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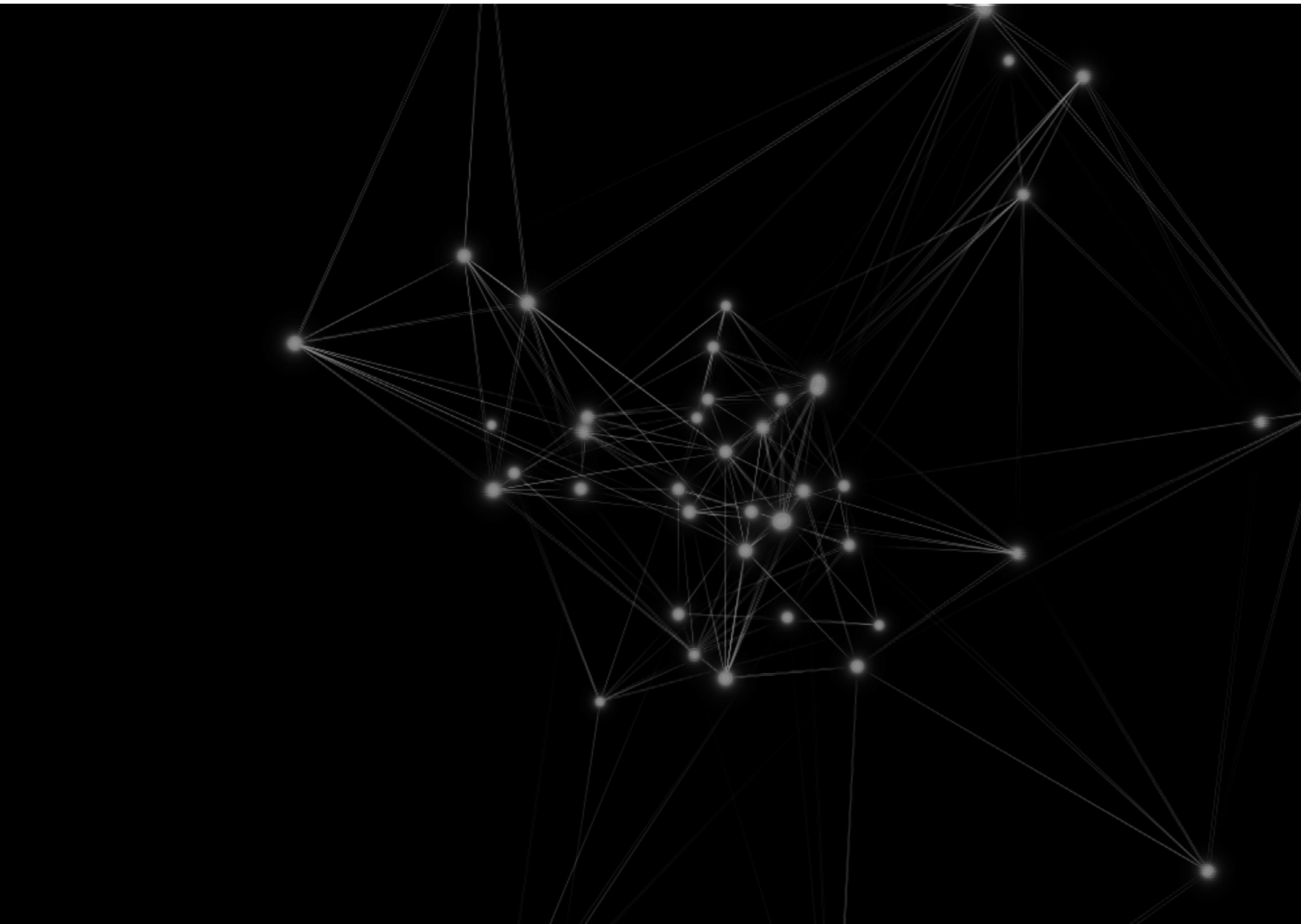
LIFE & PENSIONS: A NEW DISTRIBUTION PARADIGM?



The life and pensions industry has always been part of wealth management, an activity that all people benefit from. For most workers, their wealth is made up of a combination of deposits and investments and this also includes pension and life policies. In terms of wealth management and financial planning, people have a concept of how to protect their wealth, and that is generally delivered through the sorts of products that life and pensions (L&P) companies provide, and retirement needs especially, which is where L&P providers sit front and centre.

In this article, we share the implications of a potential new trend: life & pensions providers wanting to return to distribution direct to clients, whether that is through D2C or through their own sales network of advisers. In this increasingly crowded market, it seems that it is not so much the product shelf but rather the distribution side of the industry that is shifting.

