

Bank & Brand Distribution of Retail Financial Services

SCENE-SETTER QUESTIONNAIRE FINDINGS

Tuesday 25 April 2017, The Berkeley Hotel, London SW1

In the run up to this Meeting of Minds, we asked you to answer some questions – our goal being to capture your thinking at a moment in time. The following are your aggregated responses. We hope you find this snapshot interesting as well as reassuring – in other words your peers are experiencing the same challenges and excitements as you are!

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THE BIG ISSUE!

I. WHAT ARE THE BIGGEST ISSUES FACING YOUR BUSINESS / INDUSTRY?

The following key issues were put forward and have been grouped in priority order:

Regulatory stuff – and there is a lot of it! And it is regulation as a cost and a business limitation. Specific mention goes to PSD2, FAMR and MIFID II.

- Regulatory changes (8 mentions)
- Compliance
- Expansion of FCA regulation overhead
- Increased regulatory burden
- Open Banking
- PSD2
- Over-regulation / lack of proportionate regulation
- Regulation (Cost to run the business, limits on innovation and scale to compete)
- Regulation as a barrier to providing holistic advice solutions
- Regulation particularly FAMR and MIFID II
- Regulation/ market intervention

Technology (feeling got at – cyber/new entrants/pace of change/competition)

- Ad blocking technology
- Cybercrime/security
- Data sharing/using data as part of future innovation
- Deciding what digital developments to back/ignore
- Digital transformation (legacy and cyber security)
- Fast changing landscape within the FinTech scene
- Investment in IT by largest providers
- Tech change
- Technological advancement
- Technology
- Technology recruitment
- Viewability
- What do we want - face to face or Robo?

The customer (how pesky are they?)

- Ageing customer base
- Changing consumer demand re product and distribution
- Consumer confidence
- Consumer confidence in the housing market
- Customer inertia
- Customer personalisation and engagement
- Customer sentiment following a potential failure in fintech
- Do we have a new demographic time bomb approaching with retired, middle class savers being squeezed from every angle?
- Engaging customers in long term planning
- Large customer credit exposures
- Savvier customers demanding more value for less

Competition (threats from technology and new entrants plus demanding customers)

- Challenger banks
- Competition (2 mentions)

- Competition from Digital Platforms post PSD2
- Competitors and technology, notably robo advice
- Increased customer expectations and increased competition
- New entrants (2 mentions)
- Remaining Competitive
- Saturated Market
- The rise in peer to peer lending (Bank of Dave etc) as savers are forced away from the relative safety of Bank and Building Society accounts

Economy (that will be the low interest rate then plus a spot of Brexit)

- BoE funding repayments
- Low interest rate environment for savers (6 mentions)
- The wider British economy post Brexit (3 mentions)
- UK Economic Growth

Business challenges (in a way this is the most interesting part as it illustrates the many pressures of modern business)

- Availability of content from other sources
- Availability of mortgages
- Discount rate cut to insurers and brokers
- Disintermediation
- Efficiency – presumably lack of it
- Fluctuations and changing energy wholesale prices
- Funding for lending and the effect on savings rates
- Fundraising regulation and the impact of opt in communications on finding new donors
- Geopolitical events across travel destinations
- Growth of credit portfolio
- HR issues
- Lack of community support meaning that people affected by dementia are isolated within their communities
- Large capital expenditure requirement
- Lean operating model
- Margin compression
- Media scrutiny of big brands
- Mistrust - a legacy of the past (2 mentions)
- Movement towards integrated channels
- National/Regional Voice
- Organisational design
- Oversupply
- Partners not being able to move as quickly as us
- Political intervention in the BTL housing market
- Public Perception
- Staying relevant
- Supply chain finance
- The burden on the health and social care system

2. HOW DO YOU FEEL ABOUT THE YEAR AHEAD ON A SCALE OF 1 - 10 (WITH 10 BEING YOUR MOST POSITIVE FRAME OF MIND POSSIBLE)?

Oh dear – not very upbeat!



7.61



Historically:

- October 2014 - 7.36
- April 2015 - 7.89
- October 2015 - 7.72
- October 2016 - 8.08

THE BUSINESS

3. SWOT ANALYSIS – YOUR STRENGTHS:

Some often used words: strength, brand, resilience innovative, agile

- Ability to save users time, hassle and money
- Agile and customer focused, small enough to care
- Alzheimer's Society is the UK's leading dementia charity. With specialist knowledge, we can provide the right support to individuals affected and help business better serve customers with dementia
- Being member focussed and funded
- Big enough to make a difference but small enough to transform and be agile
- Brand and loyalty of customers
- Brand equity
- Brand strength of trust and seen as doing the right thing by customers
- Customer base
- Customer service
- Customer service which leads to high levels of customer retention
- Digital transformation / engineering delivery
- Exploiting market opportunities quickly
- Government support for the supply chain
- Niche mortgage lending
- Our USP - providing incredible care which we do.
- P2P finance is an innovative and fast moving industry
- People, technology, competition, regulation
- Proprietary technology
- Providing data driven solutions to connect brands with their customers and target audiences
- Putting the customer at the heart of the business - current NPS score 72% which is generally not experienced within our industry. Strong proposition about saving money for business
- Resilience of business model
- Resilience to ever changing world events and being agile enough to shift priorities and focus dependent on the global impact
- Size - ability to reach for volume.
- Strength of brand and service.
- Strong technology, product, and customer experience.
- Strong, well respected, trusted brand.
- The ability to take an overview on unusual lending proposals to try and find a solution. This uses the experience and understanding of the team.
- Unique, all under one roof proposition
- We are an Indian Bank with international standard.

4. SWOT ANALYSIS – YOUR WEAKNESSES:

You seem to “lack” stuff!

- A level competitor playing field
- Ability to deal with all of the potential opportunities
- Adoption of new technology
- Being able to engage with all business about how much they can save on Energy, Telco, Insurance at Water costs. Industry - not all TPI's are transparent. MIC is No 1 rated by Cornwall.
- Brand awareness (2)
- Business isn't recognised as a wealth manager
- Conflicted by the brand strength and charity mission to be proud of commercial operation
- Culture
- Customers are ageing and becoming spenders rather than savers. Younger customers have less money to save.
- Inefficiency and cost/speed of change
- Lack of an on-line broker portal for submission of applications and documents

- Lack of customer centricity – rigid question sets, poor customer service (offline and online), where's the added value? Customer experience
- Lack of expertise in areas we are looking to diversify into
- Lack of investment in payment systems
- Lack of P2P awareness amongst consumers
- Lean operation
- Legacy systems
- Legacy technology
- Majority of the customers are Asians only
- National/regional voice and connecting that voice
- New investment requirements to modify systems to latest regulatory environment
- Slim margin industry driven by the competitiveness of low cost carriers and on-line travel agents
- Slow pace of innovation (banks)
- Slow to implement change (due to size)
- The ability to keep pace with change
- The amount of regulatory change
- The fact that P2P is a nascent industry
- Too much focus on pricing over product suitability
- We directly impact 110,000 lives a year however there are many families who do not receive enough support. If we do not meet our fundraising growth, we won't be able to provide support to everyone

