STARCOUNT

Whitepaper:
Unravelling the urban myths of the pensions industry

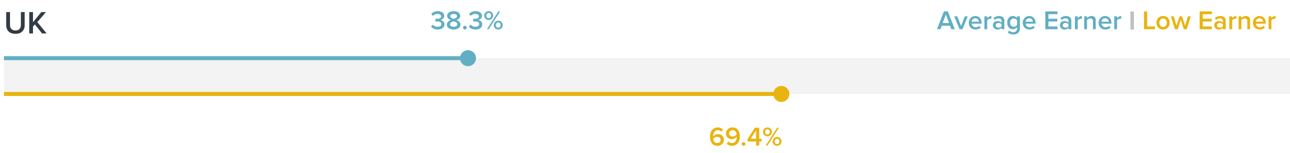
Face disruption head on

The banking industry is facing its biggest shakeup in two hundred years and the pensions sector is at the centre of the storm. The UK's impending exit from the EU is already causing substantial ripples and, while the final consequences are still unknown, disruption on this scale is bound to impact on the finances of those saving for retirement. With changing governments, laws and financial structures, both consumers and pension providers are in times of great uncertainty.

The pensions industry in particular faces significant hurdles – not least in terms of relationships between customers and providers. A pension is something that almost every individual will have to confront at some point in their financial journey; yet, in May 2016, the Bank of England's Chief Economist, Andy Haldane, admitted that even he struggles to 'make the remotest sense of pensions'. With ambiguity on this scale, how is the average member of the public meant to get to grips with and take ownership of their own financial assets? This widespread confusion, combined with a growing population, an increasingly crowded market, a shift in demand from consumers for transparency and new laws that enforce transformation, spells bad news for both providers and customers – unless the industry makes some fundamental changes.

The state of UK pensions

The pensions that workers are likely to receive as a percentage of their former salary*



*Guardian graphic I Source: OECD, theoretical net replacement rates

According to the Organisation for Economic Cooperation and Development, the typical British worker will retire on a pension worth only 38% of their salary, once state and mandatory private pensions are combined, and after tax. Once voluntary private pensions savings are included, the OECD estimates that UK workers will retire on 71% of former earnings, after tax.

The customer struggle

Now more than ever before, it is imperative that customers take ownership of their pensions and start participating actively in the process of saving for retirement. Customers have more freedom, flexibility and control than ever before over their pensions. While positive in theory, this new state of affairs could have consequences for both customers and pension providers.

As the population continues to grow, the state's resources are put under increasing strain and it cannot afford to supplement pensions in the way it once did, while the vast majority of people are not saving enough to make up the difference. Why? A lack of understanding, driven by a dearth of clear information and little to no engagement from providers.

Life expectancy on reaching age 65, in years [1]

UK Population	Cohort life expectancy on reaching age 65 in the year shown (years) [2]					
	2011	2015	2020	2030	2040	2050
Women	23.8	24.3	24.9	26.0	27.1	28.2
Men	21.1	21.7	22.2	23.4	24.6	25.8

[1] ONS Cohort expectations of life http://www.ons.gov.uk/ons/rel/lifetables/period-and-cohort-life-expectancy-tables/2010-based/index.html
[2] Based on actual mortality rates and projected calendar year mortality rates from the 2010-based principal population projections

When it comes to engaging with pensions, most people don't know where to begin; they don't know how the process works, what products they're in (or why they're in them), how to make the most of the tax breaks, how much they need to save or what happens as they draw closer towards retirement.

As a result of this confusion, some customers aren't paying in enough each month, believing that the fact of having a workplace pension ensures their financial security, while others are being over-cautious, drawing down minimal amounts even though they have plenty left in the pot.

While most people accept that they need to work longer, they also desire more flexible working arrangements and multiple sources of income (often including their pensions).

Other social and cultural changes have also contributed to the present situation: while, in the past, a person might have been employed by the same company for forty years, the modern individual works for around eleven companies before retirement. This means that the average consumer could retire with eleven different workplace pension schemes, plus a scheme that they set up personally, all held with different providers and containing different amounts. Because of this, no single pension provider will truly understand a person's full retirement planning. What's more, with minimal communication from the providers themselves, an individual will have no idea where to begin when it comes to consolidating their pots or even choosing one product over another. The average customer on a corporate scheme will only hear from their pension provider twice across a twenty-year period; such low engagement inevitably leads to a functional and faceless relationship with limited brand loyalty, and a customer who, unsure of their options, can be easily persuaded to switch to a competitor.Even those that have some level of savings can no longer afford to – and, often, are choosing not to – retire in the same way as previous generations.

