



Real-time data and UK Policy Administration Systems: Is your PAS choking your customer-driven strategy?

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Real-time data and UK Policy Administration Systems

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Real-time data and UK Policy Administration Systems

1. Introduction

Traditional life and pension companies are under tremendous pressure to change. Government policy is firmly set to nudge, if not push, the public into taking greater responsibility for its financial welfare. This has led to a change in the number of people looking to buy financial products and the type of products they are looking to buy. At the same time, use of technology has become ubiquitous in everyday life, triggering a step change in how consumers seek to interact with businesses.

Administration systems supporting life and pension companies must be able to offer the service levels expected by today's consumer. Sadly, many companies in this sector are still administering their business on systems that were designed for a completely different era, a world where people were expected to fit in with the needs of the business rather than the other way around.

The life and pensions market was traditionally a slow moving market, with a small number of established players whose business model had been the same for generations. Business processes were preserved much as they had been in the pre-computer era. Consequently, the demands upon the provider's supporting infrastructure were low. Turnaround time for the purchase of a new policy was measured in days rather than seconds. Requests for valuations of existing policies could take weeks or even months.

Even today, many firms operating in the sector still base their customer services on processes designed for administration systems from that era, i.e. policy based systems rather than customer based systems. Those who have upgraded to newer administration platforms are often shackled by the fact that the new systems are designed based on assumptions prevalent in the previous era. Thus, many life and pension companies find it difficult to respond to the more demanding business environment of today.

This white paper looks at the challenges facing providers in administering business in the life and pensions industry as we move towards the third decade of the 21st century, and it considers what are the fundamental requirements needed for an administration system if it is to meet those challenges.





2. New market

Since the introduction of auto-enrolment, a whole section of society has been introduced to the concept of buying financial products to provide for its own future financial wellbeing. This new market is estimated to be about 8.5 million people¹, or approximately 25% of the UK labour force². The awakening of this segment of the population to the need for personal financial protection increases the opportunity for the life and pensions sector, both to fulfil this immediate need for pensions, and to broaden this market segment by introducing it to other suitable financial products.

The recent introduction of pension freedoms is having a similar effect in swelling the market for financial products. Suddenly, there is a large number of people who have access to a significant pot of money, and who no longer have to use it to purchase the traditional 'annuity or drawdown'. As a result, there is an increase in the demand for new products from retirees – a brand new market which has money and is looking for ways to invest it. The new retirees seek far more flexible products than are currently available, products that better match their needs. These needs are changing as the population moves away from the cliff edge of complete retirement to a more varied and flexible descent into retirement via part-time working and short-term contracts.

This adds up to a vast and potentially very lucrative expansion of the market for financial products. As a result, there is a huge opportunity for existing providers to increase sales levels. As a corollary, there is a huge opportunity for new entrants to enter the market. This new section of the market for financial products has been impervious to all previous attempts to reach it. Both existing providers and new entrants need a completely new approach if they are to exploit it effectively.

The problem lies in the fact that a large part of this new market is from the middle and lower socio-economic groupings, and this cohort cannot afford to pay big fees to manage their finances. Thus, they do not come from the traditional reference points of financial advisers and intermediaries. In fact, the fall-off in IFA numbers due to the abolishing of commission under the Retail Distribution Review means that even some of those who once were connected to the industry are now unreachable through traditional channels. The costs involved in retaining the services of an IFA would be prohibitive when weighed against the amounts these consumers have to invest, even if the number of IFAs available was sufficient to meet the demand. As a result, companies seeking to address this market need to be able to reach it whilst maintaining a very low cost base, and therefore focus far more on reaching the potential customer directly.

New Market

8.5 million new consumers of financial products

Govt. campaign raising awareness of financial needs

Govt. policy encouraging increased savings by individuals

Less state support increasing awareness of need for personal financial planning

Pension Freedom

In April 2015, the government introduced 'Pension Freedom', which released pension savers to move their money into either an annuity or a drawdown at retirement age, and let them withdraw their money if they wished, subject to tax rules. This has resulted in a large number of people withdrawing their pension savings, even whilst still working, creating a new market of people with large lump sums looking for investment opportunities.



