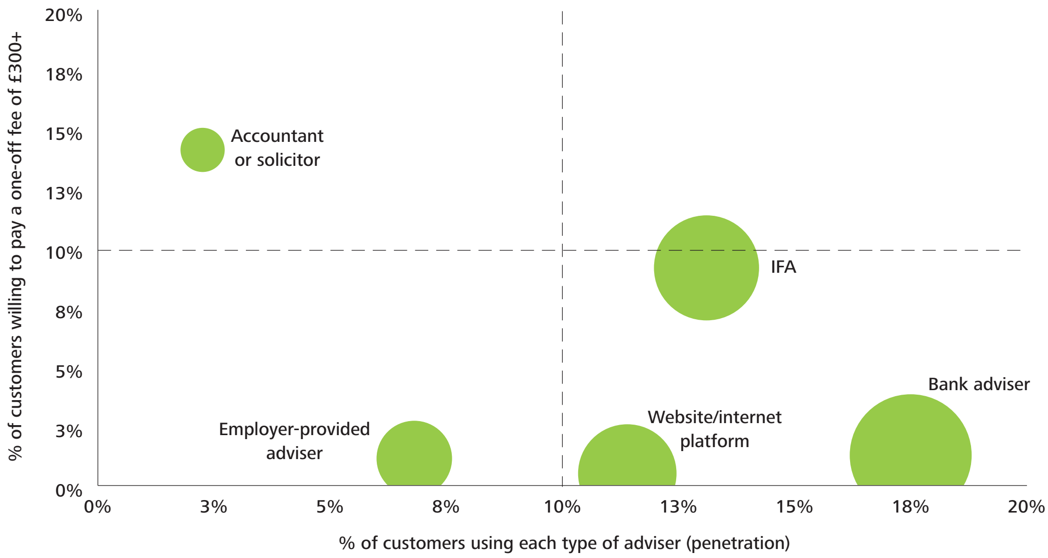
Sample sizes: UK adults with less than £50,000 in cash savings (1075); UK adults with more than £50,000 in cash savings (167).

Note: Respondents could also choose 'not applicable' and 'don't know' hence all responses do not total 100%.

Customers more likely to pay for IFAs' and accountants' time

Customer willingness to pay adviser charges also varies significantly depending on which type of adviser is used. Less than 2 per cent of customers who have used bank advisers, websites/internet platforms or employer-provided advisers are willing to pay a one-off fee of £300+ (Figure 5). By contrast, 9 per cent of IFA customers and 14 per cent of those using accountants or solicitors are willing to pay that level of fee.

Figure 5. Customer willingness to pay for advice (by adviser type) versus customer usage (penetration) by adviser type



Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Note: Size of bubble denotes the number of UK adults using that channel to arrange savings, investment or pension products (excluding mortgages) in the past three years. See research methodology.

Customer willingness to pay adviser charges also varies significantly depending on which type of adviser is used.

How will customers respond to adviser charging?

