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making financial sense of the future

The Provider Distributor Relationship

under TCF

Friends for ever?

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Friends Provident

The Provider Distributor Relationship

1. Some initial thoughts ...

2. The Three Party Process

3. Who Owns the Customer (and MI etc)?

4. "Responsibility Knocks"

5. The Friends Approach

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Some Initial Thoughts

A quote from a "Chief executive Officer":

"I can best describe my experience of nearly 40 years at sea [as]... uneventful. Of course there have been winter gales and storms and fog and the like, but in all my experience I have never been in an accident of any sort ... I have seen but one vessel in distress ... I never saw a wreck and have never been wrecked, nor was I ever in any predicament that threatened to end in disaster of any sort."

Is this our view on TCF?

We all treat customers fairly?

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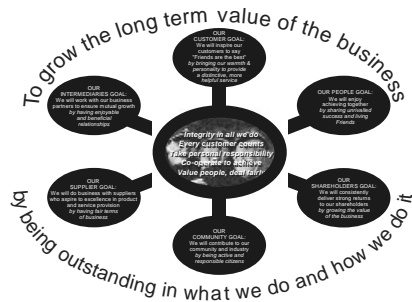
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Initial Thoughts

1. We all "feel" we **ARE** treating customers fairly
2. The challenge is proving it!
3. Friends do not see TCF as a project but as a cultural element to be embedded across the business
4. Represented by ...

The Balanced Profitbook
"Building Trust and Value in the Future"

The balanced stakeholder model



The Balanced Profitbook
"Building Trust and Value in the Future"

Initial thoughts

Why should you be thinking about TCF?



The Balanced Profitbook
"Building Trust and Value in the Future"

Initial Thoughts

TCF is relevant if you deal with:

- Business Strategy
- Product Design & Governance
- Marketing and Advertising
- Sales
- After Sales Service
- Complaints Handling
- Culture and Values

The Essential Product
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THE THREE PARTY PROCESS

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The Three Party Process

- TCF papers/principles are far reaching
- But one area currently neglected:



- Intermediated Sales introduce some interesting issues

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The Three Party Process

- Advice is central to the financial services value chain
- Oliver Page speech
"Smaller firms ... may only be involved as a distributor"
- If more than one regulated firm is involved with a consumer how is the allocation of responsibility agreed?
- If the regulated firms understand the responsibilities does the consumer?

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Key TCF Indicators

Provider View Distributor View

- | | | |
|-------------------------------|---|---|
| - Business strategy | ✓ | ✓ |
| - Product design & governance | ✓ | ? |
| - Marketing / Advertising | ✓ | ? |
| - Sales | ? | ✓ |
| - After sales service | ✓ | ✓ |
| - Complaints handling | ? | ? |
| - Culture and values | ? | ? |

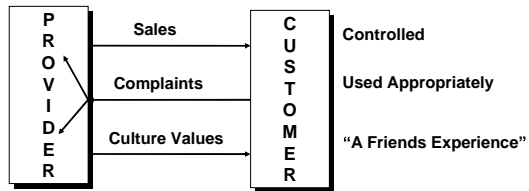
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The Three Party Process

- Depolarisation – new closer Provider-Distributor links (e.g. Multi-ties)
- Less clear distinction between IFA and AR?
- Less provider owned distribution
- Limited involvement with TCF to date?
- The role of the Distributor and more importantly the ADVICE is central to TCF and proof of fairness

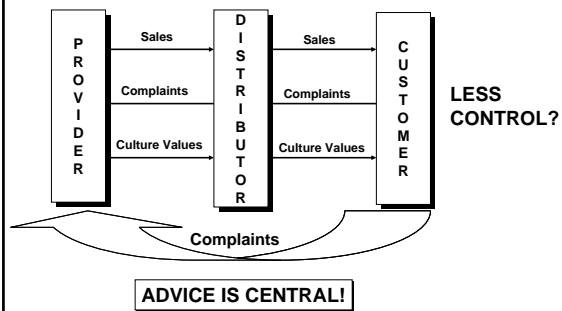
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The Three Party Process



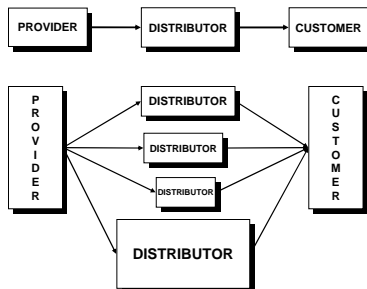
The Essential Problem
Modeling Your Relationship with the World

The Three Party Process



The Essential Problem
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The Three Party Process



The Essential Problem
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WHO OWNS THE CUSTOMER?

The Annual of Providers
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Who owns the Customer?

- Provider will know target market, control marketing **BUT NOT** the advice or "fact find" process
- Distributor (IFA/MT) will have many facets of key TCF MI
 - Suitability of product (Term/IHT)
 - Sales process
 - Assessment of advice etc
- Understandably many Distributors see the client as **THEIRS** and do not encourage direct contact
- Friends accepts TCF applies to **ALL** customers but MI will be a challenge in this context

The Annual of Providers
Making Your Difference in the World

Who owns the Customer

- Providers uneasy about responsibility for advice of Distributors and Distributors uneasy about long term suitability of some products!
- Does the Consumer/Customer see any division of responsibility?
- To what extent will Providers be able to control or even be aware of advice given by Distributors?

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RESPONSIBILITY KNOCKS

The Animal Pedicure
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Responsibility Knocks

- FSA view that Providers should “manage” their relationship with Distributors (vice versa?)
- Multi-Ties or IFA Investments may strengthen this view
- We may need clarity in literature on suitability of product and also the roles of all in the Three Party Process
- Seymour v Ockwell – implications?

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Responsibility Knocks

- Will the FSA adopt a similar approach to that for outsourcing when looking at Multi-Ties?
- Will terms such as “best of breed” cause issues in the future?
- Will panel processes be under threat/challenge?
- More questions than answers

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THE FRIENDS APPROACH

The Friends Approach
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The Friends Approach

- Stating TCF policy in distribution negotiations (first formal requests have occurred)
- Recognise the role of TCF in a “three party process” over the full product life cycle
- Initiated discussions on the two-way provision of MI
 - Provider to Portal
 - Provider to “back office system”
 - Distributor to Provider?
 - Clarity on links between investments and best advice panels

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The Friends Approach

- Use of DATA WAREHOUSE to address MI on target markets, understanding who has what and why?
- DATA WAREHOUSE can focus on product lines or Distributor client banks with FP and others
- Reviewing remuneration policy internally and externally
- A different approach to “owning the customer”

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The Friends Approach

- Agreeing a TCF approach with distributor partners
 - Clear, concise literature
 - Support of all types for advice process
 - MI for back office systems
 - MI on complaints
 - Relationship management with a customer focus
- Measure distributor satisfaction and loyalty (ORC)

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Conclusion

- Considerable uncertainty in this area
- Principles could be open to application of hindsight
- The nature of the Provider/Distributor relationship **WILL** change
- Difficult to assess the impact of this change but we remain positive!
- Profitability and volume will no longer be the sole criteria for distribution relationships

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