Interview

SEEING THE CUSTOMER NEEDS

The newly-appointed chief executive of Aegon UK believes in listening to customers. Otto Thoresen explains to Anthony Thomson how this has shaped his strategic approach.

How would you describe your vision for Aegon UK?
We think in terms of three very different businesses in the UK – a life and pensions business; an asset management business; and the distribution companies that are the newest part of the group.

At the highest level, the vision is to build the best long-term savings and protection business in the UK market – and that's something that everybody in the organization has now heard from me personally over the last six months.

When I started, I didn't talk about it as simply as that. I tended to build up a big story about all the issues and concerns that had to be addressed and all the subtleties of what we're trying to create, but then I realized that that's not actually what people want. They want clarity about direction, and our simple and straightforward vision does neatly sum up all the elements of what we're trying to do.

And how does Aegon UK fit within the broader group strategy?
At the moment, Aegon is substantially an American group, in the sense that, after the TransAmerica acquisition, it accounts for about 70% of earnings. Aegon has a large share in the Netherlands, but it is quite a mature market, so the growth potential there is rather less – which is why the group would like to see the UK delivering a greater proportion of the total in terms of earnings and new business, because they see that we have a good, strong position here.

Compared with many other markets, the leaders here still have quite small shares, so there is potential for market share growth. There are only two problems. One is the ability to achieve acceptable returns on the capital invested, and that has been significantly impacted by the advent of stakeholder pricing. That is a challenge for a pensions business like ours, but it is manageable – partly because stakeholder charges are now 1 1/2% instead of 1%, which gives an opportunity to make a positive return; and partly because there are growth opportunities for us outside the pensions sector.

The other issue is the risk attached to the return of capital, because stakeholder pricing only allows companies to take significant charges through the annual management charge, which means long pay-back periods in which they are exposed to the persistency risk – and that is as big an issue for the group as are investment returns.

We have addressed the returns issue with some fairly significant financial management initiatives over the last two or three years, but there is still a question mark over how the UK market will move to a position where the interests of customers, distributors and providers are aligned, and also whether the persistency exposure that the providers currently carry is manageable.

Markets like Brazil, Russia, India and China, with GDP growth of 8%+ must be much more attractive in investment terms. Doesn't that make it difficult for you to access capital from the group?
Not at all. Aegon has ambitions in those growth markets – there have been some significant developments in Taiwan and China, and in Central Europe – but it is looking there for earnings growth in ten or twenty years time. But it also wants to see earnings growth and development in its mature markets on a five-to-fifteen year horizon. What we have to demonstrate is our ability to achieve the right kind of risk balance and the right kind of growth in returns.

Over the past five years, our focus in Britain has been on "managing the stock" – cost control, margin management, mix management, trying to stabilize the position so that the capital already invested in the business achieved the desired returns.

That has naturally played to the financial disciplines in the leadership team, but now we are increasingly turning our attention to the marketing management disciplines, because that is where profitable future growth will come from – as long as those disciplines are applied well! So we will still keep the strong focus on financial discipline and shareholder value; but this will increasingly be blended with the identification and development of winning consumer propositions that differentiate us from the competition and give customers real value – and thus generate the shareholder value as well.

Otto Thoresen trained as an actuary, but has worked in marketing for most of his career in financial services.

He was Marketing Manager with Scottish Equitable until 1988, when he left to work with Abbey Life and then Royal Life, before rejoining Scottish Equitable in 1994 as Director of International Business. He was appointed Corporate Development Director in 1997.

On the formation of Aegon UK in 1999, he became firstly Group Development Director and then Finance Director, during which time he worked on a number of acquisitions. These included the purchase of the GRE life businesses in 1999 and the establishment of Origen and Positive Solutions by the merging of six smaller IFA businesses. Otto was appointed Chief Executive in April 2005.

How will you differentiate your brands in the UK from your competitors?
A lot of this is about ensuring that we demonstrate the capabilities that matter to our customers. We have made several quite small acquisitions in the past few years that will help us with this.

For example, Aegon Benefit Solutions develops worksite communications software – adding to the corporate pensions proposition in a way that is very oriented towards the decision-makers and corporates, because it allows them to get full value from the contributions they're making, but also to the employees, who get a huge amount of potential empowerment to understand their financial affairs and financial futures. And we have HS Administrative Services, a very specialized business focused on defined benefit and defined contribution third-party administration.

And the acquisition of the IFA businesses brings us an advisory capability and insights into customer needs

and customer requirements that can help to shape the way we build our propositions. That process is now getting really well-established through Origen and Positive Solutions – two very distinctive models.

The challenge for us now is to deploy these capabilities in a way that recognizes customer needs better, both in the corporate sector and in the individual markets. But most of the classic life companies that compete with us don't have these extra capabilities, so that gives us extra scope.

