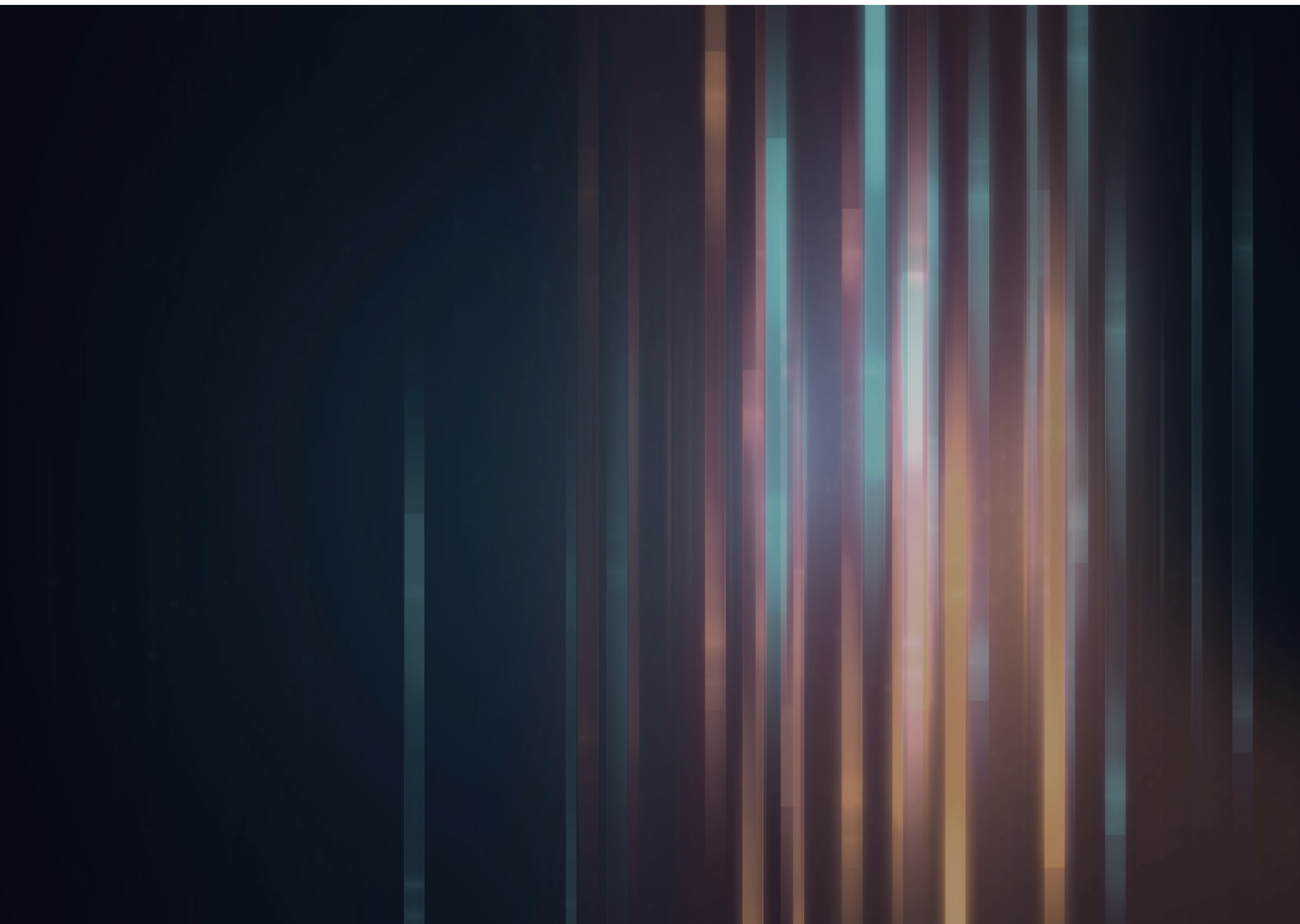


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THE PENSIONS DASHBOARD AND BEYOND: OPPORTUNITIES & CONCEPTS FOR ACTIVATING LONG-TERM CONSUMER SAVING



In a time of continued uncertainty, how do we encourage consumers to refocus on their long-term financial stability?

Recent studies show that consumer confidence in long-term savings and pension products is declining due to financial market volatility, a lack of financial education and product visibility, too much complex information, and well, some bad press. Indeed, in the aftermath of the 2015 pensions freedoms, there has reportedly been billions of pounds in drawdowns¹ that have also created some very hefty tax bills².