5. SWOT ANALYSIS – YOUR OPPORTUNITIES:

Differentiation, diversification, growth, new, transforming ... all good words

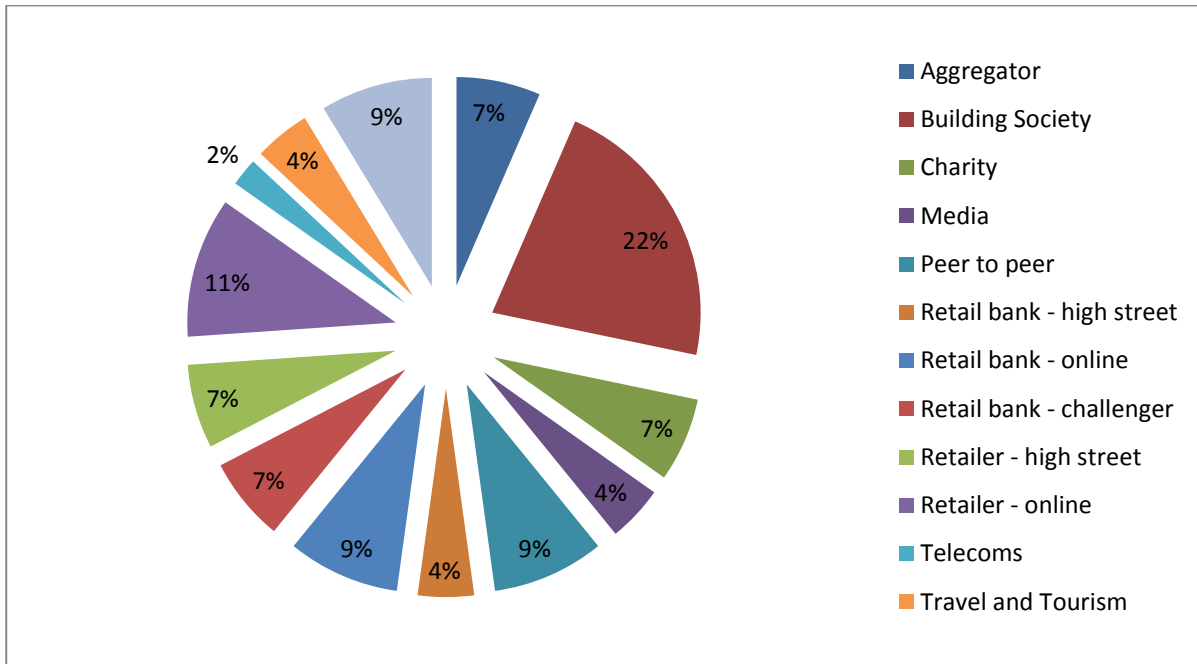
- Ability to leverage brand to sell to our readership
- Aligning our advice proposition with the market
- Building upon our reputation for a flexible approach to lending
- Businesses want to save on costs - we are an easy way for businesses to do this and have all of their services under one banner.
- Capturing the growth in the D2C investment market
- Change in customer habits and finding solutions to help customers achieve their ambitions
- Collaboration and Customer Centricity
- Continued growth as P2P becomes an accepted direct lending investment mechanism
- Creating a digital platform for the next generation of borrower
- Cross selling and bundled offering
- Customer service and localisation
- Differentiation based on service
- Diversification into other appropriate travel related products, particularly in the financial services space through digital disruption/fintech.
- Emergence of the informed customer
- Exploiting poorly served market segments
- Fintech - propositions and customer experience
- Financial services
- Growing customer acquisition channels through partnerships
- Market share growth
- New technologies and Open Banking
- New technology
- New ways of using customer data
- PSD2
- Rapid pace of growth across fintech year on year
- Remortgage by consumers
- The 'dementia pound' - the spending power of people with dementia - is approx £22bn. By being more supportive of people with dementia, communities (and business) can relieve pressure on social care.
- Transforming perceptions over death and working with others to change that
- Transport changes away from fossil fuels
- Using customer data to drive efficiency for brands and relevance for consumers. Ultimately this will drive performance for advertisers and enhance the user experience for consumers.
- We are in the process of formation of subsidiary. More opportunities after subsidisation.

6. SWOT ANALYSIS – YOUR THREATS:

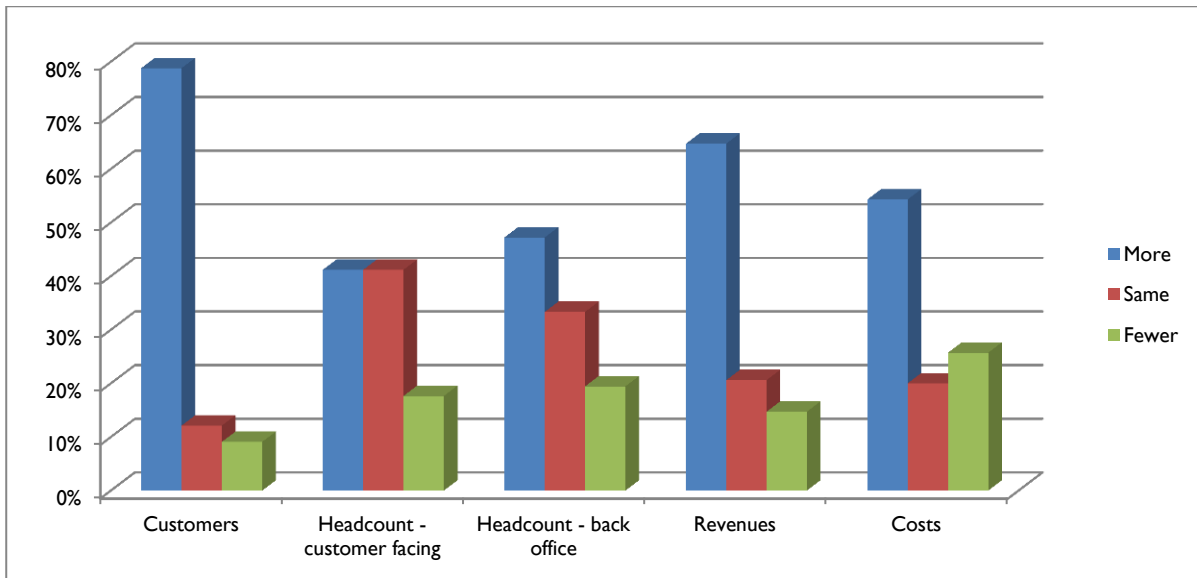
A lot of the issues mentioned below have appeared before in different guises. I think it is a case that every silver lining has a cloud!

