



## Retail Distribution Review: Preparing Insurance IT for Compliance and Strategic Changes to the Distribution Landscape

### Executive Summary

The Retail Distribution Review (RDR) offers a significant compliance challenge for UK insurers and advisors. While the regulatory changes will, on balance, be good for the industry, the new regulatory environment has the potential to significantly alter the distribution landscape, an eventuality for which all insurers must aggressively plan. For instance, the RDR's regulatory impact will likely drive growth in direct and bancassurance channels, but it will also encourage insurers to create a platform-like experience for advisors via existing extranets.

CIOs must prepare by ensuring they have the right enabling technologies to support changing distribution strategies. The mature use of key technology enablers will distinguish successful providers from the pack, as the industry transitions to the post-RDR world. These technologies include: rich user interfaces and portal frameworks, decision support, customer relationship management (CRM), master data management (MDM), analytics and flexible integration built on multi-channel integration architectures. Modern contract platforms will be needed to support speed to market with simpler products. Agile delivery and testing methods across the business and IT will also become increasingly necessary post-RDR, as – more than ever – insurers will need to react to changes in the marketplace and continuously update their products and distribution interfaces accordingly.

Our RDR Readiness Analysis offering can help insurers assess their preparedness for RDR compliance, as well as their maturity in the key technology areas critical for success in the post-RDR era.

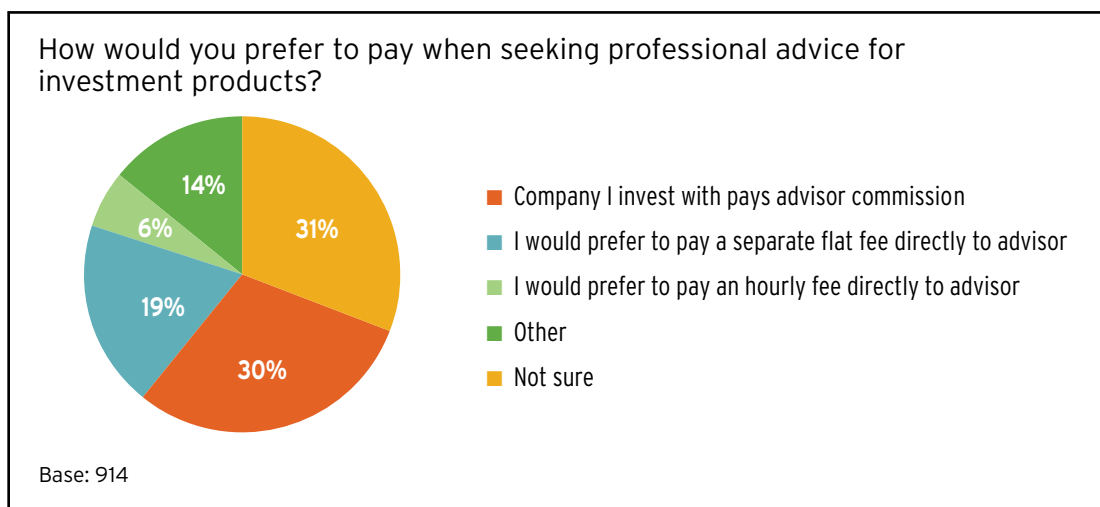
### Background to the Retail Distribution Review

In the UK life, pensions and investments sector, the vast majority of products are sold through intermediaries; hence, insurers tend to compete for intermediaries rather than customers. As a result, the recommendations provided to customers by some intermediaries may be open to the

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influence of commission considerations. Furthermore, the lack of awareness even among sophisticated investors about how much they currently pay for advice – as well as a lack of understanding of the different parties involved and their

## Attitude of Customers



Source: Harris Poll Omnibus, August 2010

Figure 1

roles – has led to declining trust by customers in the current financial advice regime and an increase in complaints to the Financial Services Authority (FSA).

Nearly one-third of customers are not sure how they would like to pay for professional advice, and very few have definite opinions on their preferred method of payment.

The need for increased transparency around fees, as well as a desire to ensure that advice is perceived as free from considerations regarding commission, has led the FSA to conduct the Retail Distribution Review.

### What is the Retail Distribution Review?

The FSA is seeking to build upon its Treating Customers Fairly initiative to restore trust. The RDR will make regulatory changes to address the lack of consumer confidence related to perceived factors, such as:

- Providers offering significant commissions to secure sales from advisors.
- Advisor firms preferring to recommend products that pay better commissions.
- Product providers determining the charges for investment advice, without customers having a clear understanding of the charge process and amounts.