However, retirement planning is a high-value opportunity for providers. As consumers continue to live and work in different ways, so too must retirement planning evolve to provide more choice, transparency, information, and

flexibility where there will be a significant payoff for those providers which master it.

The introduction of the Pensions Dashboard is set to address the transparency issue by giving consumers visibility of all their UK pension pots in one place from as early as 2022¹, but there is still a lot more that can be done to support consumers in understanding what actions they need to take to accrue healthy savings, and what they can expect from a financial perspective upon retirement.

In this article, we share the opportunities that the Pensions Dashboard will bring to consumers, along with three additional concepts for activating long-term consumer saving and fostering a more dynamic, and competitive insurance market.

MARKET OVERVIEW

The pensions industry is historically complex and has seen large structural and regulatory changes over the past few decades. Because of this complexity, it has perhaps seen lower digital transformation and disruption than other areas in financial services, such as retail banking.

According to the World Economic Forum, in 2020 less than 3 percent of global fintechs operated in the retirement planning space, compared to 21 percent in lending, 18 percent in payments and 14 percent in digital capital raising².

The UK market size for pensions schemes in 2020 was £2.3 trillion across 40,000 pensions schemes, operated by 300 providers. Eighty-three percent of active savers are using defined contribution schemes which puts more emphasis on individuals to save and stay financially literate than defined benefit schemes³.

LIMITATIONS OF THE CURRENT PENSIONS MARKET

It is no secret that the existing pension system is under pressure and increasingly becoming not fit for purpose. Of course, there are multiple societal factors at play here, including:

- **People living longer**³ and retirement no longer being a guarantee for everyone
- **Competing life priorities**, such as helping with children's university fees and getting on the property ladder
- **Gender-related employment and retirement inequalities**, which have been exacerbated by the pandemic⁴
- **Evolving attitudes to employment**, from having a 'job for life' to increased job-hopping and the gig economy, flexi-working and part-time roles becoming ever-more commonplace (and affecting contribution levels as a result⁶)
- **Structural changes to the UK retirement system** with the shift from defined benefit schemes towards defined contribution schemes (which has left individuals to shoulder a greater burden of risk and responsibility to save and invest for retirement)
- **Over reliance on the state pension**⁷ and also **auto-enrolment**, which still comes down to affordability, and has reportedly led to 'extensive inertia'⁸ in pension saving since its introduction

- **A lack of easily free, independent, 'digestible' information** and advice about pensions and savings for different life stages and financial backgrounds.

While the pensions industry cannot solve all these issues, we believe providers can play a key role in demystifying pensions and simplifying retirement saving.

The stark reality is that consumers across all generations are struggling to save enough for a comfortable retirement. Indeed, 47 percent of UK workers do not know what their pensions are worth and 34 percent of 18-24-year-olds (44 percent of over 55) are unaware of their combined pension pot value⁴.

Furthermore, according to the Pensions Dashboard Programme, two thirds of consumers have multiple pots (on average people have 11 employers during their lifetime), which means different paperwork and online accounts for each of them, and that is if the pension provider even offers an online self-service solution⁵.

The ABI also estimates that 1.6 million pension pots remain lost or forgotten⁵, due to people leaving a company and forgetting that the pension existed or moving home and not updating the pension provider with the new correspondence address. Cue the Pensions Dashboard!

THE PENSIONS DASHBOARD

In April 2020, the Pensions Dashboards Programme was established⁹ to provide consumers with a digital overview of their pensions in one place. With the Programme's Staging Plan for input now open for responses¹⁰, and compulsory onboarding potentially beginning in 2023, we believe pensions providers should get on the front foot with their plans now.

The customer journey will comprise of an identity verification step, followed by a permission and consent process. Once completed, the consumer will be able to search for their pots and use an income calculator to estimate the value of the pensions in retirement.

How will it be implemented?

Providers have to offer an interface for their dashboards and prepare their data to be readily searchable and readable by authorised third parties. Schemes and providers will be legally compelled to connect to the ecosystem by 2023⁷.

The value for providers

Pension dashboards will boost customer engagement with their pensions by granting them greater visibility and control over their pot location and performance. But this will also drive fierce competition amongst providers to attract and retain customers, through:

1. Increasing consolidation activity – Savers will consolidate pensions as they rediscover forgotten pension pots, and gain transparency over fee structures and performance.

2. Creating digitally native customer experiences

– Seamless digital customer experiences will be a key factor in customers deciding where to consolidate their pension pots.

