

10. Appendix One - Information And Data Sources

The data required for this report has been obtained from a number of different sources. The main one has been views and data collected from providers, distributors and industry bodies during meetings conducted for this project.

These organisations are listed below and Deloitte & Touche would like to thank them for input to the project, in particular in providing detailed information on costs of manufacture and distribution and experience in related markets:

Abbey National	Fidelity	Liverpool Victoria
Aegon / Scottish Equitable	Financial Ombudsman Service	Mellon
AMP	Financial Services Authority	Nationwide
Association of British Insurers	Financial Services Consumer Panel	Norwich Union
Association of Independent Financial Advisors	Friends Provident	Police Mutual
Aqera	HBOS	Prudential
Axa Sun Life	HSBC	Royal London / Scottish Life
Barclays	Hargreaves Lansdowne	Sainsburys Bank
BBA	Homeowners Friendly Society	Scottish Widows/Lloyds TSB
Bradford & Bingley	ILAG	Standard Life
Children's Mutual	IMA	Virgin
Consumers' Association	Invesco	Zurich
CIS	Legal & General	

In addition discussions were held with:

- Kevin James (acting in a personal capacity)

Additional sources include:

- Responses to the Government's consultation process.
- Deloitte & Touche's own research, specifically Wealth & Portfolio Choice. This was based on data collected by BMRB in February and March 2002 from a sample 3173 GB adults 18+
- FSA persistency tables
- Input from DWP (Green Paper)
- A wide variety of published data and research sources.

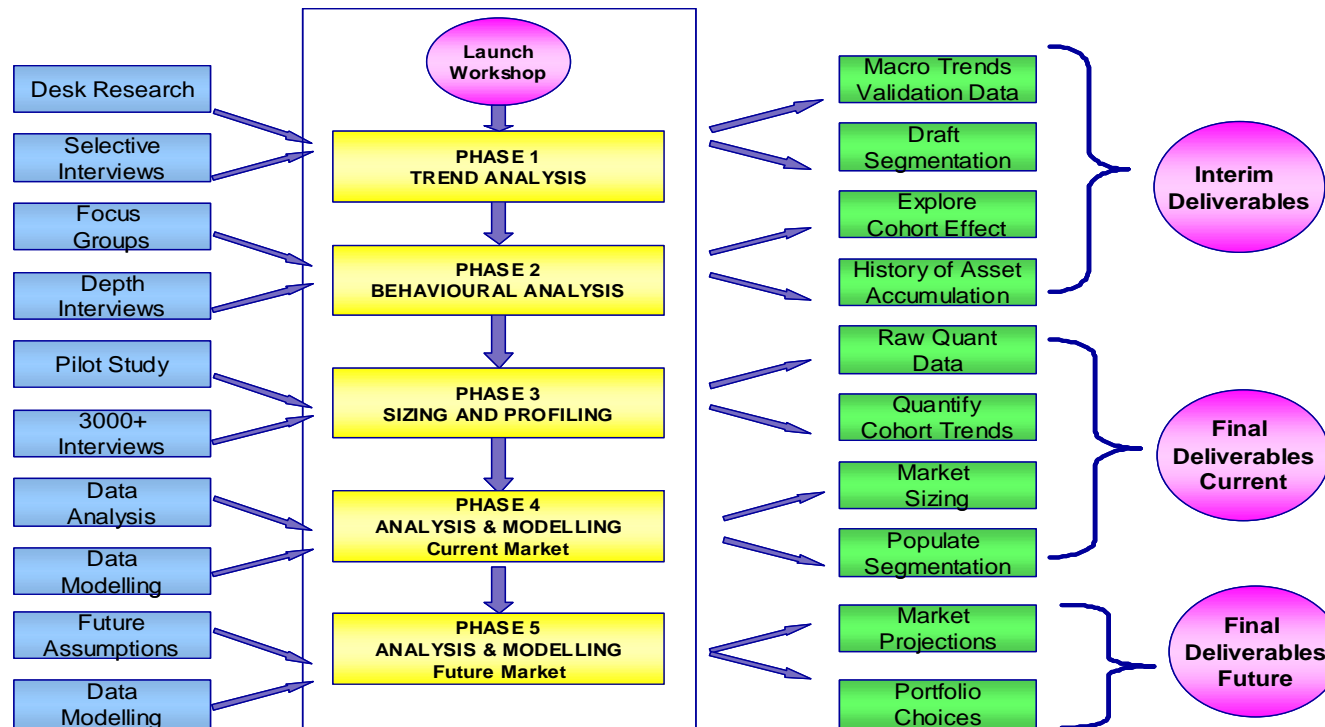
11. Appendix Two – Wealth & Portfolio Choice Study

11.1 Project objective

The central objective of the study, started in 2001 and completed in 2002/3 was to produce the most comprehensive map of personal sector wealth available.

11.2 Overall project approach

The Chart below describes the key stages of the project.



11.3 Quantitative Research - Methodology

The quantitative research for the Wealth & Portfolio Choice study was collected between 25 February and 17 April 2002. A small pilot exercise was conducted in early February to test the questionnaire. BMRB International conducted the fieldwork. Respondents were interviewed in their home by fully trained interviewers using CAPI (Computer Assisted Personal Interviewing) technology. This enabled questions to be routed according to respondents' answers/financial holdings. Respondents were asked to complete the sensitive aspects of the questionnaire themselves using the laptop. All fieldwork was conducted in accordance with the Code of Conduct of the Market Research Society and to Interviewer Quality Control Scheme standards. Responses varied in length from approximately 20 minutes to in excess of one hour with an average of 46 minutes.

11.4 Quantitative Research - Sample

Interviews were completed with a nationally representative sample of 2810 adults (aged 18+) plus an additional 363 adults of social grade AB in Great Britain.

The main sample was drawn using 'random location' sampling. The principal distinguishing characteristic of random location sampling, as operated by BMRB International, is that interviewers are given very little choice in the selection of respondents. Respondents are drawn from a small set of homogenous streets, selected with probability proportional to population after stratification by their ACORN (A Classification Of Residential Neighbourhoods) characteristics and region. The use of ACORN and EDs (Enumeration Districts) mean that interviewing takes place in tightly controlled areas of known characteristics. As a result, age and class quotas on respondents are not needed, and quotas are set on factors such as presence of children and working status and timing of interviews with men, which influence 'likelihood of being at home' and therefore the type of person interviewed.

The boost (AB) sample was drawn using the same technique but targeting areas where people of these social grades were more likely to be found.