The trick for me in the next few months is actually now to turn that round and built it from the customer in – so in the corporate sector, we need to work out how we are going to deploy our capability in a distinctive way that gives better solutions to the needs of those corporate clients than anything they can get anywhere else. I know from my own research that this can be done: I've gone out and talked to these people over the last six or nine months, to these medium-sized corporates with 200–2000 employees, where there is just a complete dearth of services at the moment. Nobody is really engaging with them to deliver on the *real* requirements that these people have.

That's a bit dangerous, going out and talking to your customers!

It's a fascinating experience. I go on corporate pitches, and I learn a huge amount.

Historically, the industry has a poor record in managing its own sales forces, and no-one has really made worksite marketing work in Britain. Why do you think you are different?

The worksite marketing that you are talking about is very focused on product and channel. Our approach is different.

We have a group pensions service that our corporate clients are very interested in, because they do want to set up a defined contribution arrangement for their staff. But actually their real objectives are not putting the mechanics in place but the benefit to their staff of knowing that their future well-being is looked after.

If we understand that peace-of-mind aspect, we can build in an added-value service that will differentiate us from our competitors – for example, giving staff the facility on their PCs to update their current position, or do a bit of pension planning or, if they need advice on a particular situation, to see an advisor. That can then be extended into other services for employees or for the corporate client. For example, if the company also has a closed final salary scheme, we can offer a system with a very friendly front-end that joins that up with the new scheme, so that their admin unit can see the full pension picture.

It's the sort of flexibility that we are now used to in other markets. You can access the services of Tesco on-line, or in one of their big out-of-town supermarkets, or if you live in the middle of town you can walk round the corner and there's a wee one just sitting there with all the stuff you need to make the supper. Letting customers access your services in a way that suits them is at the heart of differentiation.

It is also a very different world now in terms of managing sales forces. You were talking about product-pushing and transaction-based activity. We have taken ownership of advisory capability with quality management – our contribution is to provide Origen and Positive Solutions with financial backing, support and the access to the kind of resources that big businesses can give them. That's not just the money side, but also HR capability, IT capability, the whole works.

We offer them access to those capabilities on a very cost-effective basis, This backing has created a strong and stable IFA company in the shape of Origen, which in turn has led to its recent partnership with Resolution Life.

At Resolution, Clive Cowdery takes a long-term view of service to those customers he's taken responsibility for within the closed-fund life companies that he's bought. He wants an advisory business that he knows is of the right quality, with the right kind of research capability behind it to do a good job to a predictable standard, and which he knows will still be around in twenty years time. That's the real added value of being part of a global financial services group.

Do you look at your advisory business in terms of a hurdle rate or the added value it brings?
The acquisition of the advisory businesses and the investment we make in them is entirely cost justified, benefit justified on the earnings they are going to generate as advisory businesses.

So all the other stuff's a benefit?
Everything else is a benefit. I think about the business in terms of our capability across the business as a whole, rather than the silos of activity in which it is currently organized. That brings in an extra insight, a genetic diversity if you like, in the way people think about the business and the way they think about customers.

That is massively valuable. Of course, having done three or four years as finance director, I know that the financial disciplines have to be there too, but the potential for explosive growth comes from an ability to organize this in a way that competitors haven't organized it, to deliver something that is quite, quite different – and that's the exciting part of the job.

But you need to be patient, too. You know you have the capacity to build something compelling and exciting and fantastic with it – but you know you can't do it all yourself. So you must have the patience to get the plans laid out right and get the other people working together and assembling the component parts. That's why I've spent the last six months engaging with our 4,500 staff – and as they begin to see the full potential of our business, they should be as excited as I am.

And it's working?
Yes – and it's great fun. One of the things we did at a management level was to introduce a "quarterly business review". Over two days, the finance director and I meet the heads of business – not the managing directors but the people running the business areas – and whoever else they want to bring to talk about what we're doing; what they've just been doing; what they're going to do next; the things that are frustrating them; the things that are going really well; where the blockages are.

And by the time you have listened to everybody, you get an all-round picture. Whether, for example, it is a real blockage, and whether there is something you can do about it. It lets me get engaged and understand where everybody is in the whole machine, but the staff love it as well because they sense the energy in the process.

Afterwards, I can take these messages to the senior management and then on to all the staff. I can talk to them about what is happening in *their* world, and about what has happened since we last spoke. And I can also prepare them for what is about to happen.

For example, we had a bit of a setback on sales in the first quarter, down 17% on the previous year. It wasn't a surprise, because it resulted from actions we had taken, but I think in the past our tendency would have been not to talk about "not very good news".

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Instead, we took the message to staff at least a week before it would appear in any newspaper, explained what was behind it, what we thought would happen next, and how we thought the papers would cover it – because although the world has to get orientated to profitability, sales volume still tends to be the measure of how big, or small, or how successful you are. As it happened, we didn't get the negative coverage we were expecting, but our people are really responding to the different style.