- Advocates representing the charity. We need the best taking us to new levels.
- Challenger banks
- Competition - whether it's the big banks upping their game or new entrants
- Competition and new lenders entering the mortgage market
- Complacency, apathy, short term thinking and lack of investment could lead to non-traditional competition leading the industry
- Costs and burden of regulation
- Customer antipathy
- Customer behaviour through a recession.
- Customer inertia
- Cyber
- Distribution
- Excessive regulation
- Fintech
- Geopolitical events
- Media threat of Charities
- More regulation from Government about energy bills. What happens post Brexit - most energy wholesalers are not owned by UK companies
- New entrants and price competition
- New participants trading commodity futures skewing the market.
- New technologies and Open Banking - if current trends of digital adoption continue/accelerate and traditional providers do not respond
- Potential for reduced consumption of traditional media
- Regulation keeping abreast with new technologies available
- Regulatory change
- Risk is that the Regulator tries to apply the same traditional rules rather than taking an updated view of a new model
- Risk that regulatory or data breaches by members of P2P community bring the reputation of the sector down
- Robo adviser and the possible development of a price war in the industry
- Savvier customers demanding more value for less
- Syndication loans - stressed accounts
- Terrorism
- The cost of dementia in the UK is rising. With no disease-modifying treatments on the horizon, the number of people affected by dementia is only increasing and there is not currently enough support
- Transparency and fraudulent inventory
- Unwarranted valuations of fintechns

7. WHEN ASKED TO DEFINE THEIR BUSINESS:

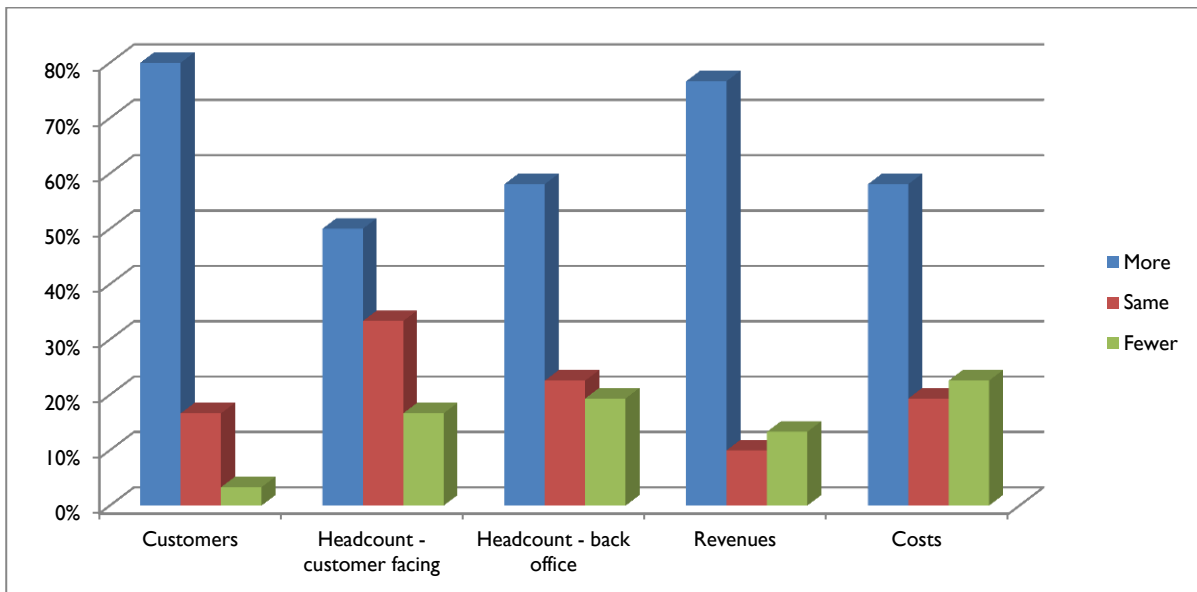


8. WHEN ASKED HOW THEIR BUSINESS NUMBERS LOOKED LAST YEAR:



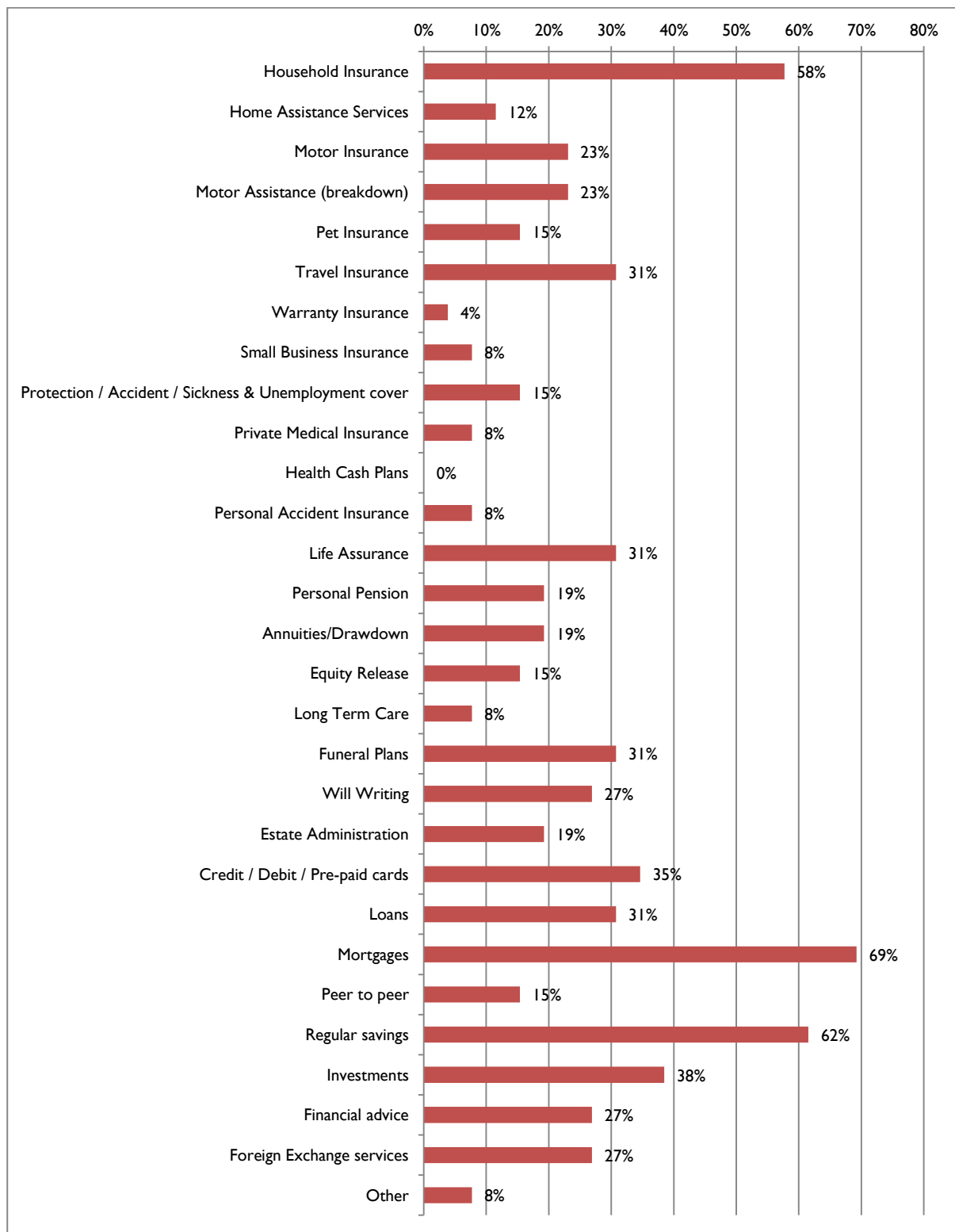
9. WHEN ASKED HOW THEY THOUGHT THEIR BUSINESS NUMBERS WOULD STACK UP NEXT YEAR:

So more customers, more people, more money and more costs!

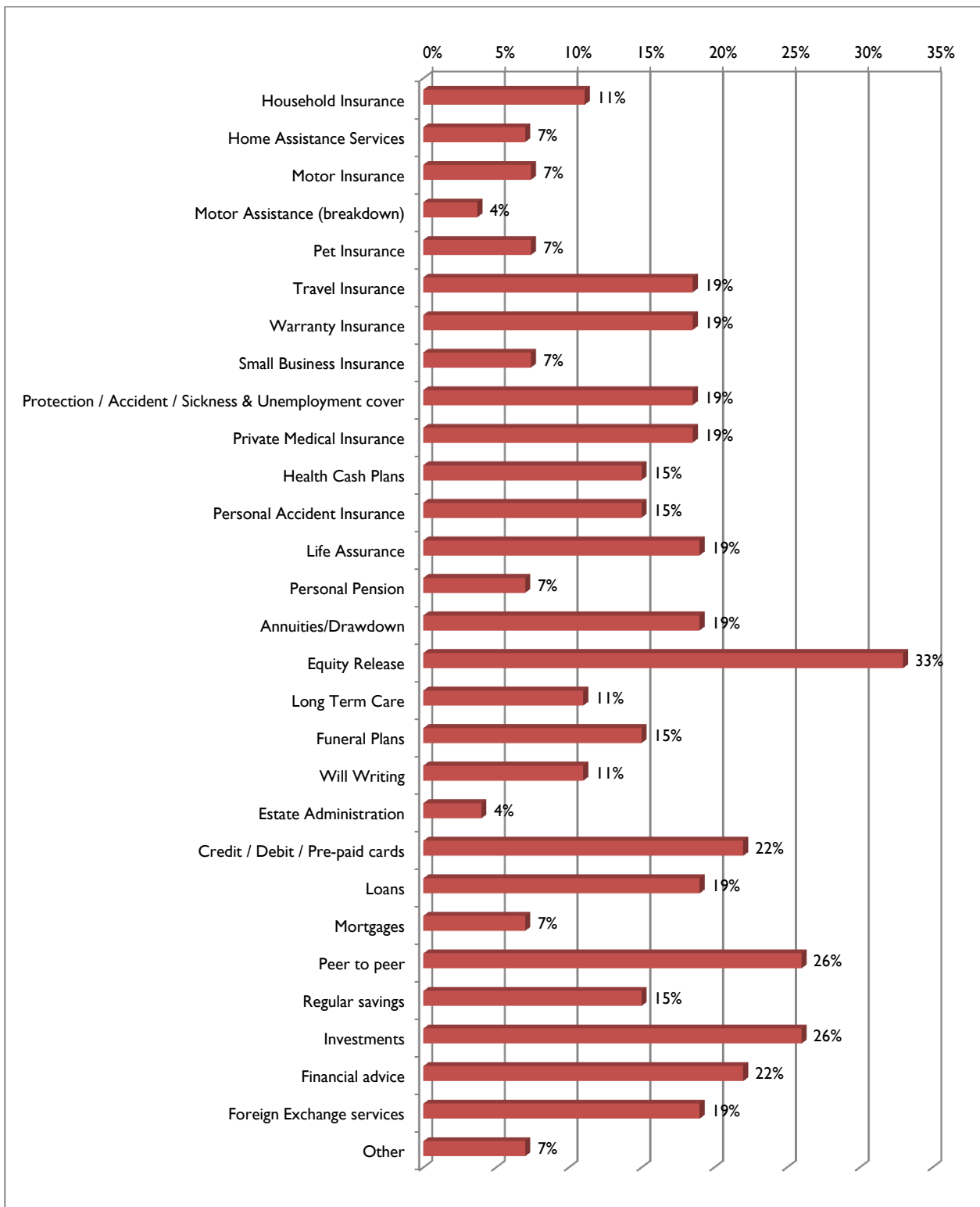


THE PRODUCTS/SERVICES

10. WE THEN ASKED OUR DELEGATION WHICH PRODUCTS THEY WERE ALREADY DISTRIBUTING:



II. WE THEN ASKED OUR DELEGATION WHICH PRODUCTS THEY WERE CONSIDERING DISTRIBUTING:



THE REGULATOR

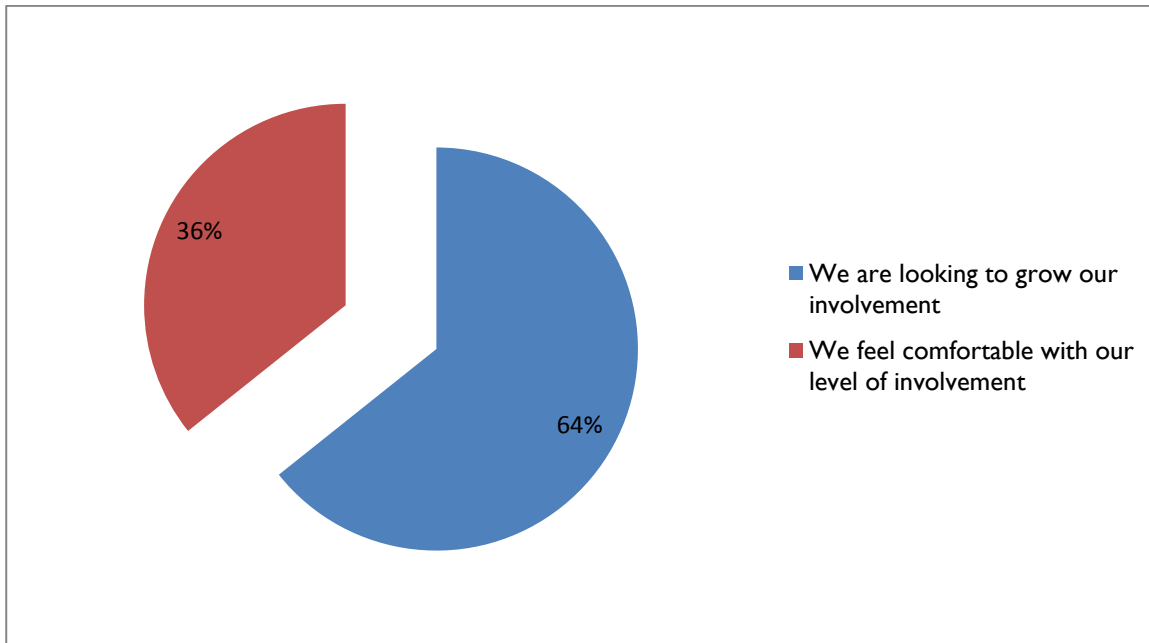
12. IF YOU WERE IN CHARGE OF THE REGULATOR FOR THE DAY, FOCUSING ON YOUR OWN SECTOR, WHAT DO YOU THINK SHOULD BE AT THE TOP OF THE IN TRAY?

Apart from the helpful person who suggested “Get a bigger tray!” – you are looking for simpler, more flexible regulation and where possible – less of it.

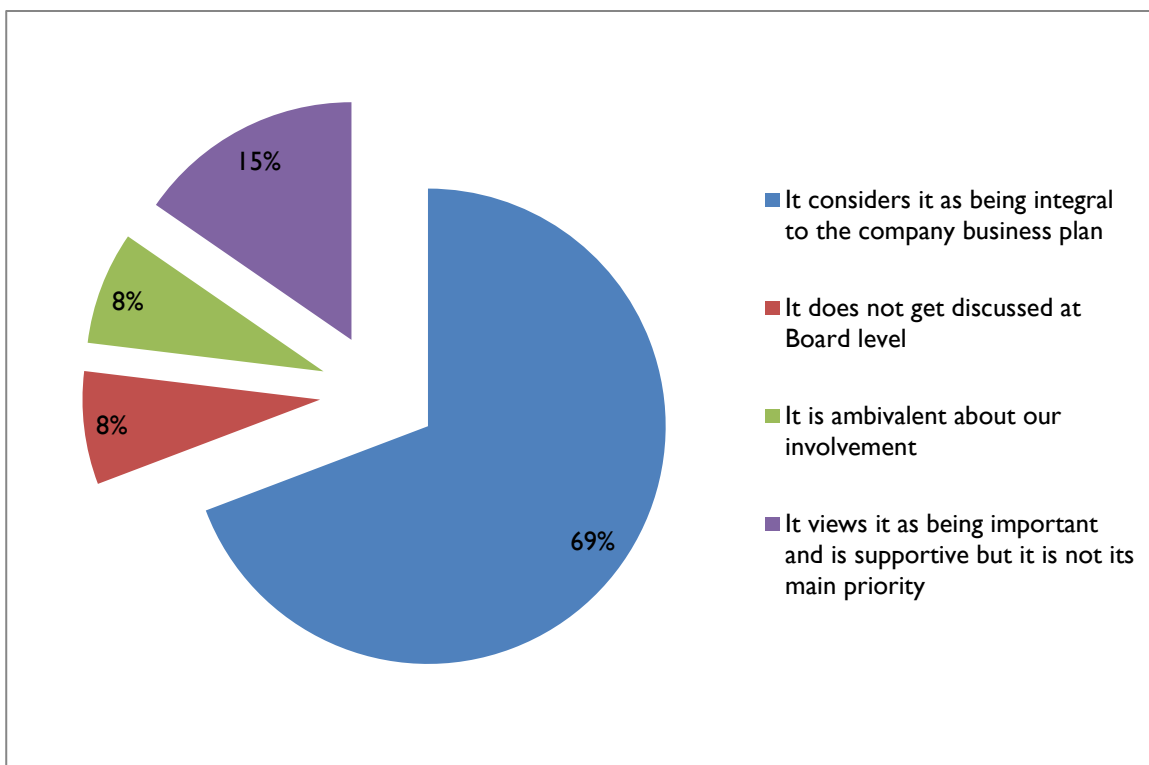
- Allowing easier access for passing of traffic from non-regulated companies to aggregator sites.
- Business process per head of customers to achieve good customer outcomes.
- Define guidance more clearly and allow checking against this definition for new business propositions.
- Doing nothing for an extended period to avoid crowding out other strategic investment due to the burden of regulatory compliance.
- Ensure there is appropriate diversity within the financial services sector.
- Ensuring a more level playing field for challenger banks, e.g. on capital adequacy.
- Ensuring regulations do not create a barrier to providing advice in the ways in which customers want it.
- From a Travel perspective it would be the abolition of Airport Duty Tax.
- Level the playing field for competition, encourage innovation and take a holistic view of the customer and the advice we give.
- Looking at proportionate regulation to the size and complexity of a business.
- Make it easier and involve less red tape for businesses to operate.
- Mis-selling.
- More flexible lending, based on need and ability.
- Non energy tax harmonised - one or two charges at most.
- Point of sale finance.
- Promote product innovation testing through more sandbox initiatives.
- Providing increased clarity around scope and direction of Open Banking regulation - e.g. if/when accounts regulated under BCOBs will be included.
- Reducing the amount of regulation
- Simplification of 36H loan definitions and aligning with HM Treasury's intentions.
- Simplifying processes when taking out a new mortgage taking into account the customer experience. It is too long and complicated.
- The pressure on the health and social care agenda in the UK is massive, and Government is not investing enough in the future to alleviate the pressure. We see this impact on families on a daily basis. Too often individuals are left to pay for care that is inadequate for their needs, and often at a price they can't afford.
- The separation of distributors and manufacturers to help balance the power