3. Boosting engagement with providers – Forty-two percent of people have registered with pension provider but only check the website a few times a year⁸. Visibility of savings should in theory raise interaction with their providers.

4. Stimulating greater contributions – More savers will look to increase their contributions as they realise that they are not on track to have enough for retirement.

5. The potential hyper-personalisation of products – Combining data and algorithms enables financial services (FS) providers to meet the retirement planning unique needs of increasingly flexible workers.

6. Cross-selling and new partnerships – Open Finance and Open Banking standards enable third parties, account providers and FS providers to share data and capabilities for new services across the value chain.

7. Providing democratized access – Facilitating more control and flexibility by bringing together personal financial information, contextual factors, and retirement savings to give a customer-centric and not just product level view.

8. Hybrid advisory experiences – Packing parts of the retirement value chain into a system of standalone APIs enables providers to embed specialist advice into third party services at the right stage when a customer needs help.

THREE CONCEPTS FOR ACTIVATING LONG-TERM SAVING

To make the most of the Pensions Dashboard, providers must leverage technology around consumer outcomes to create valuable customer propositions. Below, we detail three concepts that insurers can look to implement positive change in the industry.

Concept 1 – Smart Pensions Dashboard – Size of the market ~43.4m¹¹

It is a fact that savers are struggling to maintain visibility over their pensions¹², and many are unaware that these can be underperforming, or that their saving strategy is insufficient to achieve the retirement they want. We also know that many savers do not interact with their pension providers digitally¹³ – and that many are failing to keep track of pension pots when distributed across various providers.

There is a clear opportunity to offer more proactive and frictionless guidance around pensions to optimize consumers' retirement planning decisions. Banking providers, such as Monzo¹⁴, are using Open Banking APIs to allow customers the ability of viewing all their bank/credit card balances and transactions in one place. There is no reason why the same could not be true for pension providers, using similar Open Banking/Finance capabilities to show customers a consolidated view.

Potential features:

- A feature that continuously and automatically provides a consolidated view of pots by taking minimal information input and periodically running a search of all providers.
- A feature that breaks down fees and performance, and takes your savings rate into account, to calculate your estimated retirement income.
- A feature that detects inconsistencies and future performance issues and provides actionable guidance to course correct.

Concept 2 – Retirement simulation – Size of the market ~43.4 million¹¹

Individuals often lack the right knowledge to confidently make decisions concerning their pensions. Consumers rarely make use of advice¹⁵ when taking out a new pension or drawing down on their existing pension, and are unaware of complex pension rules, and how much they need to save for retirement. This often leads to a complete disengagement with retirement planning, or sub-optimal approaches.

Our solution? A 'digital twin' that educates customers on best practices and approaches to pensions, based on their personal circumstances. This can offer more proactive and frictionless guidance around pensions to optimise consumers' retirement planning decisions.

Potential features:

- Takes in your historical and intended savings patterns and predicts your progress towards retirement based off your personal circumstances.
- Grants you rewards or achievements for keeping up with your digital twin, meant to incentivise you to stick to your plan and best practices, e.g., reduced fees that month.
- Considers wider economic conditions, such as changing pension rules and regulations, that guides the customer on how to proceed with their pension strategy.

Concept 3 - Round-up pensions savings **– Size of the market ~51 million¹¹**

It is hard to set aside funds for retirement. As aforementioned in this paper, many people just do not think that retirement is a priority at their current life stage, and are not motivated to dedicate time, energy, or other resources to saving for retirement. For those with time on their side, trying to save even a little, and often, has the potential to become a sizable pot one day.

Companies like Tandem, Monzo, and Revolut give account holders the option round up spare change from a purchase to put it in to a savings account. We believe there is also an opportunity to reduce the friction and effort of saving for retirement.

Potential features:

- Rounds up transactions on your debit/credit card to the nearest pound and invests the spare change.
- Allows you to invest a custom amount with each debit/credit card transaction.
- Analyses your spending patterns and retirement outlook and determine an optimum amount for you to save into your pension that month.

From a provider perspective, each of these three concepts have the potential to reach markets of tens of millions. From a customer perspective, these have the potential to help raise customers' financial understanding and make more informed savings and spending choices in the future.

WHAT NEXT?

In summary, the Pensions Dashboard certainly goes someway into pulling together a consolidated view of an individual's pension pots. It also opens a conversation around how linking together a consumer's total financial picture into one place with added support, educational

and transactional capabilities from providers and partners across the financial ecosystem could really transform how consumers interact with the industry and save for the future.

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