Coming into effect at the end of 2012, RDR will impact all regulated financial organizations

involved in producing or distributing retail investment products and services, including banks, building societies, insurers, wealth managers and financial advisors. The FSA believes its proposals will provide greater clarity to firms, consumers and supervisors about what it means to offer independent advice. Moreover, RDR will help ensure that the FSA's rules are better equipped to keep pace with developments in the retail investment product market.

RDR is based on three main tenets:

- Improve the clarity with which firms describe their services.
- Address the potential for advisor remuneration to distort consumer outcomes.
- Increase the professional standards of advisors.

The FSA is looking to segregate retail distribution into various advice channels according to the extent of analysis carried out by the advisor and the number of needs for which it provides advice. Figure 2 describes the four main types of advice channels recommended by FSA.

### RDR's Financial Implications

The regulations specified in RDR are expected to incur significant financial overlay on all stakeholders. The one-off compliance cost with RDR is projected to total about £430m, with a further £40m annual bill for the industry moving forward.

## Advice Channels Post-RDR Models

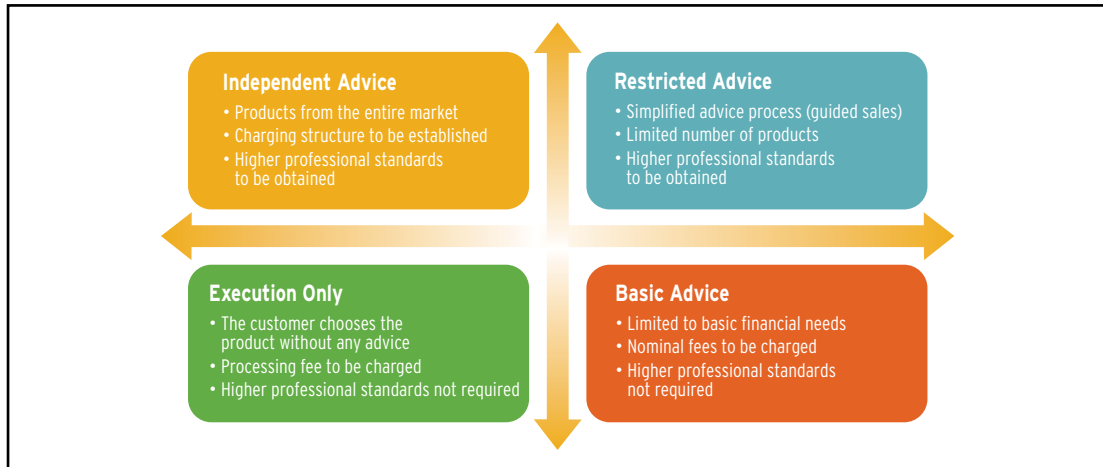


Figure 2

Figure 3 shows the breakdown of the most significant costs.

Even though the costs associated with RDR are significant, the rules should be positive for the overall industry in the long run. Advisors will be better qualified, and customers will develop more confidence in them, as well as providers. However, small providers and IFA firms will find it difficult to meet these costs. The capital adequacy ratio for the industry is also increasing, which could lead to mergers and the closure of smaller IFA firms.

### RDR Market Implications

The policies outlined in the RDR are expected to revamp the UK insurance distribution landscape. All market players will have to change the way

their business works. Customers, too, will have to change their approach toward the evaluation and purchase of insurance products.

Smaller firms may have to wind down due to increased capital requirements related to training and certifications. A significant proportion of older advisors is expected to retire rather than undertake the training and examinations required to attain the new minimum qualifications. RDR is also expected to trigger large-scale consolidation of independent financial services (IFS) firms, as well as forward integration of providers and independent financial advisor (IFA) firms.