Proportion of working age people currently accruing a non-state pension [3]

Age	Women ♀	Men ♂
16-19	5%	1%
20-29	28%	28%
30-39	45%	53%
40-49	52%	60%
50-65	48%	51%
All	**42%**	**46%**

[3]'Accruing' refers to the building up of rights in a pension scheme

Contribution rates to private sector schemes by scheme size (as a percentage of salary) in 2014 [4]

Scheme size (total membership)	Weighted average contribution rates (% of salary)					
	Defined Benefit			Defined Contribution		
	Member	Employer	Total	Member	Employer	Total
10,000+	5.2	15.3	**20.6**	1.5	2.4	**3.9**
5,000 to 9,999	6.2	15.7	**23.8**	2.5	4.5	**7.0**
1,000 to 4,999	4.3	15.9	**20.2**	3.4	6.3	**9.7**
100 to 999	4.5	18.7	**23.2**	3.1	6.7	**9.8**
12 to 99	4.5	24.4	**28.8**	1.6	6.2	**7.8**
Total	**5.2**	**15.8**	**20.9**	**1.8**	**2.9**	**4.7**

[4] ONS (2015) Occupational Pension Schemes Survey 2014. Includes schemes where contributions are zero. As these contributions are a proportion of salary, they will include any contracted-out rebate received by the employer/employee.

The provider struggle

In the past, pension providers haven't prioritised engaging and educating people about pensions, instead focusing their attention on their relationships with intermediaries (IFAs) and companies (Financial Directors/HR). This approach has led providers to a position of near-acceptance of the funds they have, as well as the belief that, as 5-10% of this amount flows continuously between the different providers, there are no real winners or losers.

In the current financial, political and social climate, this is set to change.

Dealing with IFAs

One of the key threats to the security of pension providers is the changing role of IFAs.

Historically, the relationship between providers and IFAs was driven by the former group, with the providers giving the IFAs commission for every pension sold. Nowadays, the power has shifted; consumers pay IFAs for their services, meaning that, while there are IFAs that are tied to a particular provider, the majority of IFAs choose from a panel of options or even cherry-pick from the entire market. By persuading valuable customers to move their pensions funds, IFAs are often the catalyst that cause multiple providers to lose business. What's more, with no real insight into why and where people are moving, many financial institutions are struggling to retain their customers (or even get the most value from those who do decide to stay).

On the other hand, there has long been a view in the market that pensions providers have to keep IFAs on side, not taking any kind of preventative action for fear of jeopardising the relationship and losing any lucrative benefits. This paralysis can be damaging, allowing IFAs to take advantage of low customer loyalty to persuade them to switch providers.

Communicating with customers

When it comes to customer retention, IFAs aren't the only challenge faced by traditional pension providers.

Communications between providers and customers have, typically, only taken place at 2-3 moments across the relationship: when the customer first sets up their pension and when they reach retirement age, with a possible check in when they turn fifty to make sure everything is on track. This needs to change; if providers don't engage people more often with meaningful, valuable and relevant information, then they have no means of retaining their customers when a competitor offers a more attractive product.

There's also an additional hurdle to consider; providers are heavily regulated and, in most cases, cannot be seen to be giving specific advice. This has led most providers to adopt a risk-averse position, offering only the broadest, most factual information, such as pension calculators that estimate how much your pension might be worth, but say nothing about how much you should be saving each month.

What's more, while the government has tried to encourage more citizens to save for the future, in recent years it has started to shift the burden of liability towards individuals and employers, and away from the state, introducing tools and legislation such as pensions freedom, pensions dashboard and auto-enrolment for this purpose.

Breaking down barriers

Internal complications also prevent pension providers from making significant changes when it comes to customer engagement and technological innovation. Many large financial institutions work within siloed structures, with disparate sources of data and legacy-based systems.

As time passes and experienced employees leave, these organisations lose corporate memory and knowledge, leading to a quick fix approach and a reluctance to take serious action for fear of disrupting and deterring customers. This means that many providers are technologically behind, struggling with more complex financial affairs because they can't yet provide customers with a platform to view all their financial interests in one place.

'Up to £400m in pensions savings is lying unclaimed according to government estimates' [5]

'Today's 25-year-olds need to save the equivalent of £800 a month over the next 40 years to retire at 65 with an income of £30,000 a year' - Rebecca Taylor, Director at the Chartered Institute for Securities and Investments' [6]

'Millennials have their own definition of financial success. 46% says it means being debt free, compared to the 13% who say being able to retire is the #1 indicator of financial success and 21% who say owning a home is top of their list.' [7]

'If workers in defined contribution schemes had received the same contributions as those in defined benefit ones, they would have been paid an extra £35.4 billion in 2015 alone.' [8]

Starcount's key steps and solutions

While financial institutions undoubtedly face turbulent times, there are some key steps that can be taken to ensure they capitalise on the great opportunities that this disruption will present and embrace a new, genuinely customer-centric era in the banking industry.

1 Understanding the significance of the challenge

The old way of doing business is not sustainable in the future. The world has moved on – and so have your customers. With this in mind, it's clear that observation-based insight does not, and will not, develop your business in a truly transformational way. Customers are at the heart of any business and so discussions around customer understanding must start in the boardroom. Rather than delaying any action by waiting for a 'Nirvana' future (where their data is all sorted and integrated), providers can – and should – adopt a more agile approach. Activating on customer insight doesn't have to be directly linked to the future launch of an IT integration project. We don't have to wait for a perfect future – we can, and must, start now. While changing from a product-centric approach to a customer-centric one will come with its set of challenges, perseverance, tenacity, momentum and action will get you there in a shorter period of time.