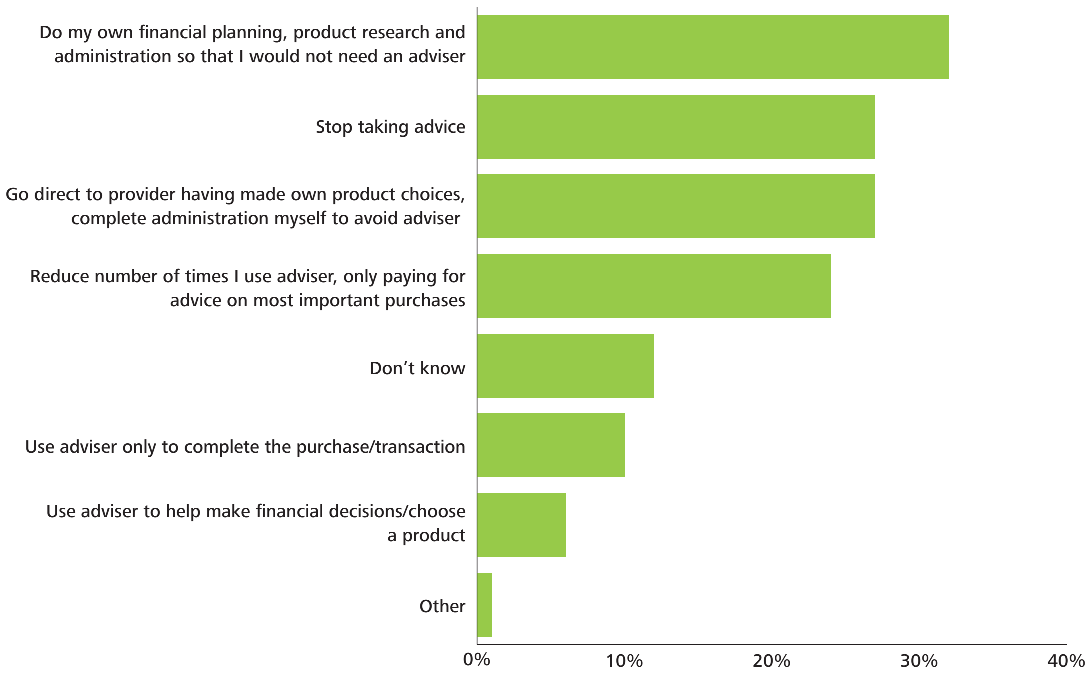
In response to AC, customers are likely to opt out of advice completely, partially opt out of advice or seek higher levels of service.

Opt out or partially opt out

Many customers will stop taking advice in response to AC. When asked what they would do if charged directly for an adviser's time, some 27 per cent said they would stop taking advice and 32 per cent said they would do their own planning, research and administration (Figure 6). Over a quarter (27 per cent) suggested they would go direct to the product provider, by-passing the adviser altogether.

A significant proportion of customers are likely to opt out of advice on a selective basis. One quarter (24 per cent) of survey respondents suggested they would reduce use of advisers, and only pay when they are most needed, i.e. when making the most important decisions. In addition, 10 per cent said that 'if charged directly' they would use advisers only to execute product purchases, in order to minimise costs.

Figure 6. Percentage of UK adult responses to the question: If you were charged directly for an adviser's time, which, if any, of the following actions would you be likely to take?



Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Sample size: 1511 (UK adults who use financial advisers).

Note: Respondents could choose multiple options, hence all responses do not total 100%. Respondents were not given an example charge.

Seek greater value

Many customers who do not opt out (either fully or partially) will seek greater value from their advisers. They will do so by switching to cheaper options or by demanding better service. Affluent customers are the most likely segment to continue using advisers and to demand higher standards of service.

Those switching to cheaper sources of advice or taking a DIY approach to researching their planning and product needs are very likely to rely on the internet. These 'tech-savvy' customers are likely to be young and relatively well off, i.e. with cash savings of £10,001-£50,000.

Banks most likely to see customer demand decline

Bank advisers are likely to lose a higher proportion of their customers than other advisers. This is because bank advisers have traditionally been the most active in the mass market segment – where customers are least willing to pay for advice. Some 15 per cent of those with less than £5,000 in savings who have bought a savings/investment product in the past three years used bank advisers. 11 per cent used IFAs and 10 per cent transacted through websites/internet platforms.

In addition, bank advisers face unique reputational issues. Over half (53 per cent) of respondents agree bank advisers are too sales-oriented, and 34 per cent do not trust financial advisers working for banks and building societies. Crucially – and this is likely to affect pricing – bank advisers are perceived as adding less value than other advisers. For example, only 28 per cent think that bank advisers are as skilled as other financial advisers.

5.5 million fall into the advice gap – an untapped opportunity

The new adviser charging rules could leave up to 5.5 million people in the advice gap – unable or unwilling to access financial advice. Many customers will refuse to pay the charges and leave the market voluntarily. Many more will be de-prioritised by their IFAs and bank advisers, who will take their customer segment strategies upmarket to defend profit margins.

IFAs are moving upmarket

Most large IFA firms in the UK have put in place strategic responses to the new AC regime. Many intend to move upmarket, and are channelling resources towards customers with at least £50,000 in investable assets.

The reasons for the move are clear. Mass affluent and mass market customers are thought to be much more likely to stop using IFAs than higher wealth segments. Compared with less wealthy customer segments, a smaller proportion of affluent customers are likely to be price sensitive (Figure 4).