We expect IFAs to maintain a dominant position, although there will undoubtedly be growth in

### One-Time vs. Ongoing Costs

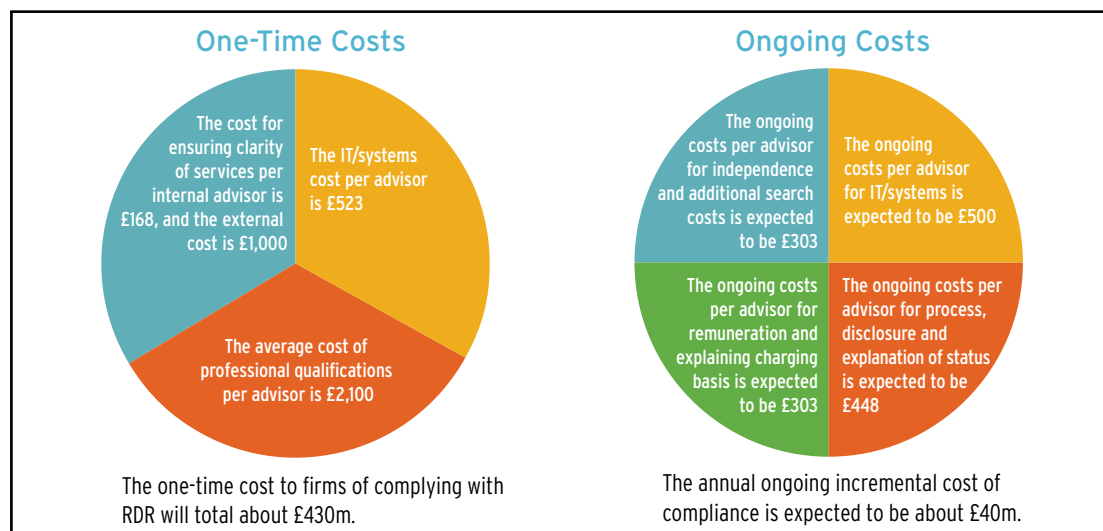


Figure 3

direct sales and servicing, particularly as the cost of advice becomes more transparent. As the commission lever disappears, insurers will increasingly need to differentiate themselves with their advisor base through their servicing proposition. In particular, advisor extranets will need to provide the diminished number of advisors with a platform-like experience across all their products (not just Wrap), with online tooling and self-

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service to support ease of doing business. The direct channel will need to support customers with help and guidance, simplified advice capabilities and targeted cross-sell/up-sell, as well as self-service.

Bancassurers are expected to be the biggest gainers in the new regulatory environment. Sales through the bancassurance channel are expected to increase, as these players are best positioned to offer all kinds of advice in the new regime.

They are expected to especially make inroads into the guided sales and execution-only revenue categories. Moreover, these firms possess the main ingredients that are required to succeed in the post RDR world – a huge supply of capital and the scale to operate all types of advice processes.

Transparent disclosure of fees and charges will lead to improved customer perception and confidence. Higher professional standards can only be a good thing, while the removal of provider-controlled commission should also help reinforce customer trust. It remains important for independent advisors to review the marketplace in which they provide guidance in order to deliver genuinely independent advice. It will be possible to provide independent advice even if a firm specializes in a narrow and distinct field, such as retirement planning.

### IT: A Key Enabler Beyond RDR Compliance

CIOs will need to ensure their IT platform(s) across distribution channels are not only capable of the changes required for basic compliance but are also sufficient for the potentially larger impact of the post-RDR landscape. From the discussion above, it should be clear that insurers need their IT platforms to be ready to meet the key expected changes in the market:

- B2C: Growth in direct sales and servicing, help and guidance in cross-sell, up-sell.
- B2B: Differentiation through self-service and platform experience.
- Ease of integration with third parties, especially bancassurance.
- Architecture and processes aligned to Agile delivery.