All results have been weighted to be representative of the national demographic spread in terms of sex, age, social grade and region. Strict sampling meant that little adjustment was required. The main purpose of the weighting was to down-weight the boost of ABs so that the sample is representative of the profile of the GB population. Weights were applied in 2 stages. Firstly, the sample was weighted so that it mirrored the ACORN profile of the population (i.e. a geo-demographic classification of the country, into types of neighbourhood, that is used when selecting sampling points). This played a big part in down-weighting the AB boost which had deliberately been selected from certain ACORNs where ABs are more likely to be found. The weights reversed the effects of this 'skew'. Secondly, inter-locking weights were applied which ensured the sample was representative of sex, age and social grade within region. This adjustment for social grade ensured that our proportion of ABs mirrored that of the population (within each region) and minor adjustments could also be made to sex and age.

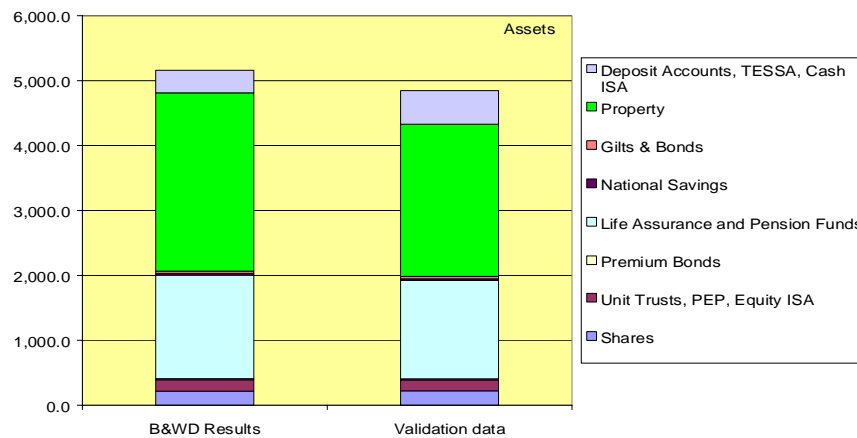
11.5 Data Modelling - Gap Filling

In order to produce a complete model of wealth, it was necessary to generate wealth values for those unable to provide an answer as to the value of their components of wealth. The technique used to do this was a form of hot decking (or imputation). Further details of the methodology employed are available from Deloitte & Touche to anyone interested.

11.6 Validation

Wherever possible, the results of the survey and modelling were validated against external sources of information. Among others, sources included National Statistics, Halifax House Price Index, ABI data, IMA data, BBA, CML data. Given the unique nature of the data, it was not always possible to find any direct comparison. The charts below summarise the comparisons of total assets and debt with industry data. Specific areas where differences emerged included:

- Deloitte's cash deposits value was lower than other published sources due to the Deloitte data not including children's accounts, the accounts of clubs and those of the self-employed/small businesses that are often included in industry statistics;
- Deloitte's housing wealth value was slightly higher than the Halifax index due to the inclusion of overseas properties and the possibility that the value of houses for sale does not fully represent the stock of all houses;
- Deloitte's consumer debt is lower than industry data due to the Deloitte data including only that amount remaining on credit and store cards at the end of each month after normal repayments have been paid off (for those who use their credit cards but pay off in full each month, this would show up in Deloitte data as a zero balance).



12. Appendix Three - Profile Of Potential Sandler Buyers

The following data has been drawn from the Wealth & Portfolio Choice study and provides further detailed profiles of the 12.1 million individuals used to provide an indication of the potential size of the Stakeholder market.

12.1 Defining the segments

All four segments exclude:

- Those with less than three months worth of individual income in cash savings;
- Those aged over 70;
- Those for whom the cost of servicing household debt is more than 40% of household income AND who describe themselves as struggling with debt.

The four segments profiled in more detail below include:

- Low Income – individual income between £5,000 and £10,000 and household income of less than £25,000 and aged under 45;
- Moderate Income – individual income between £10,000 and £22,000 and household income of less than £25,000;
- High Income – individual income of more than £22,000 and household income of £25,000 or more;
- Low/High Income – individual income of less than £22,000 and household income of £25,000 or more (also includes small number with individual income of more than £22,000 and household income of less than £25,000).

The unweighted and weighted numbers for these segments are shown in the table below.

Sample Size	Low Income	Moderate Income	High Income	Low/High Income
Unweighted number of respondents	129	240	269	290
Number in GB population (total 12.1million)	1,784,481	3,312,237	3,484,372	3,549,868

12.2 Demographics

The analysis below reveals the following dominant characteristics for each of the groups:

- Low income - young, single, female, part-time workers in the C1/C2 socio-economic group, many of whom are not yet home owners;
- Moderate income – older, retired, children have left home, home owners;
- High income - middle-aged, male, married, southern, home-owning, full-time workers in AB socio-economic group;
- Low/High income – older, female, AB, homeowners with children at home whose partners work.

	Low Income	Moderate Income	High Income	Low/High Income
Average age	28	53	48	44
% aged under 45	100%	29%	37%	52%
% female	66%	47%	22%	66%
% with children under 16 living at home	51%	15%	30%	41%
% working	55%	53%	90%	63%
% retired	0%	35%	8%	15%
% couple	46%	52%	82%	80%
% of those in couple whose partner works	91%	58%	80%	88%
% AB	16%	21%	57%	45%
% DE	18%	21%	3%	6%
% owning home (with or without mortgage)	36%	79%	94%	85%
% living in South (London, SW, SE, E. Anglia)	42%	40%	55%	47%