In addition, many IFAs perceive wealthier customers as the only profitable segment under the new charging regime. Whether this is true or not remains to be seen. However, the wealthy have the greatest scope for advice and often have more complex financial needs, requiring specialist services that can be charged at a premium. For instance, 3 per cent of UK adults with £50,001-£100,000 in savings, and 9 per cent of those with more than £100,000, own structured or capital guaranteed products for non-retirement purposes. This compares with 1 per cent on average across all UK adults.

Customers willing to pay adviser charges will demand more competitively priced and/or better quality services than heretofore – potentially squeezing margins. Wealthier clients may give advisers the opportunity to sustain margins because they buy more products per head, which alongside improved cross-sales should, in theory, reduce adviser costs relative to income.

Most banks are moving upmarket

UK high street banks have also responded to the new rules. Many have announced an exit from parts of the advisory market or a more selective approach, offering face-to-face advice only to wealthier customers. Whether planning a strategic exit and/or a move upmarket, banks cite the same rationale as IFAs: making advice profitable under AC is likely to be difficult at the lower end of the market.

Among the main high street banks, some have defined their sweet spot customers as those with a minimum of £50,000 or £100,000 in savings and investments. For example, Lloyds Banking Group (LBG) has announced it will offer face-to-face financial advice only to those with more than £100,000 in savings and investments.[3] LBG cited a predicted lack of demand among less wealthy customers as the reason for its move.

HSBC has announced plans to withdraw advice in its retail bank for those with less than £50,000 in savings or £100,000 of annual income, instead offering a DIY investor website.[4]

Barclays has announced it will close its advice arm, Barclays Financial Planning, and exit the advice market for retail consumers, focusing advice on high-net worth individuals.[5]

Not all banks however have pulled out of the mass market, some have not announced such changes, possibly indicating an alternative 'scale play' strategy aimed at the mass market customer. For instance, Santander is on a recruitment drive in the UK to add to its 1,000 multi-tied in-house advisers.[6]

Alternative advice providers may emerge as winners in the advised market

With IFAs and banks limiting access to face-to-face advice for many lower wealth customers, it is likely that non-traditional advisers/intermediaries will increase market share.

Some 57 per cent of those who have recently used a bank adviser state they would be likely to search online providers' websites for products if charged directly for advice. A similarly high proportion of IFA customers (52 per cent) would do the same. Technology-based providers can perform certain intermediary functions more cheaply than traditional firms, whose processes are less automated. In addition, platforms can provide a cash account, which makes it relatively easy for customers to settle adviser charges and pay for products from a single source.

Advisers utilising the employer channel may also gain market share. However, while these advisers can potentially exploit economies of scale to offer cheaper advice, employees have reservations about using them. A third of employees indicated that they would use an in-house financial adviser if one was provided, but 26 per cent would be uncomfortable if their employer knew more about their financial arrangements.

