Aquila Heywood

How can we achieve a **financially engaged population?**

Whitepaper

A review of current and future **consumer engagement** trends

Contents

Why engagement?

Looking across our customers in the financial services market, spanning protection, investments, pensions and retirement needs in the UK and Ireland, there is a clear trend. Almost without exception, **'member' or 'customer' engagement** is number one or two in the list of strategic priorities.

Is this a new trend?

Not completely – communications businesses will rightly say they have been focusing on engagement for many years but, even so, the scale of investment in this area has been limited.

Today, it is a very different picture. The **area of engagement is evolving fast**, and is now central to the difference between success and failure.

What do we mean by engagement?

We can define someone as being engaged when they are interested and enthusiastic about a subject and take positive action in respect of that topic.

Engagement in the financial services context can be considered in two phases:

1. Building initial interest and enthusiasm: communications, education and information, presented in many different ways and through different media, for example, text, video or presentation.
2. Persuading or nudging people to take positive actions, for example, joining a pension scheme, starting to plan retirement budgets or topping-up life cover. This involves using a variety of different tools, guidance or advice solutions.

In this paper, we examine:

- What is really driving the enhanced focus on engagement
- What is hindering progress and how to improve the position
- Why it is crucial for the life and pensions industry to get this right

The problem

Figure 1. Challenges/ Gaps within the industry

The life and pensions industry remains at the centre of ensuring the long-term financial wellbeing of the population, an objective shared by politicians, the product providers, pension schemes, employers and consumers. Yet there are many challenges for the industry, often referred to as 'gaps'.

The problem

There is a huge protection gap estimated at some £2.4 trillion[1] in the UK while, in Ireland, the amount of 'rainy day' savings held to deal with incapacity to work is well below the European average[2].

Old-age poverty beckons for future generations. Consumers can no longer rely on a Defined Benefit (DB) pension designed to provide a comfortable retirement aligned to the salary enjoyed while in work. Increasingly, pensions are Defined Contribution (DC)-based, with on average a quarter of the equivalent contribution [see Figure 2].

For the majority, the level of saving is too low and there is a significant likelihood of a gap between desired income in later life and what will actually be achieved.

We also see increased indebtedness, especially in younger age groups[3], exacerbated by the higher cost of housing and student loans. This extends the protection and savings gaps and will, in the future, worsen the retirement income gap.

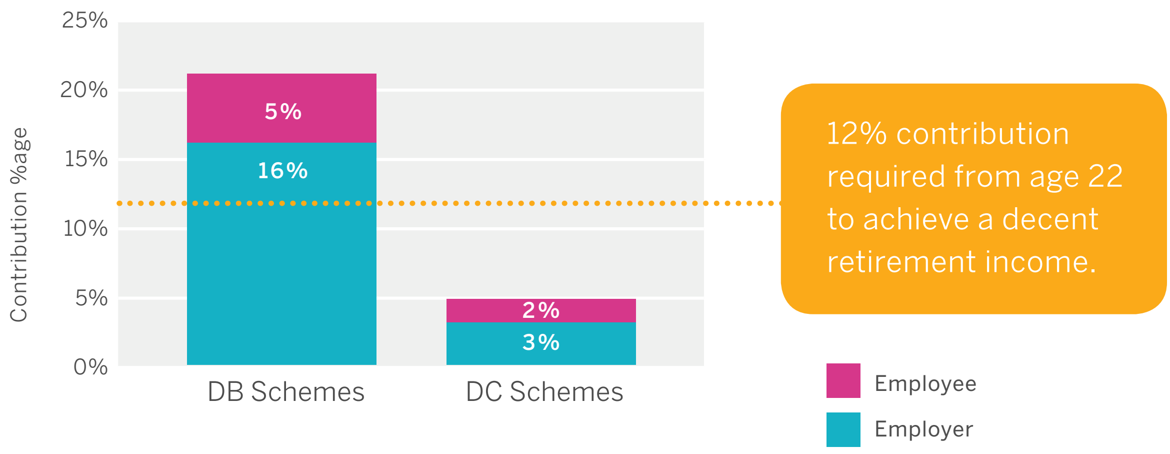

Figure 2. Average Scheme Pension Contributions
Source: www.pensionspolicyinstitute.org.uk

[1]Cover Magazine

[2]Zurich

[3]Citizens Advice

Financial Services Sector Disparity

Trust in the financial services sector, Informed Public vs. Mass Population, 2016

Country	Informed Public	Mass Population	Gap
U.S.	69	51	18
Spain	47	33	14
Brazil	67	54	13
Mexico	77	65	12
France	44	32	12
UK	52	40	12
China	84	72	12
Italy	49	38	11
Indonesia	84	74	10
Singapore	69	63	6
Germany	34	32	2
Hong Kong	55	53	2

2015: Financial Services is the second-least-trusted industry, ahead only of media.

2016: Trust in Financial Services is markedly worse for the mass population compared to the informed public. In the UK, this is a 12-point difference.