12.3 Financial Profile

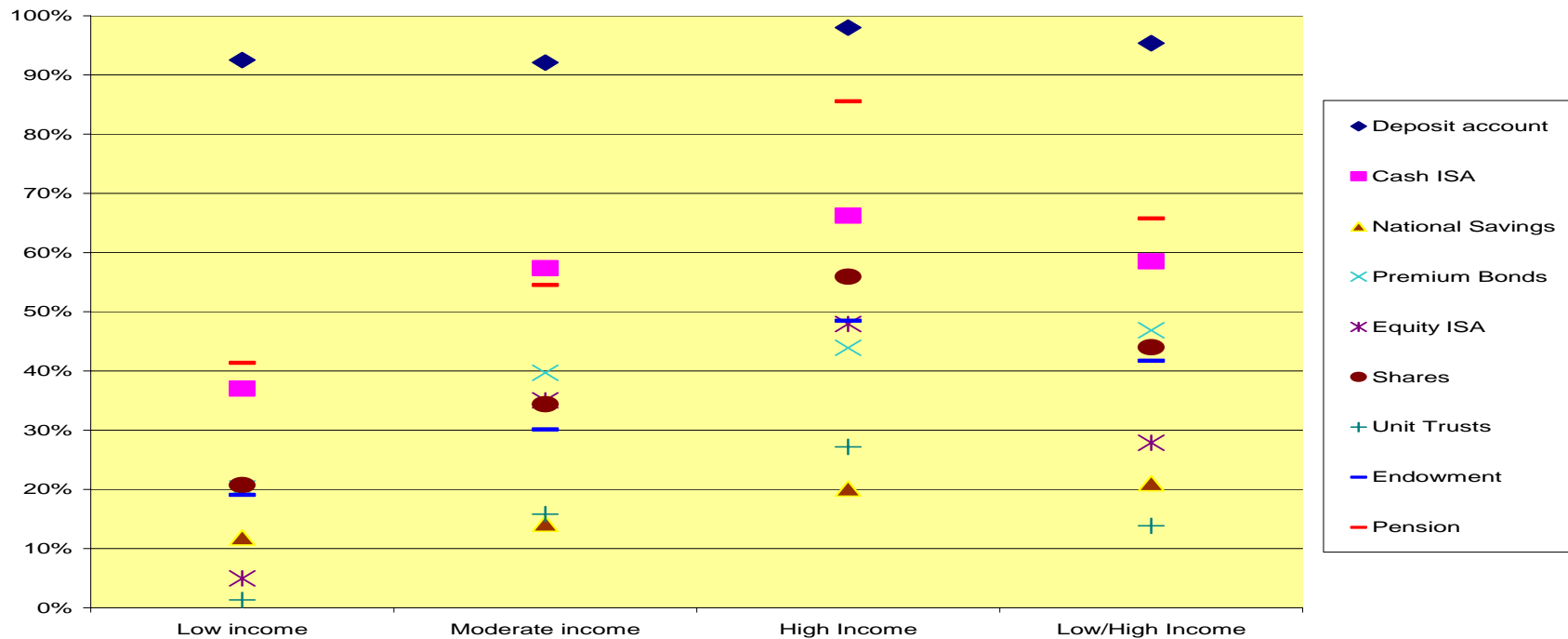
	Low Income	Moderate Income	High Income	Low/High Income
Average individual income ³⁶	£6,235	£14,107	£43,241	£13,137
Average household income	£12,305	£13,900	£58,128	£42,360
Average individual total wealth ³⁷	£40,075	£119,368	£353,454	£155,371
Average individual debt – non mortgage debt	£1,762	£746	£1,423	£ 1,659
% expecting financial position to improve in next five years	80%	49%	67%	61%

³⁶ Average individual income = average from all sources in 2001 (earned, benefits, pension, investment income)

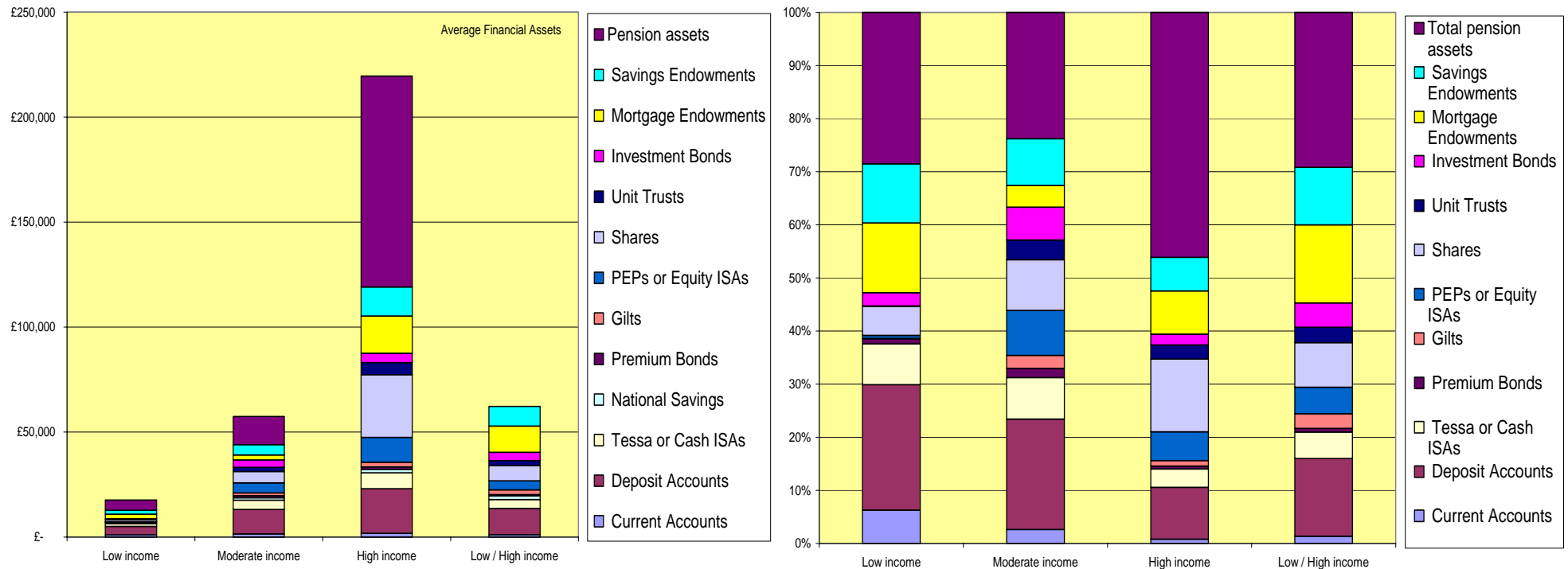
³⁷ Total wealth = financial wealth (including pension) plus value of house less mortgage and other debt.

12.4 Detailed Wealth Profile

The table below shows the percentage of each segment already owning a range of financial assets. Whilst ownership of deposit accounts varies little across the segments, all other products correlate to a greater extent with income. 50% of the low income segment has no equity-based assets (shares, endowments, pension, unit trust, equity ISA), a proportion that falls to 6% among the high income segment. The most widely owned equity-based products owned by the low income group are pensions and direct share holdings with very few owning equity ISAs. Savings endowments continue to be held by significant numbers in all segments.