The direct-to-customer opportunity

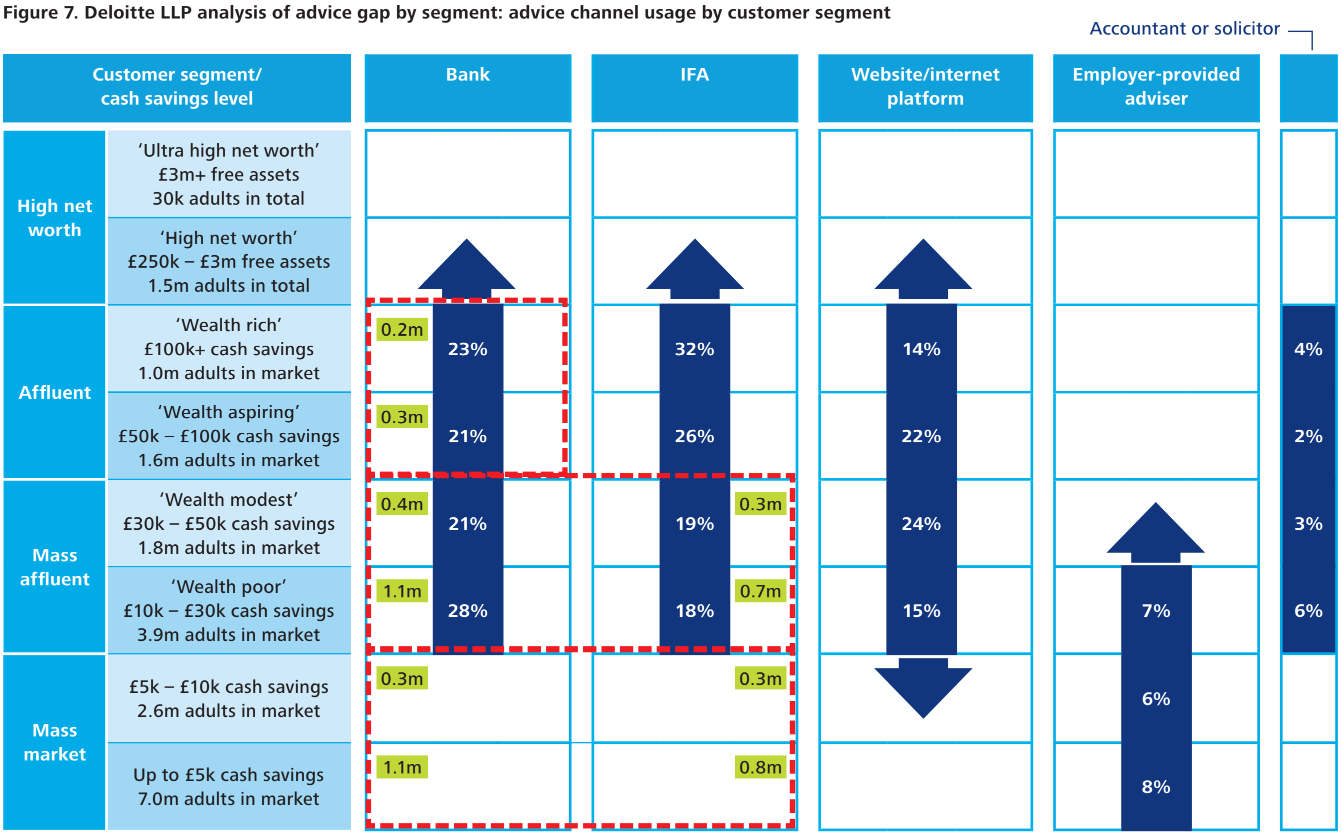
Our research estimates that up to 5.5 million people could stop using financial advisers as a result of AC. This is the potential size of the advice gap – those who have used advisers, but will cease after the introduction of AC.

It is also the potential size of the opportunity for product providers and advisers, offering web-based, or other direct means of streamlined advice.

Customers most likely to exit the adviser market are from the mass market (2.4 million people), mass affluent (2.5 million) and affluent (600,000) segments. Of these customers, up to 3.4 million use bank advisers and up to 2.1 million use IFAs (Figure 7).

With such a sizeable potential customer base, including many from the mass market, a revised offering, such as selling directly to customers – or from a scaled, streamlined financial adviser, could win significant market share.

Figure 7. Deloitte LLP analysis of advice gap by segment: advice channel usage by customer segment



Source: Deloitte Insights analysis based on YouGov (30 May – 2 June 2012) data.

Sample sizes: All UK adults who have arranged savings, investment or pension products (excluding mortgages) in the past three years at different cash savings levels; Up to £5k (293); £5k-£10k (116); £10k-£30k (171); £30k-£50k (82); £50k-£100k (76); £100k+ (56).

Note: see research methodology.

The provider opportunity: next steps

Customers in the advice gap represent a major opportunity for product providers, including insurance companies, investment managers, banks and others.

Even without the advice gap, the direct-to-customer channel is set to grow significantly in the next five years as consumers increasingly use the internet. The 'connected consumer' can shop around online for savings/investment products, carry out research, learn about finance and access a range of planning tools and guides. Open architecture platforms have enabled simpler comparisons of savings/investment products' performance, costs and other features.

This shift to DIY/web-based facilitation of the advisory process and the disintermediation of advisers will be accelerated by the RDR. Customers in the advice gap post-RDR with sufficient knowledge of the internet are likely to move online – proactively, shopping around using 'self-direction'.