FIVE DRIVERS OF INDUSTRY CHANGE

The industry is facing five key external drivers that are influencing the change in distribution of life & pensions services:

1. CUSTOMER DEMOGRAPHICS ARE CHANGING

Today, it is not easy to view your pensions holdings with one company on a mobile device, let alone multiple providers, to see the value of your total pensions pot. This is at odds with the digital direction of travel in financial services, as well as the wants and needs of younger, more tech-savvy, demographics.

Time does not stand still, and as the industry has aged, so have customers. Baby Boomers have mostly retired and members of Generation X are now amongst the oldest in the workforce. This change has meant that Millennials and Generation Z are now the majority of the workforce[1], and the ratio will be ever increasing.

Expectations of how a customer wants to interact with their retirement planning has therefore changed, but the industry has not kept pace. In the wealth management sphere, Hargreaves Lansdown has invested heavily in their digital platform and has reaped the rewards, taking market share from competitors[2]. Other industries have well known examples of household names that have been disrupted and should serve as a serious wake-up call to companies feeling unthreatened by more innovation-focused market players; from Blockbuster, who had the opportunity to buy Netflix at an early stage but ended up being put out of business by them, to Woolworths, who went out of business in the last financial crisis due to online competition by the likes of Amazon, it is clear that no company is safe resting on its laurels.

Increasing customer familiarity with online banking, accelerated during the COVID-19 lockdown, has led to higher expectations of the insurance market - to plan and transact online. The message is clear: younger, digitally native customers expect to be able to transact with service providers at a time of their choosing in a manner of their choosing. Organisations that do not meet that expectation can in turn expect to be disrupted by incumbents investing in such capabilities, or new entrants to the market.

2. PENSIONS HAVE GAINED A BAD NAME

Pensions were once seen as the best and for many, only, way to save for retirement. However, over the last 25 years, we've seen several pensions mis-selling scandals dent confidence in the industry. Closure of company final salary schemes has pushed ownership of investment risk from the employer to the employee and this has coincided with poor performance of pension funds due to low interest rates, the 2008 financial crisis, and now the COVID-19 economic impact. Given the switch to personal responsibility around planning for retirement income, this has led some customers to investigate alternative investments.

Rightly or wrongly, pensions are not seen as a good investment, so providers have work to do to ensure that their customers are aware of fund performance and the level of provision they can currently expect in retirement. Planning for retirement is difficult for customers to understand and pensions terminology can be confusing. Education levels around the suitability of pensions to provide enough income for retirement are low, as is guidance on how to use and make sense of the long-awaited online Pensions Dashboard.[3]

As they get older, Gen Z will gain an expectation of retirement, but what that retirement looks like will likely be different to the traditional view; they may work long past 'normal' retirement age, or work part time while utilising pension draw down or other investments. There is no longer a job for life, so pensions need to be flexible.

3. TECHNOLOGY HAS PROGRESSED… BUT HAVE L&P PROVIDERS?

COVID-19 has accelerated the demand and consumption of digital services across industries. Do providers have the services that customers expect, exposed in a channel they want to use? A 'best of breed' digital capability should include: view and manage personal details, view valuations, view cover details, manage and switch funds, change payments and payment details, change retirement age, model different payment and retirement scenarios, limited funds withdrawal, access documents, education tools to help understand options, and frequently asked questions.

Digitally transforming their businesses should now be an even greater strategic priority for providers, to meet customer demand and to drive value. Learning from the COVID-19 pandemic, it also mitigates the risks of further pandemic-like scenarios to trading and offers the opportunity for insurers to provide new protection products for origination through digital channels.

Providers have an abundance of data available to them, and many are engaged in programmes to exploit this data, but what tangible difference is this making to customers lives? Personalisation of content, communications and product offerings is sparse to non-existent.

Another significant change is the creation of new channels to acquire customers. Two potential sources are the large technology firms and partnerships driven by Open Finance and APIs. Bigtech such as Apple, Google, Amazon and Facebook, have access to billions of users around their world, it is only a matter of time before they create workable technology products allowing their millions of users to purchase insurance from a recognised carrier which has had digital excellence embedded into its products and services from day one.

4. REGULATORS ARE ONCE AGAIN TURNING THEIR ATTENTION TO L&P

After several years of concentrating on the banking sector through initiatives such as Open Banking, regulators are now turning their attention to the rest of the financial services industry, with pensions high on the list of priorities. The aforementioned Pensions Dashboard has been touted for a few years now, and seems likely to be wrapped the consultation on Open Finance. This is a major change which will help younger generations in particular, as the 'gig economy' and auto enrolment will cause the average person to hold a higher number of pensions than ever before.