2.1 High-tech lifestyle

For most of its existence, the life and pension world was a very different place from the high-tech world we inhabit now. Actuaries worked out calculations with pen and paper. Each request for new business, a change to existing business, or a claim, was a unique event that had to be manually processed. The result was a manpower-intensive industry with service levels dictated more by the capabilities of the business than by the needs of the consumer. That worked fine in a world where people's needs were focused on protection against death or long-term retirement saving, where retirement dates were well known in advance. The manual processes could cope with these types of slow-moving events.

The arrival of computers in the industry started to change the life and pensions sector. Of course, early computers didn't have the staggering power and pervasiveness of today. In the 1960s and 1970s, when life and pension companies started to computerise their processes, computers had only a very small fraction of the computing power of today's machines and almost no graphical capability. The huge innovation then was the ability to crunch numbers – a job for which the old mainframes were spectacularly well suited.

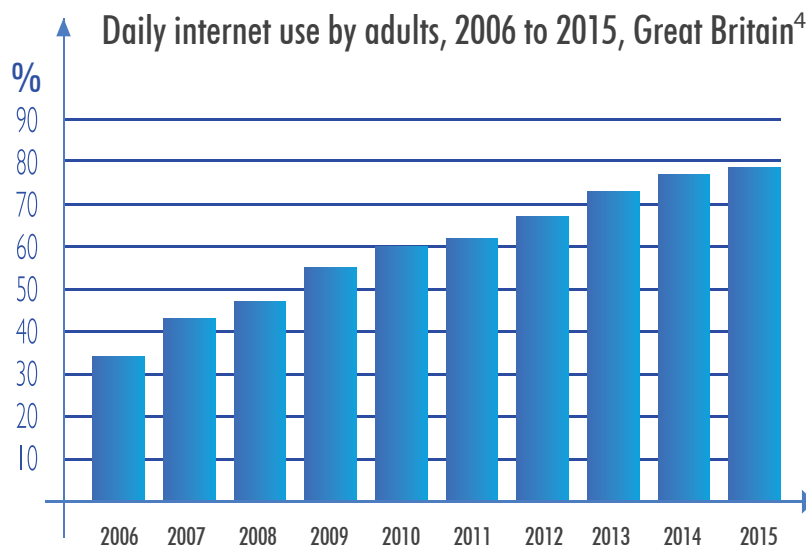
New Market Environment

Increased ownership of smartphones and tablets

Increased use of tablet and smartphone for financial transactions

Online business growing by over 11% per year in Western Europe³

Brand trust is being built over social media for the younger consumers



The downside was that these were hugely expensive machines with very rigid capabilities. Customers and those working in the business had to bend to the ways of the machine rather than the other way around.

Speed forward five decades, and personal computing has become the norm. As computers combine ever-increasing computing power with ever-decreasing size, the possibilities for the services that can be delivered multiply. Many industries, the music industry for example, have been completely transformed by the opportunities made possible by computers, with a large section of the population now buying and storing their music online or even effectively 'renting' access to real-time music via streaming services. Banks have reduced their physical footprint by closing branches and outsourcing much of their administration work to the customers themselves by letting them carry out transactions online and via automated teller machines.

Flight bookings have moved almost completely online, and this area has been substantially disintermediated, except for highly specialist products. Even the non-life insurance industry has rolled out much of its sales and servicing online to the customer, thus empowering the customer and reducing overhead, enabling them to price more keenly.

The life and pensions industry was a less enthusiastic participant in this retail revolution. Too often, existing manual processes in the life and pensions industry were merely automated rather than reinvented. The result was a more efficient way of delivering life and pensions, which was good news for the consumer, as reduced costs meant cheaper product. However, it was a missed opportunity to recast the industry and align it more with the customers' needs.

