Retirement Income
JOURNAL

Deloitte Maps the Future of Financial Services

By Editor Test *Mon, Jun 8, 2009*

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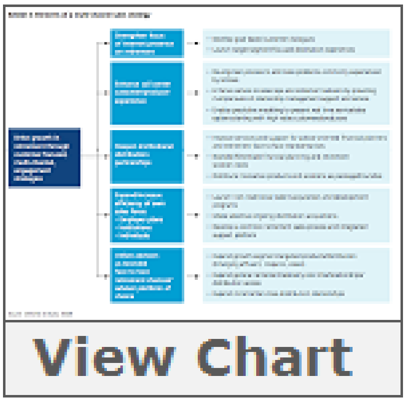
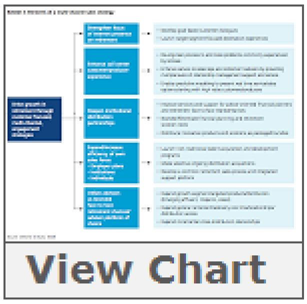


In a new white paper called **"Mining the retirement income market,"** the consulting firm Deloitte advises financial service companies to use the retirement income business as an opportunity to "rebuild reputations and consumer relationships that have been damaged by the financial crisis."

The report, written by Deloitte consultant Ann Connolly, "examines the size and characteristics of the retirement income market, highlights innovation opportunities, assesses the competitive landscape and lays out action steps that financial services companies should consider" going forward.

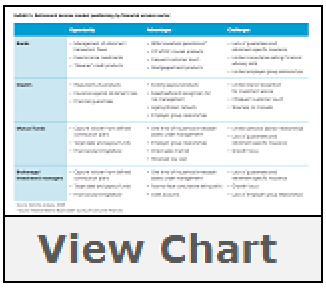


Deloitte also reveals a product of its own—one that it believes will satisfy retirees desire for both guaranteed income and control over their money, and do it better than the stand-alone living benefit, or SALB, promoted by insurers like Nationwide and the Phoenix Companies.

"Deloitte has a patent pending on a product, Life Options, which would allow consumers to purchase insurance against capital market downturns and longevity risk. Products like Life Options should be easier to administer than an unbundled GMWB and may be strategically more attractive to some insurers," the report said.

"Life Options provides an income benefit in any year when the principal and accumulated returns of a market index that reflects the asset allocation selected by the investor are inadequate to provide the investor's planned spending level.

"Life Options provides an income benefit if the client survives to the terminal retirement age and market returns have not exceeded the assumed investment returns. An income stream is provided for the remainder of the individual's lifetime. The cost of Life Options would be approximately 10% of the initial outlay for an annuity."



Advisor compensation models will need to adapt to the shift from accumulation to decumulation, Deloitte predicted. “The conditions are ripe for new players to shift from asset-based fees ad commissions to a system that encourages maximizing a reliable income stream during the retirement payout phase,” the white paper said.

“We have already seen the growth of fee-for-service models for high-end consumers, such as those by The Ayco Company, L.P. In the middle market, Citigroup Inc.’s “myFi” advisors are salaried and deliver financial advice primarily via call centers in exchange for a monthly fee.”

Ayco, a Goldman Sachs subsidiary, has a “personal finance program” called Money in Motion. It invites consumers to call an Answer Line, where licensed, salaried financial counselors help develop financial plans. Fees or expenses did not appear to be described on the site.

Deloitte also recommended that financial services companies capitalize on next-generation call center technology to increase efficiency. “Internet protocol-based systems are enabling the virtualization of call centers, liberating call centers from the physical constraints of geography,” the report said.

“This development can be used to help contain expenses, for example, through the use of cost-efficient home or mobile service representatives. Many financial services companies have been slower in adopting these service capabilities than organizations in other industries.”

Ten specific recommendations for financial services companies are listed in the Deloitte report’s conclusion:

Build your end customer knowledge. To detect gaps in the market and develop creative responses, study your existing customer interactions. Use primary consumer research and external consumer databases.

Decide where you want to play. Segment and size the market to identify customers, products, services, and channels that offer your company the greatest opportunity for profitable growth.

Define and communicate your brand. Craft a unique value proposition and customize it to the needs of your target market. If pitching to consumers who are uncomfortable about retirement, the message might be about taking the worry out of retirement rather than promoting an adventure-filled retirement.

Enhance your product development capabilities. Bring products to market more quickly and efficiently. Involve your internal partners, distributors, and end customers and distributors up front to avoid rework. Use a common “chassis” and reusable “components” when possible.

Align sales and distribution channels and incentives. Focus on the most profitable channels, craft value propositions for them, and be prepared to manage multi-channel approaches.

Equip your financial advisors. Financial advisors may need assistance understanding how the issues and options in retirement differ from those during the asset accumulation phase.

Adapt your service delivery model. Improvement opportunities include expansion of channel choices, seamless inter-channel routing, real-time customer analysis, automation, better routine execution, and savings through operational consolidation, relocation, and outsourcing.

Strategically align the IT infrastructure. Employing systems and solutions tactically can lead to duplication of infrastructure across business units and departments.

Develop a reinforcing culture. Whatever your brand positioning – high service, low cost, innovation – infuse the core values in your culture. Align your recruitment, training, performance measurement, incentives, and organizational structure to reinforce these values.

Measure performance and modify your approach. The retirement income market is just emerging. How it evolves will depend in part on how financial services companies tackle it. Evaluate consumer response to your value proposition, and be ready to make course adjustments.