Millennials and Gen Z will need help to effectively manage their pension portfolios, and the Pensions Dashboard is expected to provide a consistent view of current holdings across all UK providers. Providers will need to ensure that they provide value-added services so that customers will want to use their portal as the place to view all their retirement or investment holdings and plan for retirement. Data aggregation and analysis will allow personalisation of the customer experience through this channel and provision of improved financial planning tools, with the additional opportunity to offer consolidation of holdings and upselling. This will also potentially open the way for more regular interactions with customers, enhancing brand loyalty. Typically, L&P customers have little to no interaction with insurers once their pension is set up beyond the requirement for an annual statement until the customer is approaching retirement. This must change.

There have been many delays in getting a Pensions Dashboard off the ground, and whilst there is no reason to doubt that it will eventually appear in some format, there are opportunities for providers to work with fintech and insurtech firms ahead of data being available through the Pensions Dashboard or Open Finance, to offer enhanced retirement planning and modelling tools using user-provided holdings data.

5. RDR BANNED COMMISSION FOR ADVICE… WHERE ARE WE EIGHT YEARS LATER?

Many people do not want to pay for advice and will ask friends, family and Google instead. In addition, due to advice fees, it is often not worth paying for advice for smaller pension holdings unless they can be consolidated – paradoxically, for which it is better to obtain advice. These customers are often left in the dark on their options and need a step-by-step approach.

Since the Retail Distribution Review (RDR) banned commissions for advice in 2013,[4] there has continued to be an advice vacuum that providers have not yet filled. Mortgage providers have offered robo-advice directly to customers for a few years, and Barclays, through their Wealth Management business unit, have recently started to move into this space too, offering robo-advice for those with over £5,000 to invest.[5] For customers who won't use a financial adviser, there is a growing need and opportunity for such a provision, without cannibalising the customer base of their adviser networks.

CHALLENGES AND OPPORTUNITIES

The current high levels of customer queries and transactions will continue as the economy remains volatile. Advisers will not want to take on the burden of being the 'middle man' to such queries and insurer resources will continue to be aligned to service this demand, potentially impacting on other opportunities. Customer service levels may deteriorate as demand exceeds resource available, pulling the focus of leaders to the short term rather than working towards their strategic vision. However, with a direct to customer origination and servicing capability, this effort can be automated digitally, freeing up resource to focus on more value-adding activities.

If the trend of pensions being seen in a bad light continues, contribution to occupational and private pensions will drop to the minimum required under legislation, threatening the retirement provision for millions, and the viability of insurer business models. Providers need to work with the Government and other providers to increase education levels on the benefits of saving into a pension and actively managing retirement investments.

Some providers are already investing in major data transformation programmes. This is a threat to both other insurers, who might be behind the curve in being able to exploit that data to customer benefit and commercial advantage, and to themselves also, especially if those initiatives are not then utilised to provide tangible benefit through personalisation of content, communication and product offering. Being able to join this internal data with customer-provided external product holding data and in time, Pensions Dashboard data, will differentiate truly data transformed insurers.

To make the most of these opportunities, insurers will need to tap into expertise that hasn't traditionally been the preserve of the life & pensions industry. Roles should include:

- Customer insight leads to act as customer champions
- Data scientists to exploit internal and external data sources
- Digital proposition designers
- Digital customer journey designers and implementers.

In addition, existing teams will need to re-evaluate their operations which may now no longer be fit for purpose. Going forward, they will need:

- Performance teams to evaluate and optimise the customer journey
- Product specialists to streamline current product and service offerings
- Operational teams (underwriting and admin) to redesign structures and processes
- Leaders to re-orientate the organisation to becoming digitally led.

WHAT NEXT?

The retirement saving sector needs to become increasingly flexible to cater to the expectations of ever younger and more mobile customers. Pensions will be one of the saving mechanisms to achieve retirement ambitions, and insurers urgently need to invest to ensure that the features they need to expose directly to customers can become available ahead of competitors and in line with regulator initiatives such as the Pensions Dashboard and Open Finance.

As the flexibility of retirement saving increases, insurers will need to provide a diversity of savings vehicles, including wealth and asset management offerings, wrapped into a portfolio with accompanying holistic retirement planning and modelling features.

Contact us to find out how we're helping firms to embrace a new distribution paradigm in a changing financial services landscape.

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