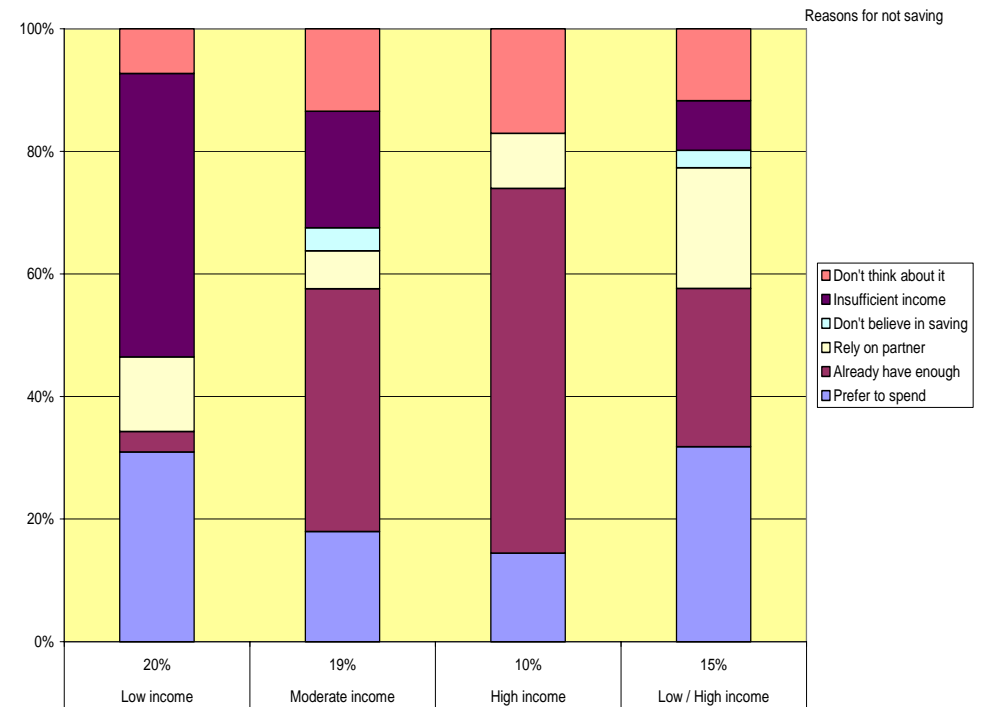
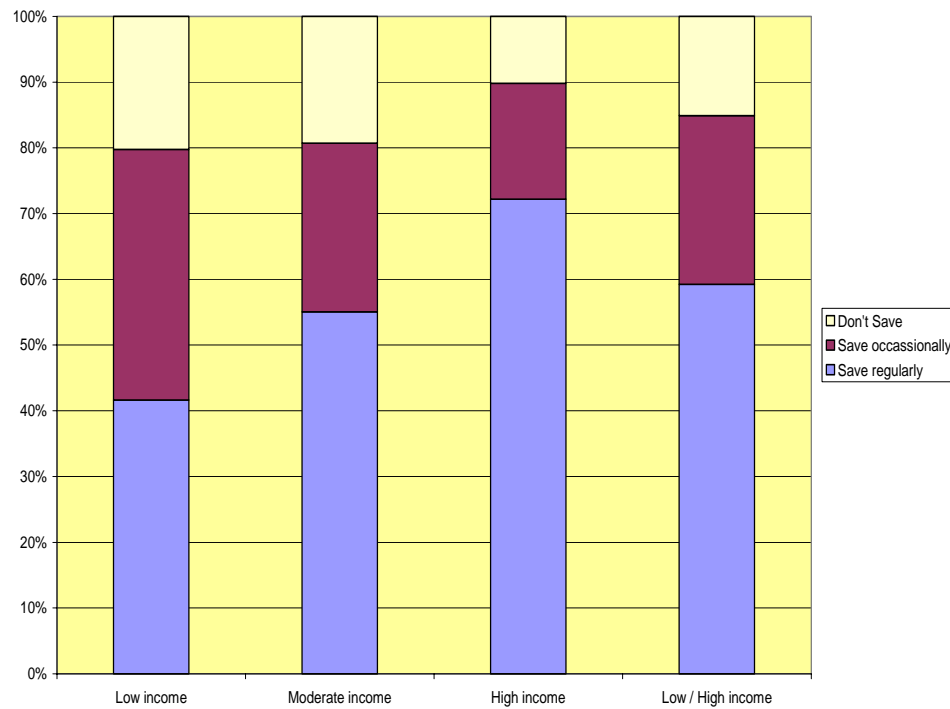


The value and make-up of wealth varies considerably across the segments with average financial wealth among the high income group more than 12 times that of the low income group. For the income rich, pensions represent a significantly higher proportion of wealth than for other groups.

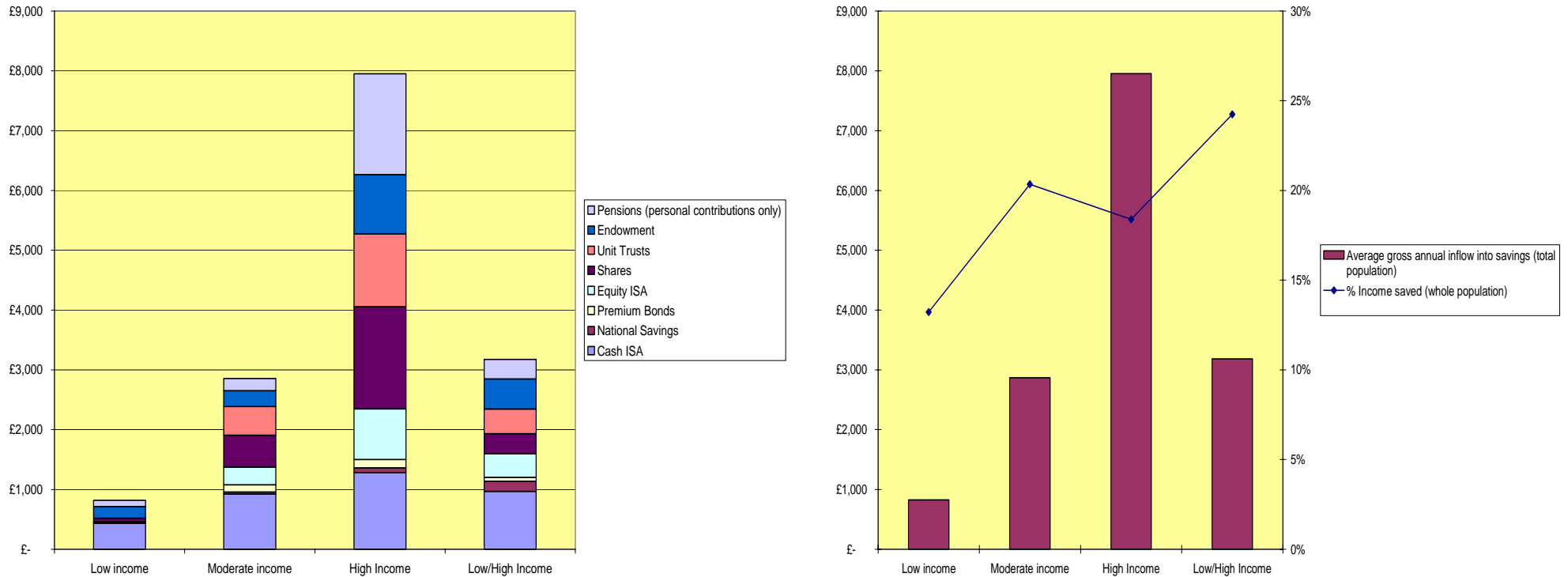


12.5 Saving activity

The majority of each segment is active in saving, although occasional saving is found more among lower income groups whilst the majority of those who save in the high income group do so regularly and in a wider range of products.