It is refreshing to hear a chief executive talk so enthusiastically about customer-centricity, but as a CEO (and an actuary) you have quite an unusual background. You've been a finance director for a bit, but for most of your career you've been in marketing. So what does marketing mean to you?
It has changed as time has gone on. When I joined the business, I was just trying to find some way to use my mathematical background and the qualifications that I had built up. I fell into the marketing department early on – although in those days, marketing was not much more than producing brochures for intermediaries – and that opened up a whole load of doors that I didn't even know were there.

I discovered an ability to communicate that I hadn't known I had. That ability was probably just relative to most actuaries, but I traded on that for a while, and that gave me an opportunity to get engaged with people in the value chain – which set off a few lights about how business worked.

We then started to develop some campaigns in the early 1980s, for example, explaining how important investment was to our proposition. That was unusual for a Scottish mutual, but important – because, at Scottish Equitable, we had moved away from with-profits to unitlinked very early on, and we had to get people to understand why this was a good thing for us to do.

Then at Abbey, the direct sales force let me go out and meet end-customers for the first time. I found that they were servicing people all the way from a chap in an East End two-bedroom terrace right through to the guy who ran the Ferrari franchise in West London. And I saw how complicated the issues were, and found it a bit strange that they were all getting the same products. So that was the beginning of an understanding of real customer issues.

The Royal experience offshore took me somewhere else – into overseas markets and again a different customer group – a very, very small channel with very few advisers, so we could start to partner the advisers in a way that wasn't possible in a mass-market approach.

So it has taken me twenty-two years to get to this point, but now when I sit down and listen to or participate in a corporate pitch to a medium-sized client, the information I take from the client is quite rich – because I'm mapping it against this model I've built up over twenty-odd years. But now, when I think about things we could be doing to make the proposition so much more compelling and attractive, I'm actually in a position where I could get those bits joined up.

I'm more interested in explaining what that brand proposition is than worrying about what colour it is or what name it has.

Scottish Equitable has not invested a great deal in branding over the years. Will that change?

At the moment we are reviewing how we think about the business, defining it far more from the point of view of the target customer groups. But it's very clear that building a brand in the corporate market is going to be very important for us.

And that will be the Scottish Equitable brand?

Well, I just don't know. We've done some review work on how our current brands are seen, but we have to be a bit clearer on what is it we're trying to achieve, and what the key issues are for those decision makers that I'm trying to communicate with.

There are probably two dimensions to this in that corporate space. One is relatively simple – are you going to be around in the long-term? And as I have said already, the Aegon name plays strongly to that.

The second dimension is whether there is a richness to the service that you can offer to a corporate customer that is different to what everybody else can do. There's something in there about pensions understanding, knowledge, experience, a slight hint of conservatism, all mapped onto technological wizardry. At the moment I'm more interested in explaining what that brand proposition is than worrying about what colour it is or what name it has.

I was thinking more about some research that suggested that consumers confused Scottish Equitable with Equitable Life …

There's some of that, but that is already becoming a bit of an historical issue. It is more important to look at potential customers and how they will respond to you. If you are selling motor insurance, you have to hit customers in just thirty seconds, and make sure they remember you – and how to contact you – when they come to renew.

We're talking about a different proposition. For example, the industry talks about high-net-worth individuals a lot, but often the focus seems too narrow to me – just the types that deal with private stockbrokers!

But if you look, there is a large group of other people with a lot of money and a lot of need – perhaps they have inherited money from their parents, or have share options, or have just built up a fair bit in pension pots. They are also starting to realize that, when they retire, they may live for another thirty years, and that they need to do something about that.

Now, that group will be willing to take a bit of time to understand who you are, so the brand is not about memorability but what the business stands for, what its real strengths are, and how this benefits customers. So at the moment we are building the strategy, building clarity on which target customer groups we will focus on, and building clarity on how we will differentiate ourselves. And the branding will just come along as part of that discussion.

So how will that impact on your choice of markets over the next three to five years?

In terms of manufacturing, distribution and advisory services, it seems clear that we will be focused on the corporates and that retirement market. The question we're still asking ourselves is the extent to which we want to develop our risk management propositions more.

Over the last few years, we have largely stepped back from asset protection and protection against longevity risk, because that needs a lot of capital on the balance sheet and we – and a lot of other companies – have been seeking to de-risk our book.

But at the same time, that approach means you are stepping back from a real customer need. With-profits now has a terrible name, but what it tried to do – sharing some of the risk in terms of asset value – was something that customers liked and valued. There's still a need for that, particularly in a group looking to move through into retirement and post-retirement – some sort of capital guarantee in the face of the longevity issue will be important to them. So I think it is wrong to step back from it, but at the same time, especially on longevity, it's a tricky one, because the actuarial approach of looking over your shoulder doesn't work – things can be so different in that future. So there's a mixture of responsibility and opportunity, and we are just kicking the issues around at the moment.