Figure 3. **Financial Services Sector Disparity**
Source: Edelman's Trust Barometer

The level of awareness of life and pensions products and terms is poor. People are not educated to understand the complexities of finances, while advisers have moved up-market, leaving the masses poorly served for affordable financial advice. Financial Services is one of the least-trusted industries [see Figure 3][4].

In Life and Pensions, we use a language packed with jargon that leaves the average consumer floundering. We have regulation that packs layer upon layer of small print to even the simplest of documents.

It is not surprising that engagement levels are shockingly poor. Yet the need for engagement is never greater if the industry is to close the consumer gaps in saving, protection, retirement provision, knowledge and advice.

[4] Edelman

A mass market issue

The challenges impacting the consumer are felt most by the large cohort sitting in the middle ground. They are wealthy enough to have options, but still need to manage their finances carefully to achieve good outcomes.

Protection is affordable, but not perceived as important. The recently-introduced 'freedom and choice' in retirement in the UK now means that older people, often with limited financial awareness, are now expected to make complex money choices just as their faculties are on the wane.

In Ireland, and elsewhere in Europe, the retirement market might not have experienced such a sudden change, but the trends are the same and the complexities are very similar.

Progress and challenges

The problem is not a lack of good 'engagement' content, but the inability to push people to access it and then to match content with specific personal needs.

There is undoubtedly some good educational material available. There are simple and fancy tools that help consumers play with scenarios, budget for later life and so on. There are also guidance and advice tools making recommendations to the consumer, some covering investments and general savings, others looking at protection needs and yet more helping with saving for retirement. In each example, consumers get a substantial nudge or a formal recommendation and can act on it.

Organisations are utilising gamefication[5], behavioural psychology and appeals to the emotions[6] to make their messages more engaging. The choices are wide-ranging.

Despite the apparent progress, there remain two key, but related obstacles that will hold our industry back. The first is that few offerings are capable of being directly targeted to those individuals to whom the proposition is relevant. The second is that much of this innovation is stand-alone, with each offering specialised for a specific element of engagement.

Sophisticated data analysis is critical to understanding the consumer. Yet, for life and pension providers, there is a huge challenge in utilising internal data, which has traditionally been split across the organisation or hidden away in legacy applications that are difficult to access with ineffective data warehousing. Worse still, it is estimated that 80% of data in large enterprises is unstructured[7].

In a nutshell, the market is lacking holistic solutions that are personalised to the individual consumer and engagement is held back by limited access to relevant data. The result: the impact of engagement solution innovation is severely diminished.

As Deloitte concludes in its UK life insurance 2016 futures paper[8], using the power of data is one of the six key responses to current market disruption in retirement, enabling in depth personalisation of products and services to retain and win customers. Failure to be able to do that will cause significant competitive detriment.

[5] Kingfisher Pensions
[6] Like Minds
[7] IBM
[8] Deloitte

Targeting the individual

Let us look a little more closely at personalisation and the complexity of factors to be considered in categorising 'the person'.

For pension savings and finances, even at a very simple level, there are many ways of segmenting the population, for example:

20s

- Concerned with managing debt and getting on the housing ladder
- Retirement is too far away to be concerned
- Mobile user rather than PC; Social media for communication
- Minimal pension savings to date – in an AE scheme

30s

- Mortgage worries
- Financial squeeze from children
- Focus is on supporting dependants to worry about rather than saving

40s

- Debt concerns start to reduce
- Start to consider later-life needs
- Elderly relatives become a concern
- May have some DB provision, but equally recent AE might be only pension

50s

- Retirement needs become a greater concern
- Likely to have housing wealth
- Keen to help children move away from home
- Will have reached peak earnings
- Likely to have some form of DB provision from early career

Figure 4. Characteristics of mass-affluent customers in Financial Services

Within each age group, there will be differences related to many other factors, for example, location, financial awareness and inheritance wishes.

[9] Pensions Policy Institute
[10] Experian
[11] Call Credit
[12] Experian

<table>
<tr><th>Category</th><th colspan="6">Segments</th></tr>
<tr><td>Gender</td><td colspan="4">Male</td><td colspan="2">Female</td></tr>
<tr><td>Age Band</td><td colspan="2">22-34</td><td colspan="2">35-44</td><td>45-54</td><td>55-64</td></tr>
<tr><td>Retained pension rights</td><td colspan="2">None</td><td colspan="2">Defined Contribution</td><td>Defined benefit</td><td>Defined Benefit and Defined Contribution</td></tr>
<tr><td>Employment Status</td><td colspan="4">Employee</td><td colspan="2">Self Employed</td></tr>
<tr><td rowspan="2">Current Pension Scheme</td><td rowspan="2">None</td><td colspan="3">Occupational pension scheme</td><td rowspan="2">None</td><td rowspan="2">Private pension</td></tr>
<tr><td>DB</td><td>DC</td><td>DB and DC</td></tr>
<tr><td>Occupational classification</td><td colspan="2">Managerial and professional occupations</td><td colspan="2">Intermediate Occupations</td><td>Routine and manual occupations</td><td>N/A</td></tr>
<tr><td>Income tax band</td><td colspan="2">Non-tax payer</td><td colspan="2">Basic rate</td><td>Higher/Additional rate</td><td>N/A</td></tr>
</table>

Figure 5. Pensions Policy Insitute - Occupational classifications

This level of categorisation barely touches the surface. The Pensions Policy Institute used the table above. For more detailed classifications in its recent study on 'Adequacy in Retirement[9].