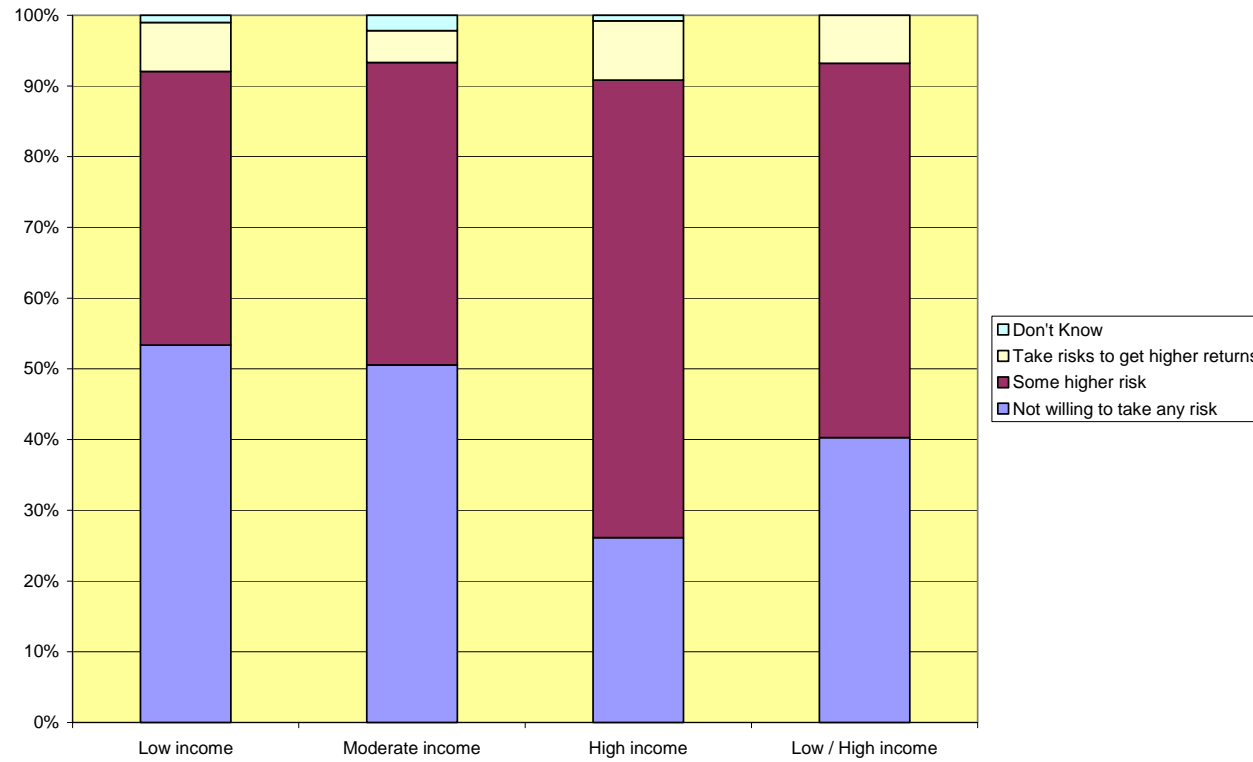
On average (including those who save nothing), the low income segment contributes £820 pa to those savings plans shown in the chart below. This average rises to £7,900 pa among the high income group³⁸. All groups contribute in excess of 10% of income in these terms.



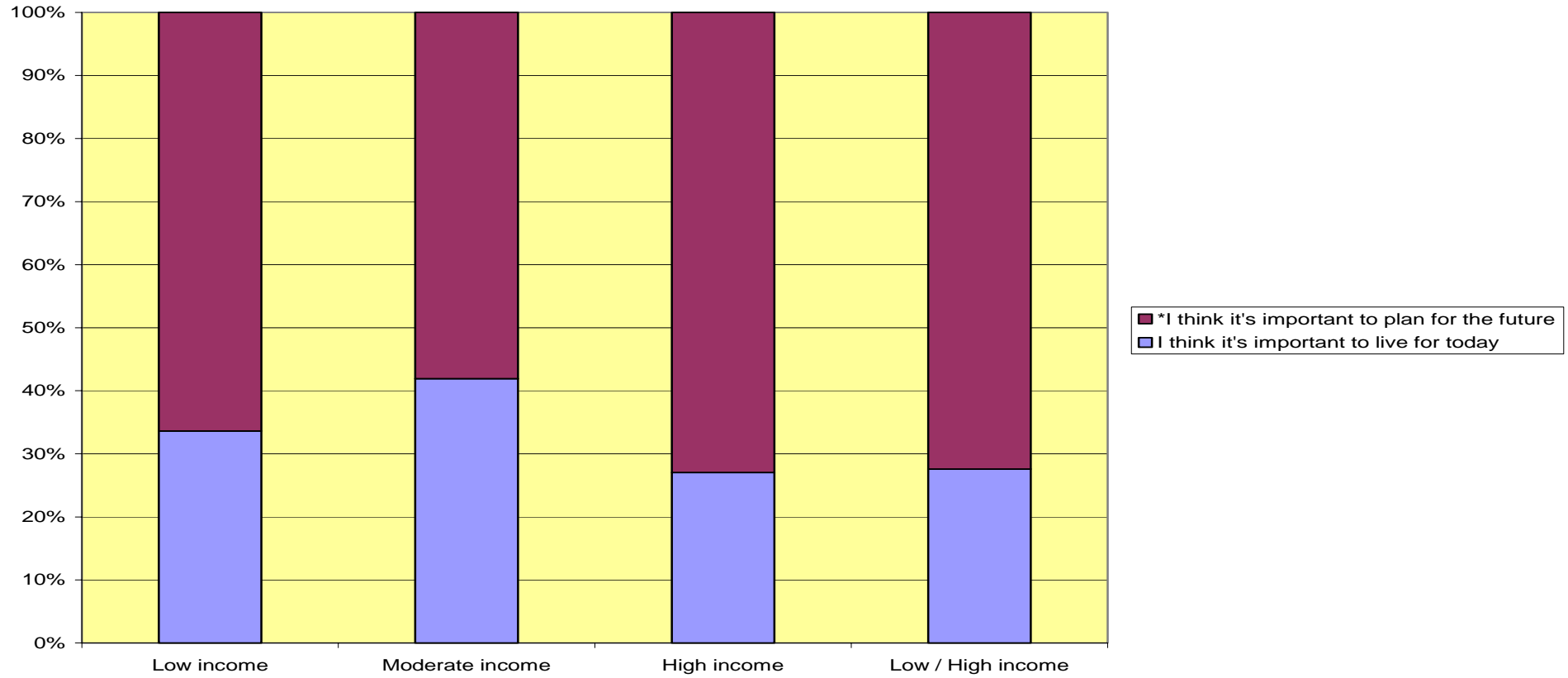
³⁸ Wealth & Portfolio Choice, Deloitte 2002. Measured as gross contributions flowing into savings endowments, equity ISAs, cash ISAs, national savings, premium bonds, pension (own contribution), direct share holdings and unit trusts as reported in Wealth & Portfolio Choice study. Excludes those saving through bank and building society accounts. Averaged across the whole population and measured as a % of total individual income. Not all of this saving will come directly from own income, some may come from switching from one savings vehicle to another, from gift or inheritance or from another individuals income. It does not therefore represent purely new savings. The average includes both those paying single contributions and regular contributions