### Changes in Distribution Post-RDR

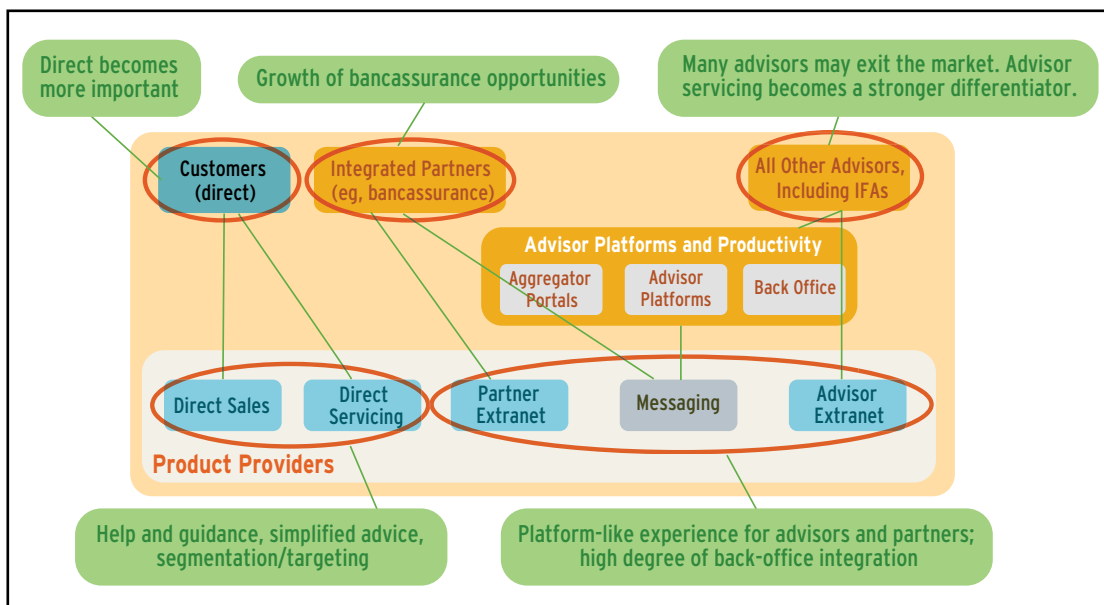


Figure 4

CIOs will need to get the delicate balancing act right for all channels, using as much common IT capability across them as possible (to control costs and promote re-use), while preparing for the differing pace of change across channels and the need to be agile and responsive to developing business strategies. Providers that align their business and channels to RDR proactively and swiftly will be able to steal a march over their competition. This could turn RDR into an opportunity to build brand and increase market share.

The high-level reference architecture in Figure 5 highlights the key technologies for successful distribution strategies post-RDR.

The flexible use of key technology enablers (post-RDR) will distinguish successful providers from unsuccessful ones. These include:

- An understanding of the customer and great customer service, achieved through MDM and CRM technology, together with business process management.
- A great user experience with self-service capability on both advisor and direct channels. This will be primarily Web-based but with an

increasingly mobile flavor. For customers, this needs to be intuitive and include sufficient help and guidance. For advisors, this needs to be task-oriented, with tools and services helping them perform their jobs more effectively.

- Decision-support technology and analytics will be crucial for simplified advice models and personalized marketing.
- Modern contract platforms will come into their own that are more tuned to simplified products, with configuration rather than coding to provide speed to market.

### Cognizant's RDR Consulting Offering: RDR Readiness Analysis

Our RDR Assessment Framework provides a comprehensive assessment of the RDR readiness of life insurers. The framework performs an analysis from two perspectives: operational and strategic.

The operational analysis measures RDR compliance, while the strategic analysis helps the provider derive competitive advantage from:

- An assessment of the organization's maturity in key technologies that will be used in the post-RDR world.