THEIR APPROACH

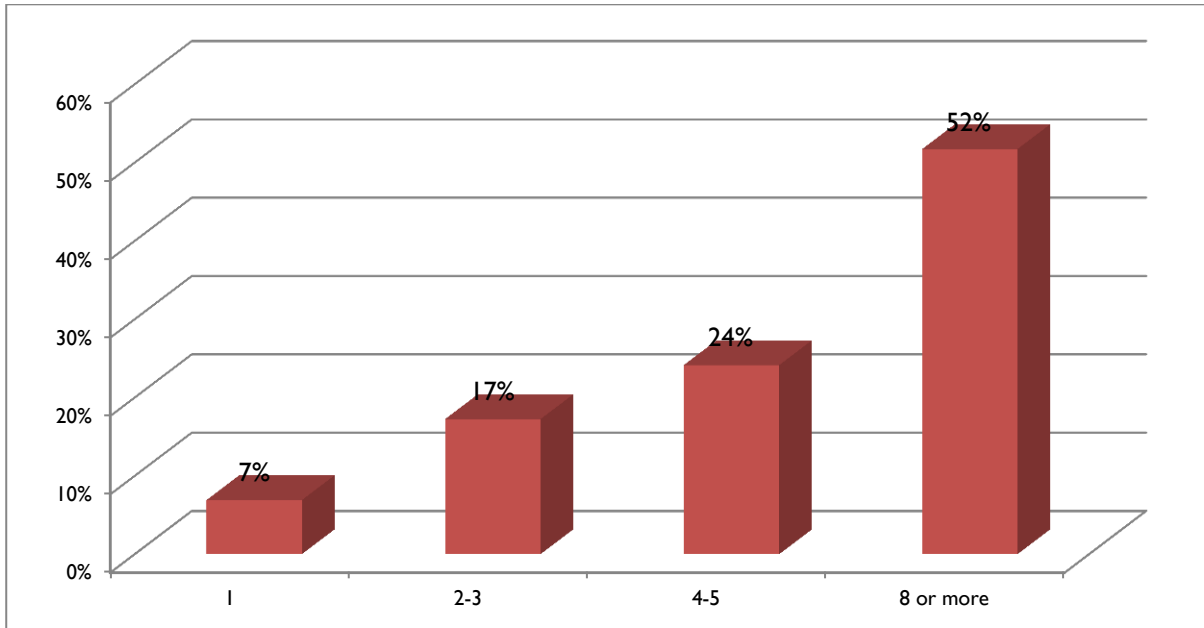
13. WE ASKED THOSE COMPANY REPRESENTATIVES WHERE FINANCIAL SERVICES IS NOT THEIR CORE BUSINESS, ABOUT THEIR CURRENT APPROACH TO THEIR INVOLVEMENT IN FINANCIAL SERVICES.



