



Institute  
and Faculty  
of Actuaries

## Consumer Behaviour and Product Design

Kathy Byrne

12<sup>th</sup> February 2015



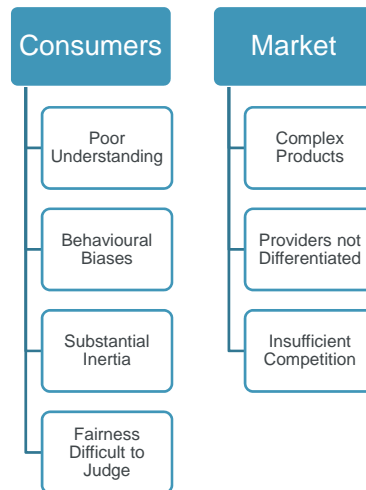
“if the market worked perfectly and consumers were completely rational then there would be no need for us. In that world firms would treat their customers fairly because it was in their interest to do so and consumers would buy products and services that were in their best long-term interest.”

Clive Adamson, FCA Director of Supervision , May 2014

---

12<sup>th</sup> February 2015

## Why is there a problem with the market?



12th February 2015

3



Institute  
and Faculty  
of Actuaries

## Understanding Consumers

erprise  
 Sponsorship  
 Thought leadership  
 Progress  
 Community  
 Seasonal Meetings  
 Education  
 Working parties  
 Volunteering  
 Research  
 Shaping the future  
 Networking  
 Professional support  
 Enterprise and risk  
 Learned society  
 Opportunity  
 International profile  
 Journals  
 Support

12th February 2015

4

## FCA Research

Financial Conduct Authority

Occasional Paper No.1

**Applying behavioural economics at the Financial Conduct Authority**

April 2013

Financial Conduct Authority

Occasional Paper No.2

Kristine Ertz, Stefan Hunt, Zane

**Encouraging consumers to claim redress: evidence from a field trial**

April 2013

Paul Adams, Stefan Hunt

Financial Conduct Authority

Occasional Paper No. 3

**How does selling insurance as an add-on affect consumer decisions?**

A practical application of behavioural experiments in financial regulation

March 2014

Occasional Paper No.7

**Stimulating interest: Reminding savers to act when rates decrease**

January 2015

Financial Conduct Authority


12th February 2015

5

## FCA Consumer Spotlight

Financial Conduct Authority

WHAT IS CONSUMER SPOTLIGHT? HOW TO USE IT EXPLORE THE SEGMENTS EXPLORE THE DATA



**Consumer Spotlight**

Understanding consumers

Explore

**What is Consumer Spotlight?**

Our new segmentation model, why we created it and how it can help you.

**Explore the data**

Search our data by segment, product and demographic categories.

**Explore the segments**

Find summaries and data for each segment.

BACK TO TOP

12th February 2015

6

## FCA Spotlight Segments



Retired with Resources



Retired on a Budget



Affluent and Ambitious



Mature and Savvy



Living For Now



Striving and Supporting



Starting Out



Hard Pressed



Stretched But Resourceful



Busy Achievers

<http://www.fca-consumer-spotlight.org.uk/>

12th February 2015

7

## Affluent & Ambitious

### Consumer Spotlight

#### Affluent and ambitious

**Who are they?**  
Established workers, well educated and healthy  
Half are married with children, with good support networks  
High employment, high earnings and assets  
Secure finances with some money to spare  
Mostly homeowners, some owning outright

**How do they think?**  
Confident and informed, but time-poor  
High internet use; information from a range of online sources

**Which financial products do they use?**  
Well covered with a range of products  
Most have some savings; also more likely to have investments and pensions  
More likely to use credit

11% of the population  
 Higher incomes  
 Almost all in work  
 Majority own their homes with a mortgage  
 Higher savings

### Protection Products

Life	53%
CI	24%
PMI	18%
IP	17%
PPI	12%

[www.fca.org.uk/consumerspotlight](http://www.fca.org.uk/consumerspotlight)