2.2 What do customers want?

Customers are increasingly more demanding in terms of the services they expect from providers. In an era of online grocery shopping, on-demand media, and mobile banking services, people are no longer prepared to wait for information until the company is ready to release it. This is a big issue for the life and pensions industry, which to date has focused more on Direct to Consumer (D2C) sales rather than D2C services. This will have to change, as the concept of requesting a pension valuation and receiving it in the post three weeks later, by which time it is already out of date, is unthinkable to today's consumers.

21st century consumers are now able to hail taxis a few streets away, book holidays and flights, and transfer money to others or between their own accounts without having to contact other people to arrange it, and all from the comfort of their sofas. Compared to this, the service levels of the life and pension industry, frequently requiring emails or phone interactions, can come across as archaic and frustratingly slow.

When people are introduced to the world of financial products, and realise how long it takes to get anything done, they tend to be shocked at the lack of customer focus the poor service reveals. This leaves a door open for new entrants to move in and take significant market share based on service quality alone.

3. Opportunity knocks

The changing behaviour of consumers offers an opportunity to existing players in the life and pensions area. Their experience in such a complex market means that they are well placed to take advantage of the new opportunities presented by the world of technology. They just have to adapt to the behavioural changes brought about by the extensive engagement of the younger generation with technology.

Unfortunately, companies never before involved in personal finance are also likely to be attracted to a market that is growing, and has relatively affluent customers. As far as they're concerned, the government's nudges towards saving means that there is a whole new market to look at; a market that is not directly attached to the old players, and may be open to new operators, particularly those with big brand names in other spheres. Add to this the fact that new entrants will have the money to put modern technological solutions into place, without being distracted by the need to service legacy business on out-dated and outmoded systems, and it is clear that they could pose a very strong challenge to existing market players.

New entrants may already be serving a large database of customers over multiple platforms, and have, therefore, cracked a lot of the issues that surround real-time, computer-based customer service. The direct to consumer (D2C) approach that existing providers have been dabbling with is the approach of choice for these newcomers. They already have a loyal customer base that has a strong trust in their brand, built up over years of interaction. Consumer trust of brands such as Google, Amazon, Apple and Virgin is much higher than it is for life and pension companies, and this trust is a fundamental component of decision making when it comes to deciding where to put your savings. Indeed Facebook and Google already have eFinance licences in Europe and are likely to expand their interest in the financial services sector over the next few years.

From that starting point, it's a short hop to becoming the provider of choice for financial services, whilst existing life and pension companies flounder in the technological marsh of moving to provide that level of customer-driven service. And finally, new entrants are used to the concept of a demand-led environment, where they have to respond to changing customer needs, an idea that has heretofore not been at the top of the agenda for the life and pension world.

A brand is more than a trademark. It is a trustmark. A brand is a covenant between the company and the consumer. A trusted brand is a genuine asset.

Larry Light, US brand consultant

4. Adapt or die

How providers need to adapt:

- ✓ 24/7 Access
- ✓ Self-service
- ✓ Multi-device capability
- ✓ Social media contact points
- ✓ Online advice
- ✓ Gamification

To meet this challenge, many life and pension companies are seeking to transform their offerings; to use the power of technology to leverage their existing services and create new ones. This is vital to their strategy if providers are to have an economical yet effective way of reaching this new market of more technically aware consumers.

Providers need to be able to give customers access to their products directly via smartphones, tablets, or via online portals. They must enable consumers to access information about their investments and savings, or to make withdrawals or investment changes, without the need for manual intervention by their employees.

This ability to automate processes, and roll them out to consumers and IFAs, is also key to providing services at a cheap enough level for the low / middle-income market that is about to expand dramatically. Companies looking to

capture, maintain, or increase their share of this lucrative market need to focus on how to provide services across multiple platforms for the right people at the right price. However, this is much easier to say than it is to do.