12.6 Attitudes

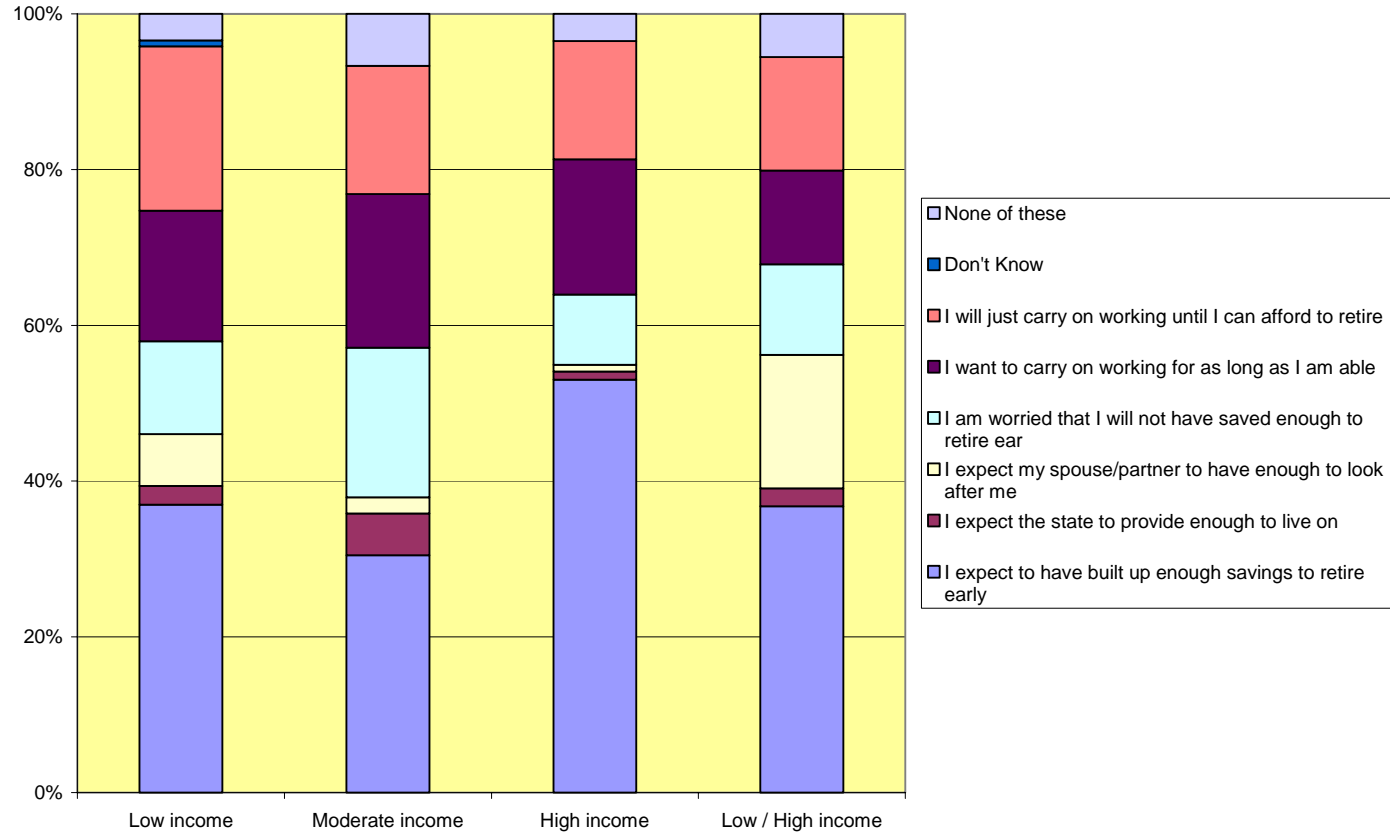
Attitudes to risk



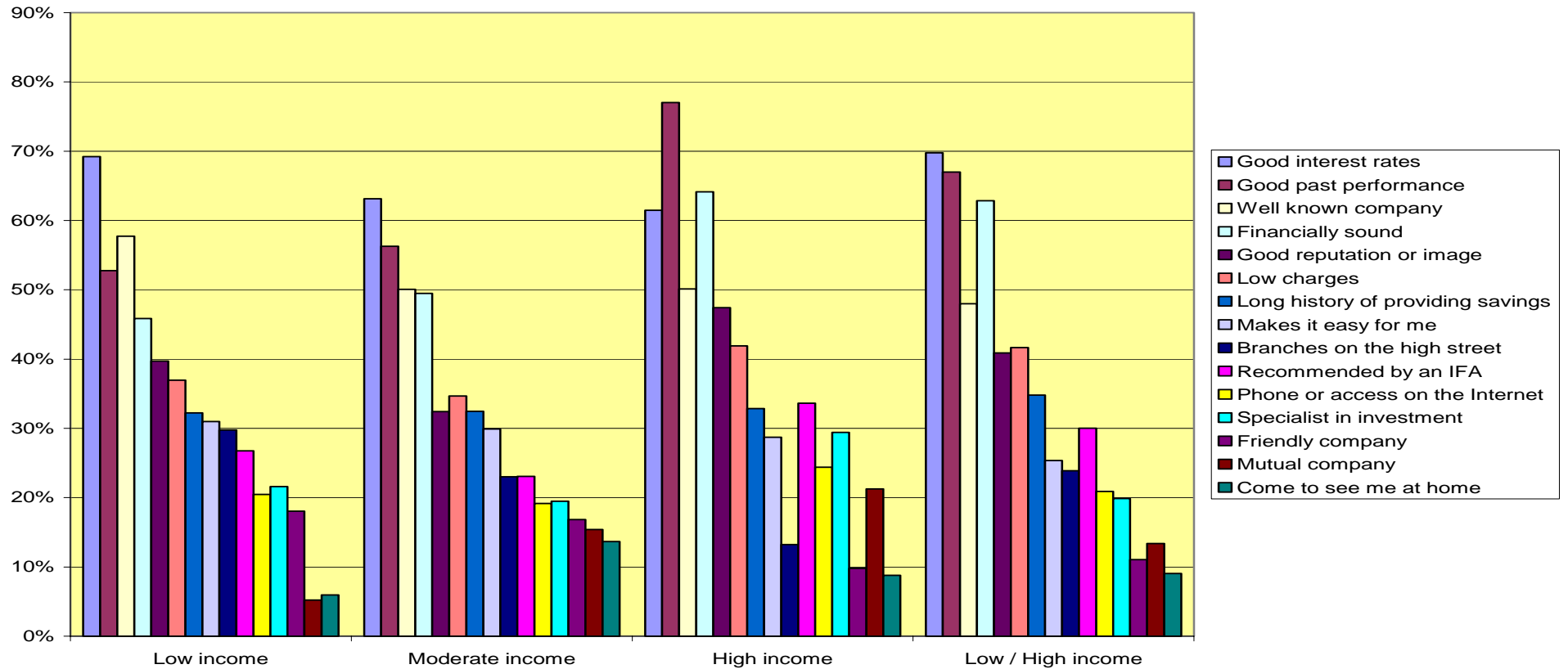
Attitude to Life



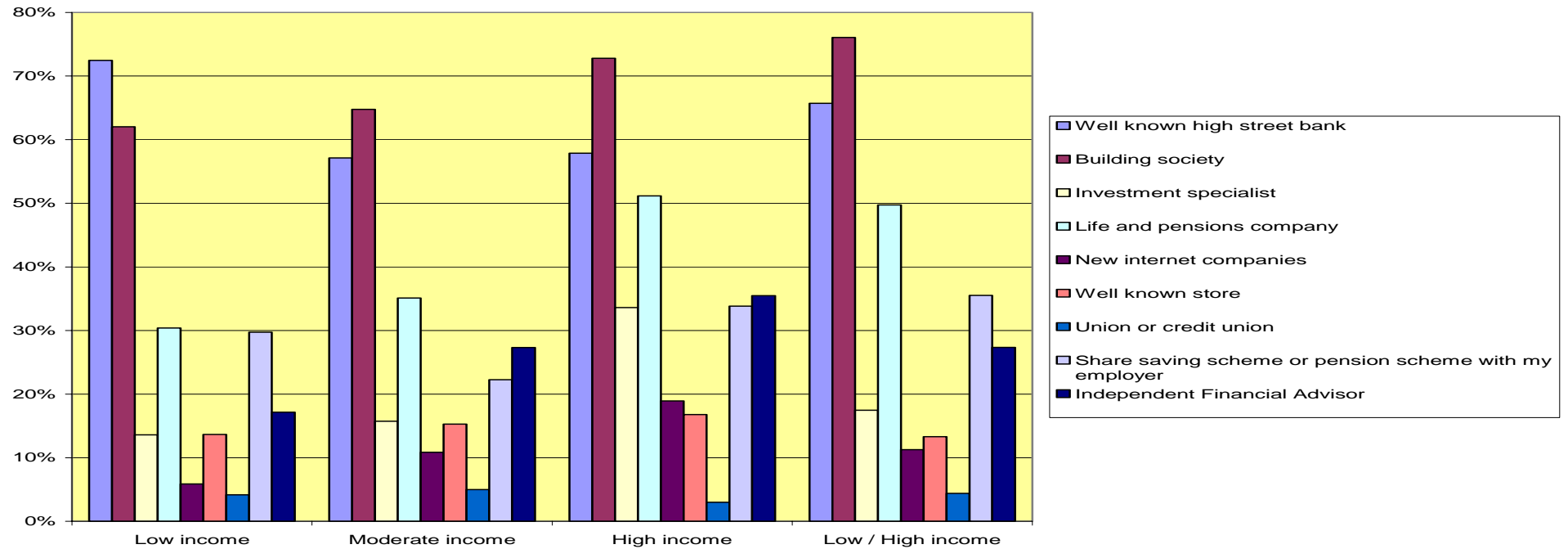
Attitudes to retirement



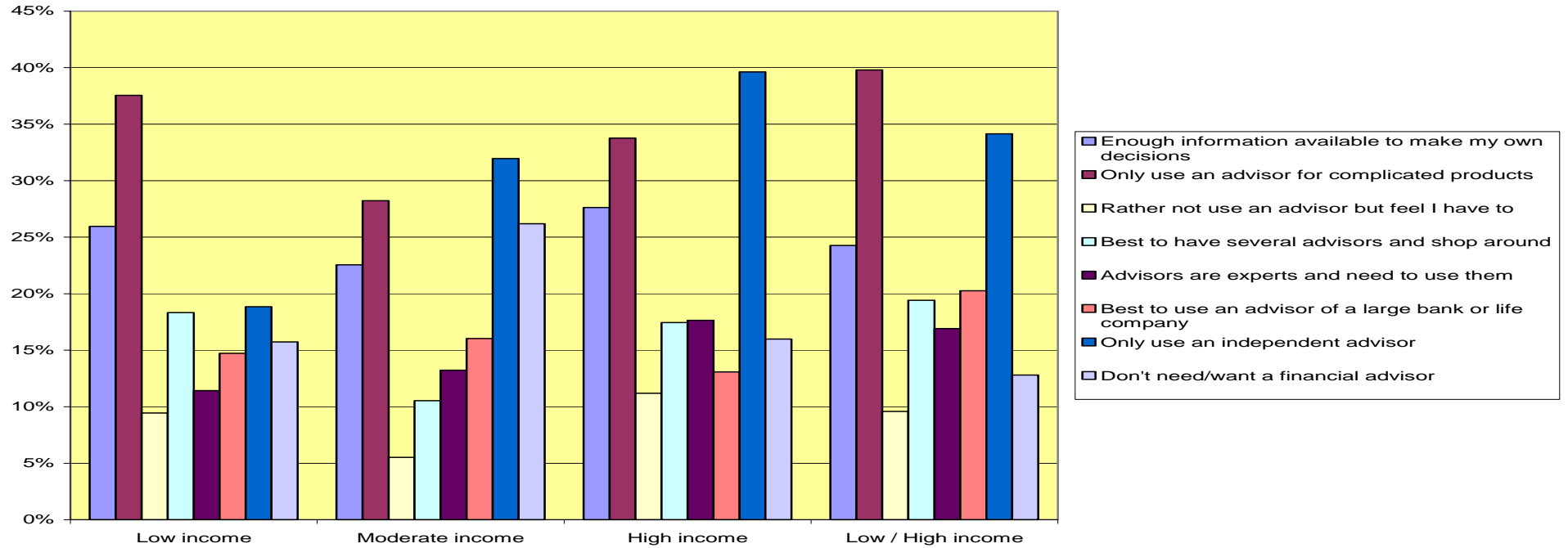
Criteria for choice of company to save with



Type of Company feel happy saving/investing with



Attitude to advisors



13. Appendix Four - Costs Included In Price Cap

It has been assumed that under all the charging structures modelled in this report, the costs that they cover are similar to those for Stakeholder pensions. It has therefore been assumed that companies are not allowed to make any additional charges in respect of the following costs:

- Distribution and Marketing including:
 - Product Development
 - Advertising and Promotion
 - Advice
 - Acquisition
 - Capture of Client data
 - Completion and submission of application.

