SIXTY SECONDS ON

THE FUTURE OF INTERMEDIATION

The growth and dominance of intermediaries in retail financial services markets is beginning to worry providers, many of whom want greater contact with their customers.

Adopting innovative technolgy will be the key to lenders' survival in a market dominated by intermediaries

Mortgage intermediaries have had an interesting time of late. The industry is fast moving, and not only have brokers had to adapt to the challenges of a regulated environment, but they have also had to embrace a number of technological developments that have impacted on the sourcing and processing of mortgage cases on an every day basis. These developments have enabled intermediaries to work more effectively, and to provide an exceptional service to their clients, and this rapid innovation looks set to continue in years to come.

One of the biggest developments in the mortgage industry in the near future is likely to be the availability and accessibility of data. Automated valuation models, which allow property data to be accessed at the touch of a button, and cut out the need for time consuming manual valuations, are already becoming common place. Whilst they are not currently available for all properties it is only likely to be a matter of time before data is held on much of the UK housing stock.

The potential benefits of being able to access data in this way are obvious, and in the future these advantages need not be limited to property. Perhaps it is even possible that borrower data could be made available in a similar way. For example, there is no reason why a client coming into an intermediary's office, couldn't have their entire social and financial profile gathered on a microchip that also provides access to their banking arrangements. With the use of wireless technology, personal data could then immediately be uploaded into the requisite systems for a mortgage application.

Although this scenario is still a long way from being reality, the fact is that such possibilities are already being investigated by financial and commercial institutions across the world. Indeed the mortgage industry is already looking at ways of facilitating cross system communication, an initiative that could potentially irradicate the need for multiple data entry. Within the mortgage industry huge potential exists to improve accuracy, speed up transactions and cut out duplication. As IT develops, the potential advantages for mortgage brokers will know no bounds.

The likelihood is, however, that the gap will quickly grow between lenders in the industry who are quick to adopt innovative technology and those who are not. This gap is only likely to expand in the coming years and providers who make sure they are on the right side of it are likely to be those who are most popular with brokers of the future.

Michael Bolton CHEIF EXECUTIVE, EDEUS

Intermediaries are trusted advisers in a complicated world

They say information is power, and it's true that today's customer is more informed than any previous generation of customers. Google has a mission statement to 'organise the world's information and make it universally accessible and useful' - testament to the power the Internet now has over our daily lives. Used effectively technology is highly empowering for consumers. It is also changing and will continue to change the role of intermediaries across a swathe of industries.

Recent research showed that more than 50% of consumers now assemble their own package holidays. Online booking, direct with airlines and hotels, has grown exponentially. Does this reflect a decline in the role of intermediaries in the travel industry? Probably - yes.

New types of online intermediary like www.TripAdvisor.com and www.Holidaytruth.co.uk are powerfully connecting the pensioner just back from China and sitting in their living room in Adelaide to share their holiday experience of the Best Western Beijing with the German family about to embark on a similar trip. However many of us are happy to rely on our own experiences of travel brands, advice from family and friends and connections made on social networks like MySpace to give us the confidence to make the right choice.

My experience of financial services having joined Scottish Widows in 2005 from an FMCG environment tells me this industry is different. Our research shows that although customers know preparing for the future is important they find financial planning complicated and financial services companies distant and remote. Add to this the fact that when our customers buy one of our products they are entering a long-term relationship with us, often over 25 to 30 years, and you can understand why in contrast to the travel industry the market in financial advice from trusted experts has never been stronger. Indeed it has grown by 56% over the last five years.

Few people feel confident making the right financial choice and technology will change the way consumers communicate with their financial advisers and fund managers, increasing the amount and quality of information available to them. What it won't change is the central role of the trusted adviser in managing their money.

Mike Hoban CUSTOMER AND BRAND DIRECTOR SCOTTISH WIDOWS PLC

New distribution models are needed

The Financial Services Authority's Review of Retail Distribution has the potential to produce the biggest shake-up in years to the way to the way consumers access and pay for financial advice.

The difference with this review compared with other legislation is that the FSA has stated its desire to achieve industry-led solutions to some of the issues currently affecting the way that savings and protection products are distributed. It is an opportunity that all of us in the industry – banks, insurers, and advisers - should grab with both hands.

The fact is that while the existing IFA channel serves a certain segment of the market very well, business models are increasingly concentrated on the higher end of the market. Industry analysts have demonstrated that while overall commission levels have risen in recent years, net new business levels have declined – hardly an effective route to market for major providers.

As we are all only too aware, the UK population is still not saving enough for their retirement, or taking out enough protection, at a time when life expectancy is rising. There is a clear need for the industry to provide more effective solutions to customers to inspire them to get engaged in thinking about their financial futures.

While the IFA sector may continue to be the right choice for the high net worth market, to attract more middle market consumers, new distribution models are needed. These might be simpler in terms of choice and level of advice and more affordable than the fully-fledged independent financial advice currently available. These simpler models need not be tied to a particular provider. They could involve bringing together suppliers that are 'best of breed' in each segment.