Others are likely to need guidance – some form of human interaction – before doing the same. Subject to regulatory constraints, there is an opportunity for providers who can cost-effectively provide this initial guidance to customers who have holdings but lack the knowledge to proactively go online to address their financial needs.

Even without the advice gap, the direct-to-customer channel is set to grow significantly in the next five years as consumers increasingly use the internet.

Segmentation strategy required

Given that customer requirements in the advice gap vary significantly, a targeted approach is necessary. 'One-size-fits-all' is unlikely to work for any product provider except one offering market-leading low cost solutions.

To develop new advised and direct channels which effectively respond to targeted income groups and demographics, providers require sophisticated customer insights based on a minimum of demographics, social groups and behaviours (Figure 8).

Figure 8. Characteristics of key customer segments

Customer segment	'Disenfranchised wealthy'	'Tech-savvy savers'	'Mass affluent orphans'	'Mass market orphans'
Definition	Those with £50k+ in cash savings who use advisers or other intermediaries	Bank and IFA advice takers who would be very likely to search an online supermarket to make product decisions if charged for advisers	IFA or bank adviser users with £10k-£50k in cash savings	IFA or bank adviser users with £0- £10k in cash savings
Number of UK adults	1.5m	2.0m	2.5m	2.4m
Cash savings level	£50k+	27% have £10k-£30k, 2.3x more likely than average	£10k-£50k	Up to £10k
Willingness to pay for advice directly	4.0x more likely than average	Average	2.5x more likely than average	1.5x more likely than average
Top five retail investment products owned (i.e., in-scope of AC)	1. Stocks and shares ISAs (non-retirement) 2. Unit trusts or OEICs or investment trusts or investment bonds (non-retirement) 3. Stocks and shares ISAs (retirement) 4. Personal or stakeholder pensions 5. Annuities	1. Stocks and shares ISAs (non-retirement) 2. Personal or stakeholder pensions 3. Stocks and shares ISAs (retirement) 4. Unit trusts or OEICs or investment trusts or investment bonds (non-retirement) 5. Group personal pensions or executive personal pensions	1. Stocks and shares ISAs (non-retirement) 2. Personal or stakeholder pensions 3. Endowment policies (non-retirement) 4. Unit trusts or OEICs or investment trusts or investment bonds (non-retirement) 5. Stocks and shares ISAs (retirement)	1. Personal or stakeholder pensions 2. Stocks and shares ISAs (non-retirement) 3. Stocks and shares ISAs (retirement) 4. Group personal pensions or executive personal pensions 5. Endowment policies (non-retirement)
MOSAIC customer classification Average: ABC1 (55%) C2DE (45%)	ABC1 (81%) C2DE (19%)	ABC1 (62%) C2DE (38%)	ABC1 (72%) C2DE (28%)	ABC1 (63%) C2DE (37%)
Newspaper readership	32% read FT, Times or Telegraph (3.2x more likely than average)	27% read no paper (1.4x more likely than average)	14% read FT, Times or Telegraph (1.4x more likely than average)	26% read Sun or Star (similar to average)
Age	66% 55+ (1.9x more likely than average)	17% 18-24 (1.4x more likely than average)	49% 55+ (1.4x more likely than average)	70% 18-54
Income	16% have income between £50k-£100k p.a. (4.0x more likely than average)	47% have income between £10k-£30k p.a. (similar to average)	8% have income between £50k-£100k p.a. (2.0x more likely than average)	55% have income between £10k-£30k p.a. (1.3x more likely than average)
Social media/internet use	68% use Facebook (same as average)	22% use LinkedIn (1.6x more likely than average)	23% use LinkedIn (1.6x more likely than average)	17% use Google (1.5x more likely than average)
Proportion who would be likely to search online providers' websites if charged directly for advisers	62% (1.3x more likely than average)	76% (1.6x more likely than average)	58% (1.2x more likely than average)	62% (1.3x more likely than average)

Source: Deloitte Insights/YouGov (30 May – 1 June 2012).

Sample sizes: Disenfranchised wealthy (71); tech-savvy savers (88); mass affluent orphans (99); mass market orphans (99).

Note: Averages are across all UK adults.