## Key Technologies for Distribution Post-RDR

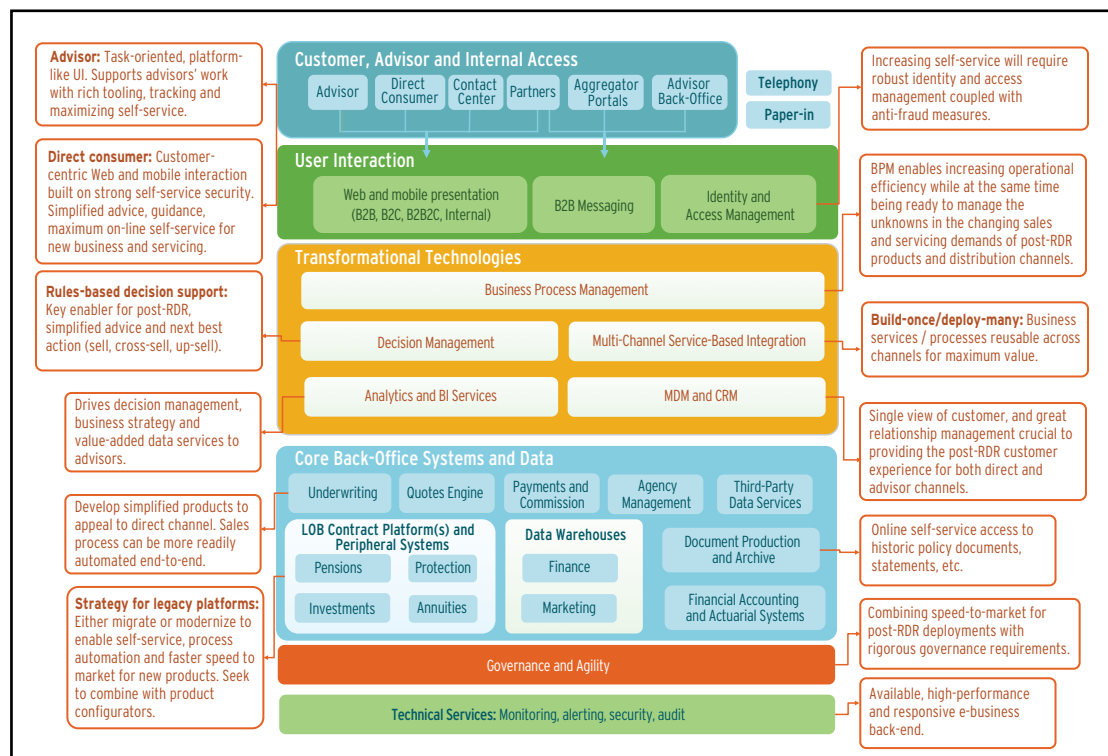


Figure 5

## Cognizant's RDR Readiness Framework

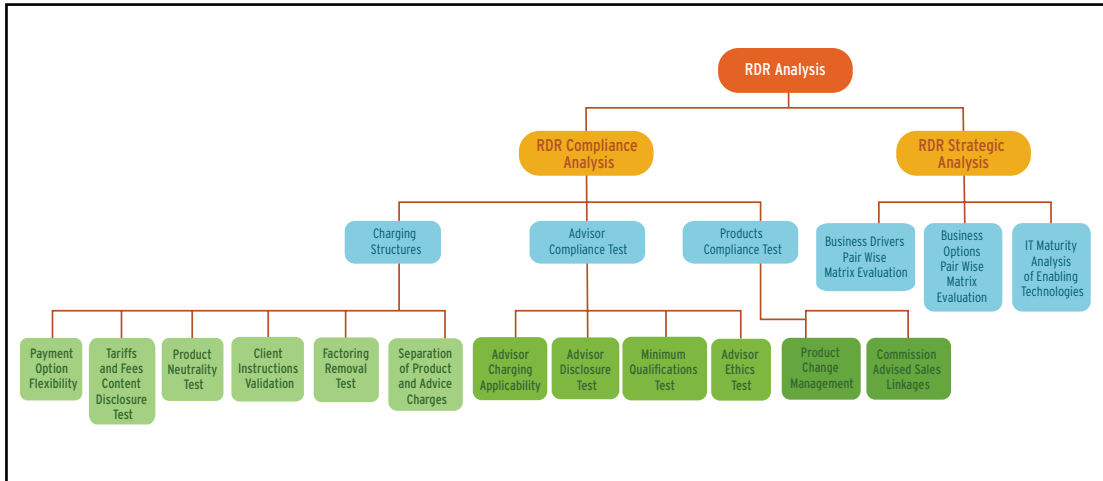


Figure 6

- A quick and efficient implementation of the regulation.
- More streamlined business and IT processes.

This analysis is carried out through a series of tests to the business processes, policies, organizational structures and IT systems. The end result: Generation of an RDR compliance implementation dashboard with a detailed roadmap to ensure RDR compliance, as well as a future business map and a strategic options dashboard to provide market advantage from an RDR perspective.

Benefits to the insurer include:

- External guidance in the still-evolving RDR compliance landscape.
- Metrics-driven assessment within budgetary and other organizational constraints.
- Enterprise-wide clarity with better insight into the probabilistic impact of RDR regulation.
- An IT readiness assessment for post-RDR

### Reference

<http://www.fsa.gov.uk/pages/About/What/rdr/index.shtml>

Harris Poll Omnibus

changes, such as increased direct propositions, online self-service and agile delivery.

- A roadmap for IT landscape post-RDR compliance.

### Moving Forward

RDR is expected to significantly alter the distribution landscape of the UK insurance industry. This includes the way distributors are trained, give advice, provide services and are paid, as well as the relationships they have with the suppliers of financial products. Customer behaviors are likely to change, and the service proposition that insurers offer advisors will need to be stronger.

To take advantage of these changes, insurers and distributors require an IT platform across distribution channels that is capable of supporting self-service, simplified advice and products, as well as responding rapidly to changing market requirements.

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## About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 111,000 employees as of March 31, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at [www.cognizant.com](http://www.cognizant.com) or follow us on Twitter: Cognizant.



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