14. WE THEN ASKED ABOUT THEIR BOARD'S ATTITUDE

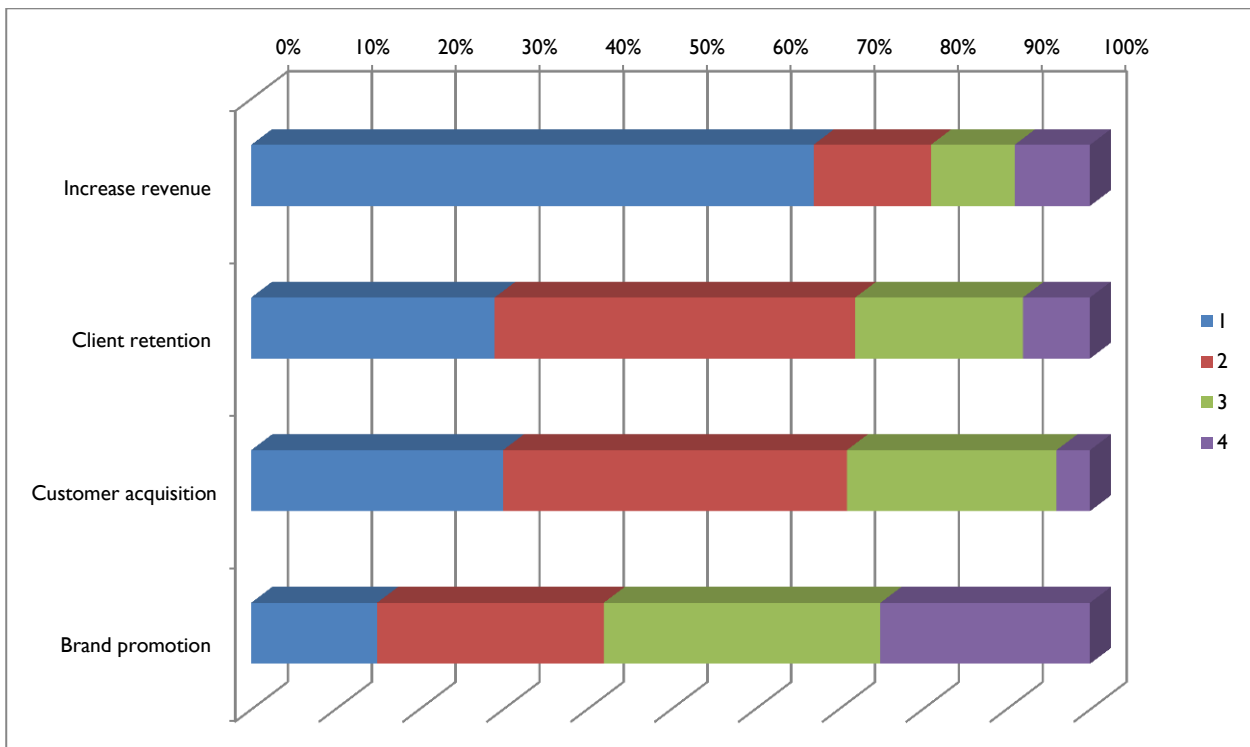


15. WHEN ASKED HOW MANY PRODUCT PROVIDERS THEY WORK WITH:

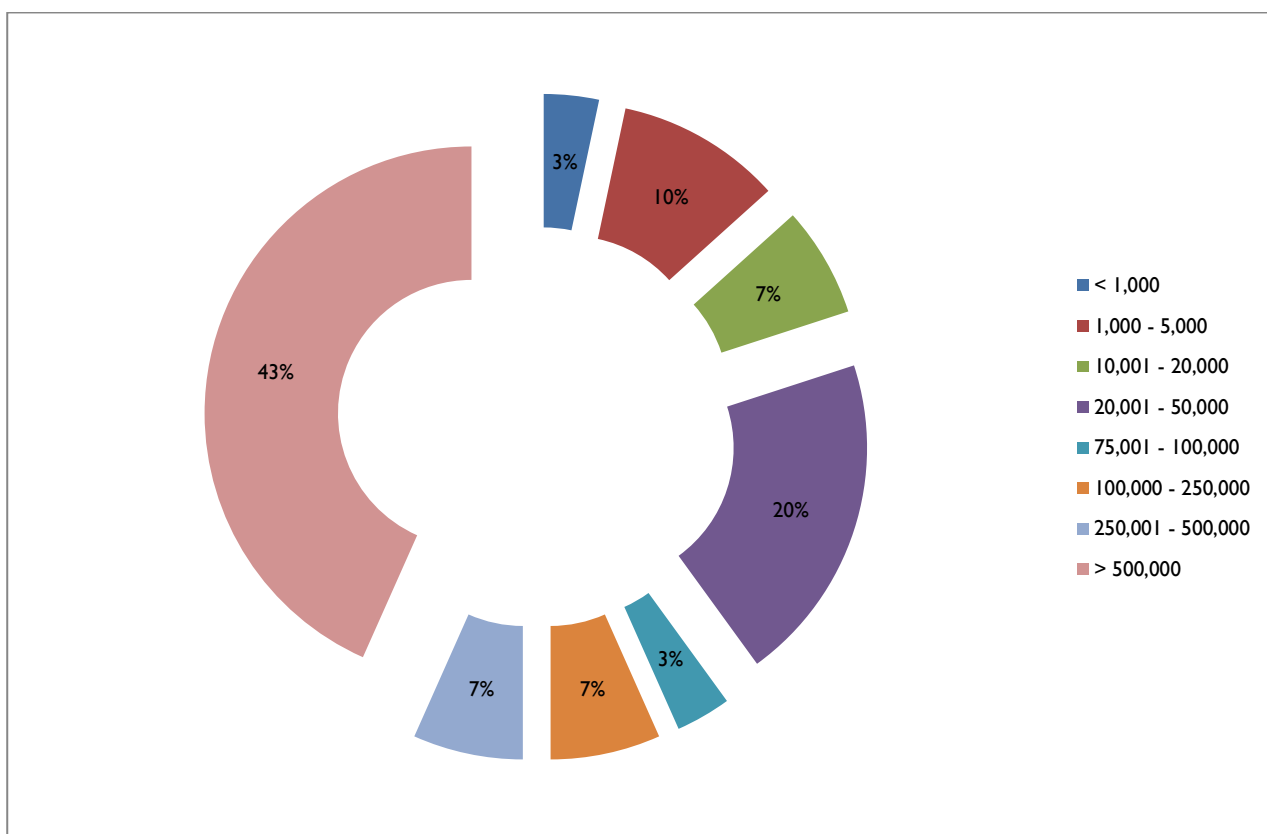


16. WE ASKED THE DELEGATION TO PRIORITISE THE MOTIVATION BEHIND THEIR PARTNERSHIP STRATEGY:

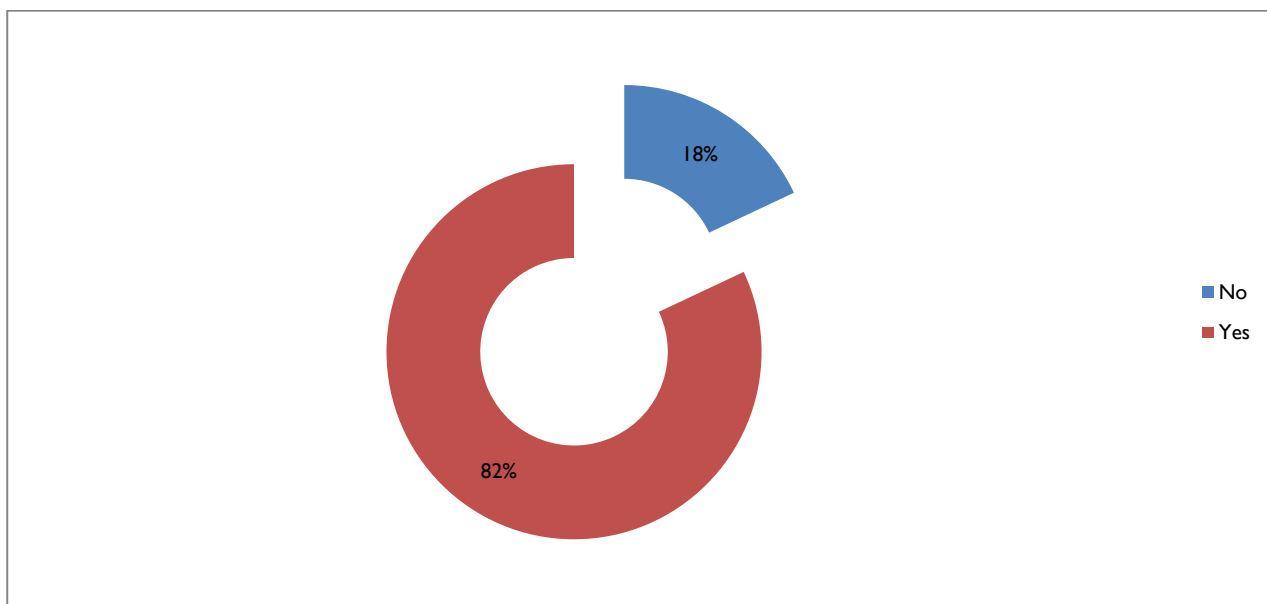
It is fairly clear that the motivation is totally commercial i.e. to increase revenue. Client retention and customer acquisition appear to be fairly level pegging. Brand promotion is clearly not the chief motivation.