Your new business profits seem to come primarily from your protection business.
I think that is the *value* of new business you're talking about. Accounting profits come almost entirely from the historical business that we've written – because effectively the acquisition costs were covered at inception and we now have the annual management charges coming through.

But if you look at where new business is adding value, the pensions business has been so squeezed by stakeholder pricing that the profitability of that relative to the volume written is considerably lower than the margins and profitability generated by protection business and some other product lines – which is another reason to build that risk business.

But pensions will remain very important for you?
I think there will be a recovery in pensions profitability and margins – that's already beginning to happen.

What's your view on compulsion? Do you think it's inevitable?
I don't know that it's inevitable. I was reading a piece in *The Times* recently which talked about the fact that people used to save or were in pension schemes because they were worried about being poor in old age. They weren't motivated by the tax breaks; it was just the way they were brought up.

I think we have lost that attitude, and there is some evidence from countries that have brought in compulsion that customers just see it as the *replacement* of one form of savings by another. And if people just move their savings from one place to the compulsive pot, you haven't moved on at all.

It's a whole mindset thing as well. We're trying to engage people to make them feel more positive about their future and taking responsibility for it, but compulsion is almost the opposite of that – and might be likely to dissuade them.

When you say "we", do you mean Aegon or the whole industry?
Both. We're trying to raise the profile of this issue, talking at conferences, and in different parts of the governmental, regulatory and industry infrastructure. But we are also

trying to develop approaches ourselves – I mentioned the Benefit Solutions concept before. The tools there are easy to use, fun to play with, and let you do some scenario planning and then see what your future might be like.

But if you don't like compulsion, and if investment carrots don't work, will just talking be enough?
There are several elements to this. We've talked about education and understanding. I think fear and complexity also puts people off, so that must be addressed.

Product design is another area. The industry still operates in silos, so consumer credit happens over there in the banking world and long-term savings happens over here in the life industry. But that's a bit bizarre if you think about individual's needs – why should these product solutions be developed so far apart? We know that people go through stages when they're consuming money and stages when they're generating money; and then stages when they're consuming it again. And you are hardly likely to have much success in asking people to tie up money for forty years when they're at that stage of consuming more than they're earning.

The interesting territory is those people like ourselves who don't have that waterfront capability.

To come back to the point you made about all the financial services products being in different silos, what do you thing about wrap accounts?
Well, there aren't any at the moment, but there's certainly lots of talk about them!

For a certain segment of the market, I believe that something like wrap will come. In fact, part of our investment in distribution is about anticipating – let's abstract it from wrap to distribution service platform – a technology platform that can do a number of things. It can support an advisory system; it can support the administration of people's money; it can present information to the end-customer in a way that helps them to understand where their affairs are; and it can support the adviser in advising that client and then implementing any decisions that come. That is rather broader than just a wrap system.

All the chief executives I talk to say wrap is a great idea as long as it's ours. We don't want to support somebody else's wrap. This harks back to the war between distributors and manufacturers – and the distributors seem to have won. So do you think there will be further consolidation?
Yes, but I'm not sure that it will be as high profile or visible as in the past. There has been a very significant consolidation in the writing of new business over the past fifteen years, and some new models are now appearing to deal with closed books. I think the future focus on new business will be more concentration than consolidation, but the question is how few you end up with. Today, the market is largely made up by ten companies. Will that go to five? I don't know actually – there's a number of ways that could end up.

And how do you see the IFA market going forward?
I think the advisory market has a very positive future. The issue though is about efficiency of back-offices to a certain extent. The sector has some very good people at the front-end dealing with customers and delivering good advice, but they haven't ever really got round to organizing their systems and administration properly.

This isn't just about reducing costs, but also by analysing all the data more effectively, companies will get a much better understanding of their customers and their needs.

And what about the IFA networks?
I think that the issue is that most of the existing models have been focused on compliance services and compliance management, rather than asking how they should organize themselves to serve their customers well. But there are definitely signs of change, with the development of distribution service platforms, and I think you will see much more development over the next couple of years, which will allow IFAs to build much stronger relationships with their clients.

So finally, looking over the next five or ten years, who do you see as the winners and losers?
Well, obviously I think we're going to be a winner. I wouldn't want to identify who the others will be, but a couple will be winners simply because of their scale and their consumer brand and their momentum – waterfront players.

The interesting territory is those people like ourselves who don't have that waterfront capability but who are beginning to understand how to differentiate themselves in a sustainable way. Some of these will begin to emerge over the next three to five years but I don't think that they'll be life companies. They will have something else that gives them the orientation they need or, with more difficulty, they may have found a way to achieve that orientation from a life company's starting point. But that is really quite difficult to do. ◻