The fact is that for the majority of the population, protection and long-term savings products are an area where most people welcome some form of guidance. Recent AEGON consumer research suggested that this guidance could take many forms – with participants mooting concepts as diverse as, "eBay style adviser ratings", "a personal financial trainer" through to a "retail environment such as the Carphone Warehouse" - as their ideal means to address their finances. Could the review represent the catalyst that finally propels the long-term savings industry to adopt the same customer focus that has driven the success of other consumer industries in recent years?

The review offers us a chance to examine comprehensively all existing channels and to explore new ones, with a regulator prepared to listen and act if necessary. Ultimately, we have a chance to improve the way that the industry serves customers – and in doing so, to improve our market penetration. As marketers it is our duty to seize this opportunity.

Otto Thoresen, **CHIEF EXECUTIVE AEGON**

The Retail Distribution Review will impact on IFAs

I have spent the last fourteen years of my career working in marketing at Standard Life. During this time distribution through intermediaries – primarily Independent Financial Advisers – has been a crucial part of our business model.

For much of this time there has also been considerable speculation about the demise of the IFA. Commission disclosure, stakeholder pensions, the power of the banks, the increase in the average age of the typical IFA, the rise of direct players in general insurance and the increasing role of the Internet in our lives have been amongst the reasons cited. So far these factors have not led to the demise of the IFA. In fact IFAs still control around two thirds of the distribution of long term savings products. What is clear is that IFAs have had to adapt to survive, and that the change that we have seen in the distribution of long term savings is only going to increase.

The review of retail distribution being conducted by the FSA will have a very significant impact. We are already detecting a rise in the number of IFAs who are choosing to be remunerated by fee rather than commission, and this is a trend which is likely to continue and indeed accelerate in the future.

The successful IFA of the future will be the one who builds and cultivates relationships with a small number of valuable customers. These customers will increasingly do some research themselves, but they will have the need for, understand the value of, and have the means to pay, for on-going financial advice. These customers will typically be the more affluent and aged 45 plus.

Inevitably this is going to mean a reduction in the number of IFAs in the market, but also an increasing focus on professionalism amongst those that remain, and increasing interest in the development of aggregation platforms.

What will this mean for the consumer? For the older wealthier consumer who knows the importance of financial planning and has the means to pay for it, it is likely to lead to better advice and more holistic financial planning. What it means for the younger consumer and those on low and medium incomes - who are arguably more in need of good financial advice - is that such advice is less likely to be available.

This obviously raises important questions about long term financial planning and the overall savings rate in the UK, but that is a whole different debate.

Martin Slater **MARKETING DIRECTOR STANDARD LIFE**

Regulation is good for intermediaries

More words have been written about the impending death of the financial intermediary than have been penned on Paris Hilton's interment in a penitentiary. That's a lot of words. Although poor Paris has struggled in vain to obtain a 'get out of jail free' card, the intermediary sector has been more fortunate and is currently on a suspended sentence charged with proving its worth to the wider financial services sector.

This it is doing very successfully over a range of disciplines – mortgages, pensions and investments and general insurance. This is despite, or possibly because of, increased regulation. The past couple of years have seen the mortgage and general insurance sectors join the investment sector in coming under the remit of the Financial Services Authority. Although this has posed challenges, especially to smaller firms in terms of meeting compliance demands, it has also boosted credibility in the eyes of the general public.

The consignment to the dustbin of depolarisation could have had a detrimental affect on the independent financial adviser sector, but to date there has been little evidence of this. At the same time, never has the need for independent professional advice in the mortgage sector been greater. Choosing a mortgage is becoming increasingly hard. There are now over 4000 mortgage products in the marketplace and prospective borrowers need advice before they have the confidence to proceed with applications.

Brokers' ability to independently source the right products for clients together with their market knowledge makes them invaluable. Lenders also recognise that their broker base represents a low cost distribution channel and now almost two thirds - or just under £200 billion - of mortgage lending originates from the intermediary sector.

Many mortgage intermediaries have also diversified and expanded their remit to recognise the opportunities presented by the debt consolidation, remortgage and secured lending sectors. Another sector that has proved profitable is buy to let and mortgage brokers willing to diversify have reaped good rewards.

The general insurance broker has come under greater strain. As well as direct selling of insurance over the telephone and internet, added pressure has come from consolidators and aggregators. This is particularly true of smaller general insurance brokers. However, these smaller firms have taken a leaf out of the mortgage sectors and come together in networks and clubs to increase their bargaining power with product providers.

Far from their days being numbered, intermediaries in all financial services disciplines face a prosperous future. Product providers value their expertise and close customer contact, networks have evolved to provide route to market and much needed compliance support and technology has opened up lucrative new markets such as secured loans. Promise will continue to value its brokers by offering consistently high service standards and market access, building a sustainable and profitable future for both parties.

Steve Walker MANAGING DIRECTOR PROMISE SOLUTIONS