Many existing providers are struggling to provide fast responses to data requests whilst lumbered with graceless giants of legacy systems, churning away in the background. Unfortunately, it is usually these systems that are doing the majority of the work. Even companies using relatively new systems are struggling, as many of these are built similar to the old ones; designed around the work being processed rather than being designed to provide the services that are needed in a more customer-centric world.

5. Demanding world of on-demand services

Administration systems for a customer-centric future must be designed from the point of view of the customer. They must be designed to require minimal data input with no re-keying, as significant data entry is not conducive to the use of mobile platforms. The administration systems must give access to information in real-time rather than having to wait for batch results from overnight schedules in order to have the correct figures.

They must support graphical representation rather than lists of figures or slabs of text. People remember 10% of what they hear, 80% of what they see and do, and 20% of what they read. The capability to provide graphs and interactive tools that respond instantly to changes initiated by the customer is essential.

Studies show that people remember:



10%
of what they hear



20%
of what they read



80%
of what they see and do

Generation Moth⁶

Grown up surrounded by screens

Expect people centred design

All needs met by digital services

Digitally mediated presence
accepted as natural

Life and pension companies need to take a transformative leap to embrace the new 'always-on' world. That means being able to provide the products and services that the 'moth' generation like to consume. Administration systems must provide the analytical capability for the company to understand their customers and fulfil their needs.

Customers want on-demand services from all industries; financial services is no exception. Customer controlled services are also cheaper to administer leading to a lower overall cost per policy, and price is always a part of the buying decision of any customer.

6. Wrapping legacy systems

Many companies can achieve a lot by shielding their legacy systems behind newer technologies. This can help providers provide a lot of services out to the mixed-media platforms that are predominating today. Depending upon the legacy system in question, it is often possible for the real-time demand from the mobile platforms to be satisfied via intermediary expert systems.

Using more-modern real-time wrapping systems can make it possible to mimic modern service-led systems by using the services provided by the expert wrapping systems, and allowing them to access the legacy system data. This may allow the benefits of rapid response to be provided for most, if not all, customer services.

Wrapping legacy systems can certainly jump-start a process of becoming a more customer-centric organisation. There is a risk that the legacy systems will ensure the organisation remains system-centric, forced to work in processes that are dictated by the machine, rather than by the needs of the customer. True on-demand may only be possible for a circumscribed number of services sought by the customer.

7. Administration platform for the future

To compete in this new era, life and pension companies need administration systems that are designed to provide the information and services required by IFAs and the customers at high speed. Service-centric architecture, underlying the administration solution, means that services and functionality can be rolled out to end-users; thereby sharply reducing the need for intermediaries and administrators to mediate between the provider and the customer. Disintermediation for purely administrative tasks is the way of the future, and providers of life and pension products have to be prepared for significant portions of their business to be self-administered by their customers, or directly by agents on their behalf.

7.1 Straight through processing without intermediaries

Providers need new solutions that are designed to deliver real-time services on a 24x7 basis. Only these services will allow customers to log on and administer their own finances at a time and place that is convenient to them. IFAs also need access for their clients, as their higher net worth clients would expect them to be able to manage their financial affairs directly, rather than needing to have to go through a separate administrative process. As a result, providers need to be able to cope with large numbers of simultaneous users rather than a restricted number of internal staff users.

They also need to be able to provide these services without the need for manual intervention by staff. Manual intervention slows the process down and increases the cost. For the vast majority of people it is unnecessary, as their needs are standard and the system should be capable of providing for them automatically.

For example, there is no reason for anyone to be involved in straightforward transactions such as fund switching or claims. If the customer has the information required to complete the transaction, they should be able to do it without needing someone else to put in the details for them.

7.2 Flexible systems

Next generation companies need to be demand-led; the ability to respond to the changing needs of its customer base is going to be a feature of leading companies in the financial services sector over the next few years. This requires administration solutions that can be configured easily to respond to changing needs. Complex service delivery based on configurations of base services gives the provider the ability to tailor its customer services without resorting to major IT projects, saving both time and money.