2 Knowing your customers better than anyone else

Getting to know your customers should be the highest priority for any brand or organisation but, for the majority of pension providers, this process is not without its challenges. When it comes to increasing customer understanding, many providers will have little more to go on than their customers' National Insurance numbers, monthly premiums and current pension value. However, there are ways to get around these limitations – and even prosper within them.

Although some providers can bolster their first-party data with additional information from a retail bank arm, not all organisations have this capability. Starcount can augment providers' limited customer data with other third-party data sources to reveal customers' lifestages and shed light on their passions and motivations. This insight can help providers to understand not only which of their customers are most likely to move their pensions but also why: is it due to changing lifestages or different pot sizes, for example? This knowledge allows providers to anticipate when someone is going to switch and target them at the right time with the right messaging to persuade them to stay.

Yet, even without enhanced datasets, engaging with customers using broad messages based on age, location and premiums is better than doing nothing at all. Using this minimal data, it is possible to educate customers with relevant information, based on their lifestages, their current financial situation and an estimate of their likely aspirations for later life. While it's unrealistic to think that customers will engage with their pension provider every week, communicating clearly and relevantly with customers at key milestones – whether it's the first time they've opened an account or they're receiving their annual statement – can help differentiate one provider from the competition. What's more, maintaining regular, appropriate communication is crucial to encouraging long-term emotional loyalty, thus minimising the chance of customers switching in the future.

3 Taking action

For many organisations, inaction has become a form of action. Rather than engaging with customers, pension providers have focused on measuring current fund value, estimating future fund value and appealing to intermediaries who deliver new business, leading to a continual cycle of investigate, explore and review.

What's more, the current, product-centric view held by providers (such as referring internally to 'book size' or 'fund size', rather than 'number of customers') allows them to detach from the real people behind the figures. However, as new legislation pushes more of the responsibility for retirement planning onto individuals and companies, there is an increasing need, duty and opportunity for pension providers to engage and help people provide for their future.

True transformation can only occur when pension providers commit to disrupting the urban myths that build up within organisations over time. For the majority of providers, changing and delivering at speed is not the cultural norm; nevertheless, a more rapid response is needed if these organisations are to retain their customers in the long run. Instead of waiting for big technology overhauls, providers must move towards a test and learn format, working off subsets of data and running solutions in parallel. Insight is only as strong as the action it inspires.

Conclusion

Transforming from the status quo to become truly customer centric won't be a quick fix. It will require pension providers to stop concentrating solely on funds and start focusing on their customers; to stop managing their business by policy type, by open-and-closed-book, and by strategic and non-strategic intermediary relationships. Providers will need to take a holistic view of a customer, accepting that lifestages are less linear than they once were, that retirement is no longer an irreversible decision and that people will only engage in their retirement planning when it can be explained in simple terms with clear and actionable steps. From online-first providers such as Nutmeg to pension tracing services like My Future Now, the financial organisations that can capitalise on the current disruption will be the clear winners, paving the way to the next phase of the pensions industry.

Sources

[1] [2] [3] [4] http://www.pensionspolicyinstitute.org.uk/pension-facts/pension-facts-tables
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About the author

Dr. Clive Humby

Chief Data Scientist

Clive has nearly 40 years' experience in Customer Analytics across 30 markets globally. From creating the first geodemographic system, ACORN, in the 1980s, to developing the use of motivational segmentation in his current role at Starcount, Clive is acknowledged as one of the world's pioneers in the discipline.

With his business partner, Edwina Dunn, he founded global consumer insights businesses, dunnhumby, which revolutionised the use of transaction data for the FMCG industry, before expanding to work with a wide range of consumer-facing businesses, from banking and telecommunications to department stores and online retailers.

He was first to coin the phrase "Data is the New Oil" and is consulted at all levels, from government on the implication of Data Science in the UK Economy through to individual clients where he leads key work streams designed to step change their businesses.

He has elected honorary Fellowships at the Institute for Direct Marketing, the Market Research Society and the Institute of Mathematics and its Applications, and was made a Patron of the Market Research Society in 2013 and Companion of the Operational Research Society in 2014. He has an Honorary Doctorate of Engineering from Sheffield University.

About Starcount

Starcount helps you to understand customers more than ever before by driving greater value from your customer data, and providing an additional enriched lens of insight into customer loyalty. We believe that knowing the customer better than anyone else helps to create a new customer-centric business culture – a focus on relevant and timely customer service and engagement.

Led by the transformational data pioneers, Edwina Dunn and Clive Humby, Starcount has a rich heritage of exploring and capturing current and fast moving data around customer loyalty.

We are not just data scientists and software engineers, but experienced customer storytellers.

Combining a wealth of customer insight with new era digital and social intelligence, we uncover consumers' wider motivations, mindsets and aspirations. This allows us to help you forge deeper emotional connections by reconsidering business strategy, capturing consumers at the perfect moment and nurturing brand love. We can help you find a true and sustainable competitive edge.

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