Each product provider must take advantage of its own data and research to understand which segments are in its 'sweet spot' – both in terms of direct sales and through advisers. Leading advisers and product providers are already using sophisticated analytics to help define their segmentation strategies – drawing on internal customer information and external data sources (such as social media).

Based on the consumer data available, we identify four potential target segments:

- The **'disenfranchised wealthy'** segment comprises up to 1.5 million customers. These customers seek quality and value-for-money. They may drop bank-based advisers in favour of IFAs, or seek new ways of accessing and mixing IFA/accountant-style services with self-directed research. They have more than £50,000 in savings, are willing to pay directly for advice (4.0x more likely than average), are more likely to hold complex products (e.g. collective investments) than other segments, are older than average (66 per cent aged 55+) and are likely to search online providers' websites if charged directly for advisers (1.3x more likely than average).

- There are up to 2.0 million customers in the **'tech-savvy savers'** (TSS) segment. They will be switched on by a non-advised intermediation service which is quick and easy to use. TSS customers are no more willing than average to pay direct adviser charges, but they are likely to be familiar with sourcing information from the internet. Three quarters (76 per cent) would be likely to search online providers' websites if charged directly for advice. They are 1.6x more likely than average to use LinkedIn and 1.4x more likely than average not to read a newspaper.

- The **'mass affluent orphans'** (MAO) segment represents up to 2.5 million customers. MAO customers have £10,001-£50,000 in savings. They are 2.5x more likely than average to pay directly for advice. Some 72 per cent are ABC1, compared with 55 per cent on average across all UK adults. Some 49 per cent are aged 55+. A targeted approach here would focus on advisers offering a high-quality service, centred on face-to-face or phone-based contact.

- **'Mass market orphans'** (MMO) comprise up to 2.4 million customers. They have average incomes (55 per cent have an income of £10,001-£30,000 p.a.) and cash savings of less than £10,000. They are largely working age (70 per cent aged 18-54). They have a bias towards retirement products; they are the only one of the four key segments to hold pension products (personal or stakeholder pensions) over any other product. This segment could be accessed via a streamlined, low-cost advice service such as an employer-provided IFA focused on retirement.

Building the right mix of products, pricing and channels

Many financial advisers, especially IFAs and banks, have outlined their strategies in response to the RDR. Leading insurance firms and investment managers are considering the implications of these adviser moves for the distribution of their retail investment products and have adjusted channel strategies accordingly.

However, few product providers have realigned the way they distribute (channel strategies) with their customer segmentation strategy taking into account how each customer segment will react to the RDR in terms of prices they demand, channels they are likely to use and the formats of advised or non-advised distribution they prefer.

In the first instance, three areas need to be considered:

Direct-to-customer

Owning the customer relationship will be a real departure for product providers with limited experience of selling directly to customers and without the necessary infrastructure. These providers need to choose the right combination of platform and pricing to attract the target customer segments identified in their segmentation strategy. Providers will need to consider:

- How to price low cost products with traditional acquisition costs removed.
- The extent to which a relationship will be developed with the customer, which will determine the required investment in customer-facing capabilities.
- How to manage the opportunities and threats arising from the migration of customers from adviser distribution to direct channels.
- What types of brand and marketing are required for direct-to-customer sales in the target customer segments.
- How to mitigate the risk of commoditisation by differentiating products and services on factors that customers will consider other than price, e.g. product simplicity and comparability.
- How to invest in digital and other types of technology to make it easy to use and to create as a sense of dialogue and community with users.

Partnerships

Some providers may look to strategic partners to provide the customer interface and/or sell their white labelled products. Providers will need to consider:

- How to analyse and select partners based on their ability to reach and win target customers identified in customer segmentation strategy.
- How best to leverage partners' experience in dealing directly with customers, e.g. how to collaborate with partners to use their customer data to carry out analytics.
- How best to leverage partners' brands and other key customer assets.
- The extent to which they will manage and direct partners and the required interface.
- How to create mutually beneficial remuneration arrangements with partners not based on commission, and which secure a sustainable relationship.
- How to develop the process and technology support to maximise straight through processing and integration between the infrastructures of the product provider and partner.