Flexibility is another key issue, as the expanding market for financial products combines with rapidly changing personal technology to lead to an extremely dynamic marketplace, replacing the staid market of previous eras. This means that players in the market need to be able to create new products and new services and get them to market rapidly, if they are going to be able to stay at the forefront of the whole process.

Banking systems have been using mobile platforms for over a decade now, and it has inspired many new services such as transferring money to other people via mobile phones, and enabling card-less use of ATMs. These kinds of new services will only be imagined once the life and pension sector has actually engaged with their customer base in a real-time digital environment.





7.3 Right now delivery

Improvements in technology have also meant that customers have a higher expectation of instant or almost instant gratification in terms of buying and servicing their financial products. An online world needs on-demand services that give the flexibility consumers want. To provide this, companies need to be able to process in real-time in order to go the extra mile in providing services. Administration systems must first and foremost provide those services.

When customers want to know the value of their investments, they want to know it now, not in a few weeks' time when a letter comes through the post. Post delivers information that is already out of date, a concept not understood by today's generation of real-time information addicts.

7.4 Personalised services

Interactive solutions for the customer will only be as good as the quality of the data and services that are behind them. Systems need to be adaptable to provide the kind of highly personalised experiences that consumers are now getting used to from other retailers. This means that the systems must not only capture all data and customer touch-points with the systems, but also possess the ability to provide analytical capability to drive a more personalised approach to dealing with the customer base.

Real-time apps that allow customers to adjust their own financial information and to scenario plan are a must for a generation who have grown up with personalised play-lists. Those who select exactly what they want to hear and watch, when they want to hear or watch it, will not be content with generalised services designed with a one-size-fits-all mind-set.

7.4 Customer behavioural analytics

As technology changes, the way in which people use it also changes. Life and pension companies need to have the information from two angles; the types of products people are looking to buy, and how people use technology in their everyday lives. Administration systems need to be able to capture analytics, not just about the type of products and product features that are being bought by the public, but also about how they are interacting with the system via the self-service features.

It is through analysing and combining this data with the wealth of personal information that the providers already have (e.g. d.o.b., number of children, health information, work history) that the company can be enabled to predict future needs, both in terms of the product set they should be offering and the services that are needed by the consumer base. This need can also be personalised for each consumer giving them a more relevant and personal interaction with the company.

8. Conclusion








Administration systems for the 21st century companies need to be beasts of a different nature from those that provided the backbone of the life and pension company in the last century. Instead of processing the policies, now they need to provide the means to service the customer, which is a completely different way of looking at the business.

The future world of personal finance is one of primarily D2C services, where individuals are able to monitor their pension funds or investment accounts at 2am or 8pm rather than at a time that would be convenient for the financial institution concerned. Intermediaries will be reserved for complex decision making and advice.

Customer behaviour is a vital component in company strategy, and any administration system should provide access to this information to help providers spot trends as they emerge, and actively respond to them. Understanding the customer is the key to providing them with the services they need, so they should be designed to capture all the information needed to imagine and realise those services.

The checklist on the right outlines the key components for an administration system that can enable providers to be a player in the 21st century financial services sector. Systems that cannot pass this checklist will become a brake on the organisation's progress, rather than the engine they should be. For if any player in the life and pensions sector remains in thrall to its systems rather than to its customers, they will quickly find those customers migrating elsewhere.

21st Century Administration Systems Key Components Checklist

-  Real-time
-  Intuitive
-  Available 24x7
-  Integrated to external systems
-  Interactive
-  Graphic
-  Customer-centric

About the Author



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About Exaxe

Established in 1997, Exaxe is a specialist solution provider that helps life, pensions, wealth, health and general insurance companies launch new products faster, administer products more efficiently and respond with greater flexibility to the marketplace. With headquarters in Ireland and offices in the United Kingdom and the Netherlands, we provide leading edge front, middle, and back office solutions specifically for life, pensions, health, wealth and general insurance sectors.

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