17. HOW MANY POTENTIAL FINANCIAL SERVICES CUSTOMERS DOES YOUR ORGANISATION HAVE?

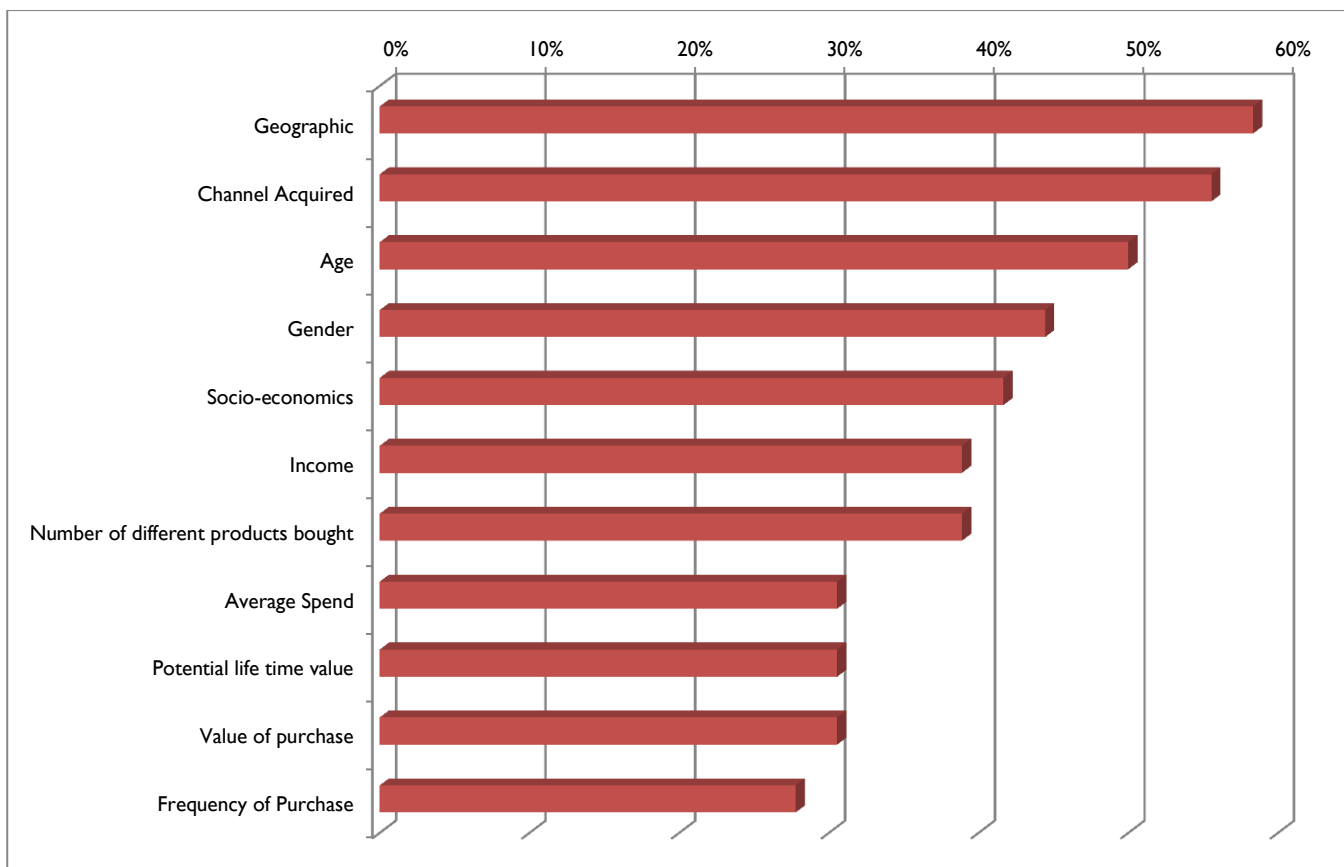


18. DO YOU SEGMENT YOUR CUSTOMER BASE?



19. IF YES, HOW DO YOU SEGMENT?

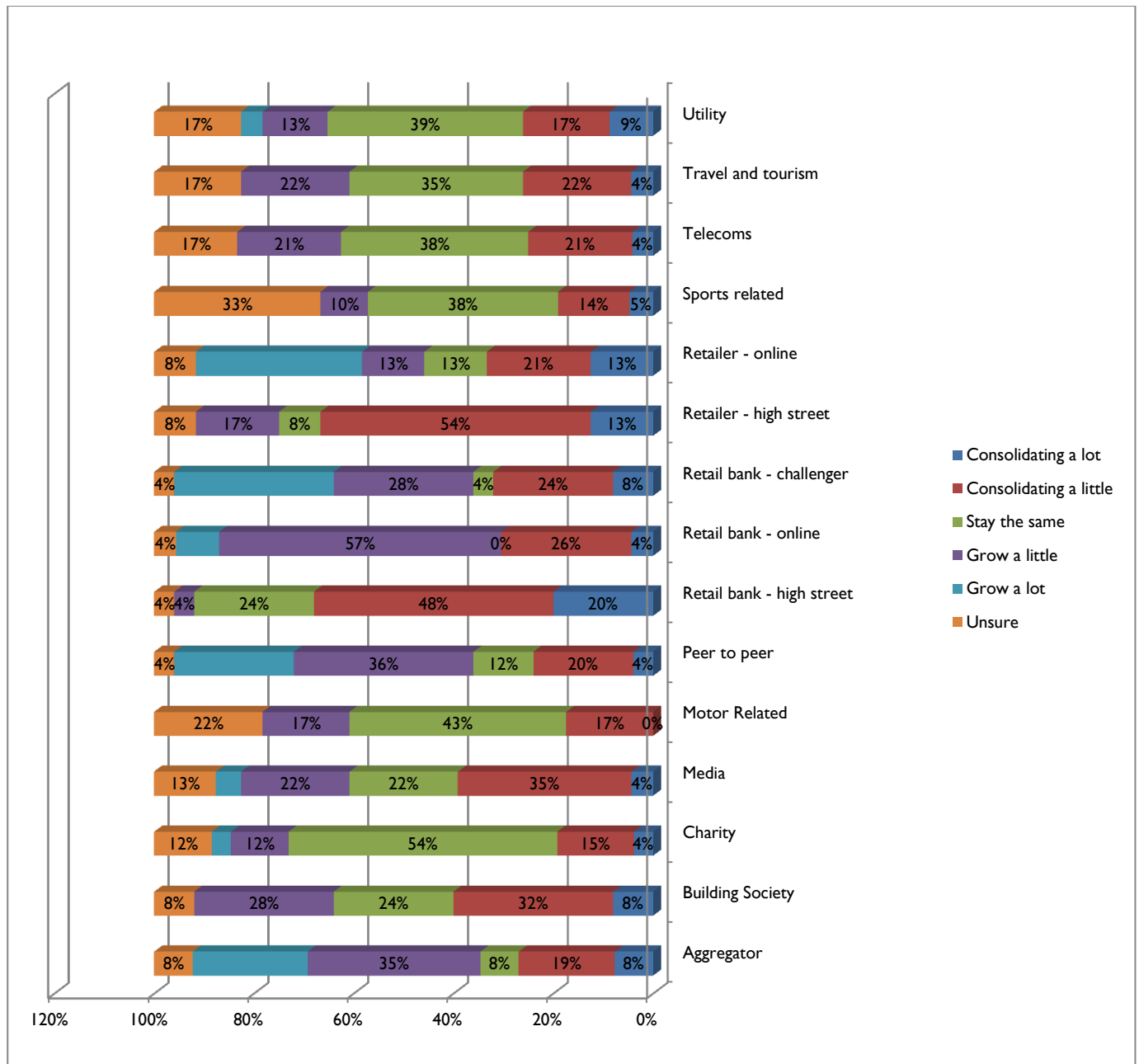
Age; geography; and channel acquired continue to be the top four categories to segment by. Participants also indicated that they segment by gender and class!



THE FUTURE

20. THE DELEGATION WAS THEN ASKED HOW THEY SAW THE GROWTH (OR NOT) WITHIN THE DIFFERENT SECTORS OVER THE NEXT FIVE YEARS:

The winners were definitely online. More specifically retailer and challenger banks, they saw the growth coming from the challenger banks, peer to peer and the aggregators.



21. WHEN ASKED HOW THEY SAW THE SALE OF FS PRODUCTS OVER THE NEXT FIVE YEARS:

Interestingly there is little shrinkage predicted apart from Warranty Insurance and protection products. Apart from the anomaly which is will writing (not many people answered that question for some reason and all those who did said they thought it would grow), loans and mortgages look set for growth as do products relating to the baby boomer demographic.