- New business processing including:
 - Processing of application
 - Compliance activity
 - Issue of contract documentation.

- Ongoing administration including:
 - Collection and investment of contributions
 - Contract Accounting
 - Investment management, excluding stamp duty and any other costs associated with buying or selling
 - Account servicing (statements, updates, quotes etc.).

- Claims administration including:
 - Processing of instructions
 - Realisation of funds excluding any costs associated with selling assets
 - Payment
 - Update of records.

- Fund Management excluding stamp duty and any other costs associated with buying or selling.

However they may make additional deductions from the fund to cover the following, most of which apply to pensions products only:

- Dealing costs - these are the costs associated with buying and selling scheme assets and include the stamp duty incurred in these transactions;
- Divorce costs - where a pension is shared on divorce, or an earmarking order is made, part of the member's rights are passed to the former spouse effectively therefore reducing the member's rights. The pension scheme can also recover the administrative costs incurred;
- Retirement costs - on retirement the scheme will have to purchase an annuity for the member, and the annuity provider will charge a commission for doing this;
- Inland Revenue refunds - if the contributions paid into a pension exceed Inland Revenue limits, those contributions have to be removed from the fund and refunded to the member;
- Criminal or fraudulent action - if a member takes money illegally from a scheme, a Court can order that the amount involved can be recovered from his fund;
- Suspension and forfeiture - a member's pension rights can be suspended or forfeited in a variety of circumstances. For example a pension can be suspended if a person is imprisoned; or it may be forfeited if the scheme has no address for the member for six years or more.

14. Appendix Five – Persistency Rates

Savings regular contribution contracts:

Sales Channels	Year 1 Lapse Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	6%	5%	3%	5%
DP19 Salesforce	11%	9%	7%	9%
Direct Marketing	8%	6%	5%	6%
Retailers / Brandassurers	4%	3%	2%	3%
Worksite	8%	6%	5%	6%

Sales Channels	Year 1 PUP Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	2%	2%	1%	2%
DP19 Salesforce	4%	3%	2%	3%
Direct Marketing	2%	2%	1%	2%
Retailers / Brandassurers	2%	2%	1%	2%
Worksite	2%	2%	1%	2%

Sales Channels	Year 2 Lapse Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	4%	3%	2%	3%
DP19 Salesforce	8%	6%	5%	6%
Direct Marketing	6%	5%	3%	5%
Retailers / Brandassurers	4%	3%	2%	3%
Worksite	6%	5%	3%	5%

Sales Channels	Year 2 PUP Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	2%	2%	1%	2%
DP19 Salesforce	4%	3%	2%	3%
Direct Marketing	2%	2%	1%	2%
Retailers / Brandassurers	2%	2%	1%	2%
Worksite	2%	2%	1%	2%

Sales Channels	Year 3+ Lapse Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	4%	3%	2%	3%
DP19 Salesforce	8%	6%	5%	6%
Direct Marketing	6%	5%	3%	5%
Retailers / Brandassurers	4%	3%	2%	3%
Worksite	6%	5%	3%	5%

Sales Channels	Year 3+ PUP Rate			
	Income Group			
	Low	Medium	High	Low/High
Banks / Building Societies	2%	2%	1%	2%
DP19 Salesforce	4%	3%	2%	3%
Direct Marketing	2%	2%	1%	2%
Retailers / Brandassurers	2%	2%	1%	2%
Worksite	2%	2%	1%	2%

Savings single contribution contracts:

Year 1 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	1%	1%	1%	1.1%
DP19 Salesforce	3%	2%	2%	2.3%
Direct Marketing	2%	2%	1%	1.5%
Retailers / Brandassurers	1%	1%	1%	0.8%
Worksite	2%	2%	1%	1.5%

Year 2 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	3%	2%	2%	2.3%
DP19 Salesforce	6%	5%	3%	4.5%
Direct Marketing	4%	3%	2%	3.0%
Retailers / Brandassurers	2%	2%	1%	1.5%
Worksite	4%	3%	2%	3.0%

Year 3+ Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	4%	3%	2%	3.0%
DP19 Salesforce	7%	5%	4%	5.3%
Direct Marketing	5%	4%	3%	3.8%
Retailers / Brandassurers	3%	2%	2%	2.3%
Worksite	5%	4%	3%	3.8%

Pensions regular contribution contracts:

Year 1 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	3%	2%	2%	2%
DP19 Salesforce	5%	4%	3%	4%
Direct Marketing	3%	2%	2%	2%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	3%	2%	2%	2%

Year 1 PUP Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	11%	9%	7%	9%
DP19 Salesforce	15%	12%	9%	12%
Direct Marketing	13%	10%	8%	10%
Retailers / Brandassurers	10%	8%	6%	8%
Worksite	13%	10%	8%	10%

Year 2 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	1%	1%	1%	1%
DP19 Salesforce	3%	2%	2%	2%
Direct Marketing	1%	1%	1%	1%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	1%	1%	1%	1%

Year 2 PUP Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	11%	9%	7%	9%
DP19 Salesforce	15%	12%	9%	12%
Direct Marketing	13%	10%	8%	10%
Retailers / Brandassurers	10%	8%	6%	8%
Worksite	13%	10%	8%	10%

Year 3+ Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	1%	1%	1%	1%
DP19 Salesforce	3%	2%	2%	2%
Direct Marketing	1%	1%	1%	1%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	1%	1%	1%	1%

Year 3+ PUP Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	15%	12%	9%	12%
DP19 Salesforce	19%	15%	11%	15%
Direct Marketing	16%	13%	10%	13%
Retailers / Brandassurers	13%	10%	8%	10%
Worksite	16%	13%	10%	13%

Pensions single contribution contracts

Year 1 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	3%	2%	2%	2%
DP19 Salesforce	5%	4%	3%	4%
Direct Marketing	3%	2%	2%	2%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	3%	2%	2%	2%

Year 2 Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	1%	1%	1%	1%
DP19 Salesforce	3%	2%	2%	2%
Direct Marketing	1%	1%	1%	1%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	1%	1%	1%	1%

Year 3+ Lapse Rate				
Income Group				
Sales Channels	Low	Medium	High	Low/High
Banks / Building Societies	1%	1%	1%	1%
DP19 Salesforce	3%	2%	2%	2%
Direct Marketing	1%	1%	1%	1%
Retailers / Brandassurers	1%	1%	1%	1%
Worksite	1%	1%	1%	1%