The PPI notes that even this limited number of factors gives over 1,200 combinations and goes on to say that other forms of wealth are also important contributors to retirement planning, even though not covered in the report.

Credit reference agencies have taken consumer categorisation to a much greater level of granularity than this.

Both Experian and Call Credit, for example, can classify consumers into multiple 'types', linked to an extensive range of lifestyle criteria while also providing more specific analyses related to financial needs[10,11]. A recent case study involving Standard Life[12] highlights the benefits of segmentation and personalisation already being achieved in winning and retaining customers, despite being able to deploy only some of the full potential of the available personalisation.

Even with access to the types of service offered by credit reference agencies, unless the internal data access is improved, the power of personalisation to the customer is greatly reduced.

Holism

The parallel challenge for our market alongside personalisation from data is how to present a holistic picture to the consumer. From the person's perspective each financial product is not in its own little box to be considered independently, but forms an overall jigsaw of financial wellbeing, which itself links to the wider life stage of the individual and their family. The traditional adviser would cover a lot of this ground, but the mass market, where the protection, saving, income and knowledge 'gaps' are the big problem, does not have good access to paid advice.

We are starting to see some positive moves in this area. The pensions dashboard is a good example, which eventually will allow everyone to see all their pension savings in one place. Aquila Heywood is highly supportive of this initiative, being one of the development partners engaged in the ABI's prototype project.

Our vision sees a fully-populated dashboard being embedded in our wider self-service customer portals, linked to other savings, housing wealth and best-of-breed education, guidance and advice solutions, complemented by links to wider health and protection 'wellness propositions' and general finance and debt management solutions.

Automated/Robo Advice

Formal automated advice is a logical endpoint from a holistic engagement process, and arguably the ultimate in personalisation. Based on a data set directly linked to the person, that individual receives a specific recommendation to act in a certain way. While the wider personalisation agenda is designed to support engagement better, encouraging people to take an interest or be emotionally engaged with their finances, the ability then to go on to a specific conclusion seems to complete the puzzle more than anything else.

With technology advancing at a very rapid pace, we foresee automated advice gaining significant ground in the middle market, even for more complex issues such as retirement, perhaps integrated where needed to telephone or face-to-face. With robots now performing back-office processing in Japan[13], based on IBM's Watson AI solution, and 'wearables' now delivering vast amounts of health data on a consumer, the writing is on the wall. What price that, by 2025, it will be common place to call out to Alexa[14] (or one of her siblings!) and have her sort out your short- and long-term finances proactively?

For those deploying modern technology, there is a growing ability to access all the necessary data on a consumer's financial position, their preferences, their health and their life wishes, making the automation of advice surely inevitable. Yet, for those with multiple and disparate customer databases, this form of advanced engagement will remain a pipedream.

[13] The Guardian

[14] Wikipedia

In summary

Better engagement is the key to addressing the fundamental financial challenges of saving and protection, be that in building early-stage interest and enthusiasm or in later improvements in financial awareness, planning and decision making. Better engagement will also engender greater trust.

We need to be more aware of the differing needs of each segment of the population and ensure engagement reflects the individual's financial awareness, wealth, health, lifestyle, behaviour, emotion and short- and long-term needs. There are many good engagement approaches and techniques available from which to pick, and innovation continues to bring new ideas to the market.

Yet, to maximise effectiveness, this engagement has to be personalised to the individual so that messages are targeted, relevant, understandable and clear. Personalisation requires complex data analytics. Ultimately, we expect the best of breed to be able to work to a customer segment of one.

While the credit reference agencies lead the way in demographic segmentation, many life and pension providers struggle. Underlying legacy technology, a raft of different platforms and a lack of effective data warehousing make it very difficult to understand their customers fully, never mind to combine that understanding with wider consumer profile information.

Addressing this issue, with modern, data-driven customer and policy systems will enable providers to thrive in the era of engagement.

Ensuring that this engagement is provided holistically from a consumer perspective is equally crucial. Ignoring this challenge is not an option. If your organisation cannot sort out its data and deliver high-quality, personalised engagement, then someone else, who can, will take your customers.

Our focus is on ensuring our platform solutions will enable our customers to be those who can deliver and will succeed!

For more information, contact us at enquiries@aquilaheywood.co.uk
or visit our website: https://www.aquilaheywood.co.uk