Advisers

Product providers' current adviser networks may be unsustainable post-RDR in their current forms – and those that survive may have radically reshaped their offerings and client bases. Assessing the likely winners and losers among advisers, and which of the winners are best placed to support their distribution strategy, will be a key activity for those seeking to continue with adviser-led distribution. Providers will need to consider:

- Which advisers are likely to succeed post-RDR based on customers' willingness to pay for their services, e.g. high-end IFAs or those taking advantage of workplace or streamlined advice to offer affordable advice.

- Which of these winning advisers have the best strategic fit given target customers.

- Which advisers are unlikely to succeed post-RDR, e.g. those without sufficient differentiation in terms of scale or quality of service.

- How to compete for winning advisers, e.g. via product manufacturing processes that allow advisers to offer tailored products to high-end customers, or via software which increases the quality of adviser service.

- What new capabilities are required to support advisers, e.g. integration into advisers' technology, salesforces with consultative-selling skills and marketing campaign processes.

Retail investment product providers will need to not only work out their optimal responses in each of these channels, but also develop a framework which blends all three customer interfaces in an integrated channel strategy. Customers might use multiple forms of channel, e.g. direct-to-customer for some transactions and products (such as ISAs), and advised channels for more complex products and services (such as pensions and inheritance tax planning).

Conclusion

The RDR will lead to the biggest shake-up of the retail distribution landscape in recent years, fundamentally altering established ways of doing business.
For advisers and providers that fail to adapt the future holds many questions, but for others the next few years will be a time of excitement and opportunity.

The advent of AC after December 2012 is likely to prompt many customers to leave the adviser market. Either they will be disinclined to pay adviser charges or will be de-prioritised by IFAs and bank advisers seeking to reposition themselves in the new landscape.

The pool of displaced customers will be large and diverse. For providers, this represents a major opportunity. However, to be successful a targeted approach is required, using customer insights to identify segments and provide appropriate products and services through an optimal channel mix. The task ahead is likely to be complex and challenging, but the potential rewards are great.

Research methodology and notes

Survey methodology:

- The survey of 2,140 UK adults was conducted on behalf of Deloitte LLP by YouGov Plc on 30 May – 1 June 2012.
- The survey was carried out online.
- The figures have been weighted and are representative of all UK adults (aged 18+).

Note to Figure 2:

- The proportion of customers claiming to use the non-advised channel (54 per cent) is likely to be an over statement. This is due to customer confusion over what constitutes 'advice'. Many customers believe adviser services are free (for example, 87 per cent of customers who purchased a product through a bank adviser in the past three years). As a result, many customers think that purchases through advisers are non-advised.

Website/internet platform:

- 11 per cent of customers considered the services they received from websites/internet platforms as advice. This is in part due to questionnaire bias. It is also likely that a proportion of these customers thought they were receiving advice because they were using adviser firms' platforms.

Note to Figure 5:

- Customer willingness to pay is the percentage of customers who have used the channel in question (to arrange savings, investment or pension products (excluding mortgages) in the past three years) who would be willing to pay a one-off fee of £300+ for advice from that channel. Sample sizes: UK adults who have used an accountant or solicitor (47), IFA (252), bank adviser (291), employer-provided adviser (121) or website/internet platform (207) for advice in the past three years.
- Penetration is the percentage of customers who have arranged savings, investment or pension products (excluding mortgages) in the past three years by channel. Sample size: 1139 (all UK adults who have arranged savings, investment or pension products (excluding mortgages) in the past three years).

Note to Figure 7:

- The number of customers falling into the advice gap by segment is shown in the green boxes.
- Percentages indicate channel use by segment.
- Arrows indicate whether a channel will likely increase penetration across wealthier customers (up) or poorer (down).

Calculation of potential advice gap:

- Identification of segments most unlikely to pay adviser charges or be excluded by advisers.
- Quantification of advice gap segments based on savings/investment market size per segment and usage of bank advisers and IFAs per segment.

1. Based on ONS Mid-2010 Population Estimates
2. Based on ONS Mid-2010 Population Estimates
3. http://www.moneymarketing.co.uk/investments/lloyds-axes-mass-market-investment-advice/1058592.article
4. http://www.moneymarketing.co.uk/investments/lloyds-axes-mass-market-investment-advice/1058592.article
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