12th February 2015

8

## Stretched But Resourceful



### Consumer Spotlight

#### Stretched but resourceful

**Who are they?**  
Working age, in good health and fairly well educated  
Couples with children  
Working, generally with higher incomes than average  
Mostly homeowners, two-thirds with a mortgage

**How do they think?**  
Organised with some money to spare  
Time-poor, but fairly knowledgeable and confident  
Internet at home, easy access to information and services

**Which financial products do they use?**  
Well covered  
Most have savings, with higher than average values  
Higher than average credit use

**Protection Products**

Life	55%
CI	24%
PMI	16%
IP	9%
PPI	9%

14% of the population

Medium incomes

Working

Many own their home

Medium savings




[www.fca.org.uk/consumerspotlight](http://www.fca.org.uk/consumerspotlight)

12th February 2015

9

## Busy Achievers



### Consumer Spotlight

#### Busy achievers

**Who are they?**  
Mostly women, well educated and in good health  
Largely married with children at home; excellent support networks  
Working, with higher incomes  
Mostly homeowners with high average value

**How do they think?**  
Organised and comfortable  
Time-poor, but confident and optimistic; not always diligent in monitoring finances  
Very active online, independently monitoring financial news

**Which financial products do they use?**  
Likely to have some cover  
High proportion of savers and investors  
High proportion of credit cards and loans

**Protection Products**

Life	62%
CI	33%
PMI	23%
IP	11%
PPI	8%

7% of the population

High incomes

Working

Homeowners with mortgage

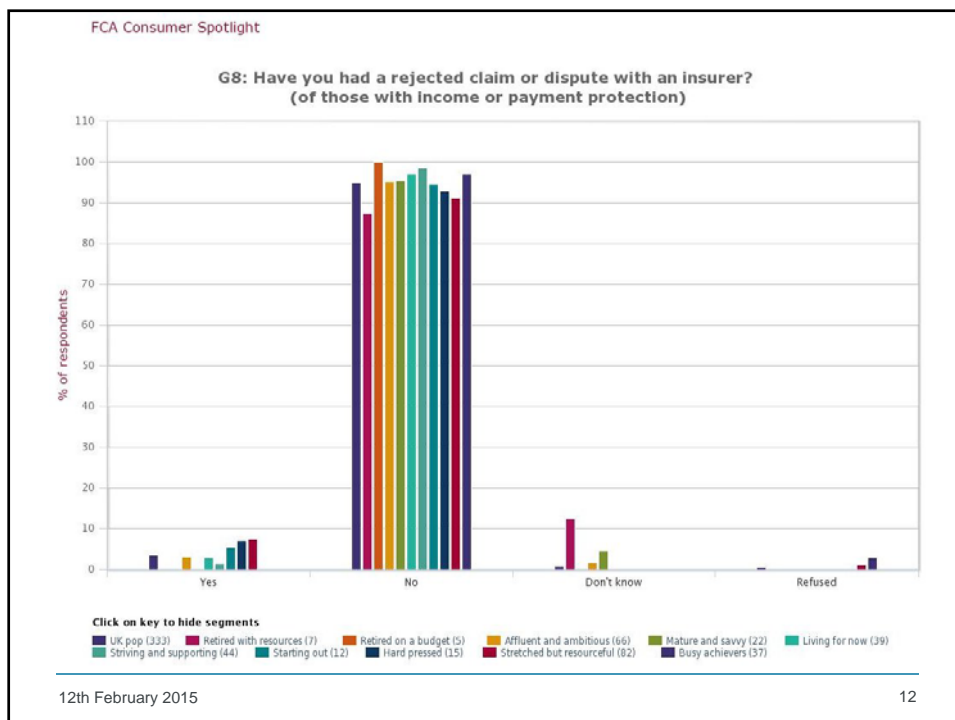
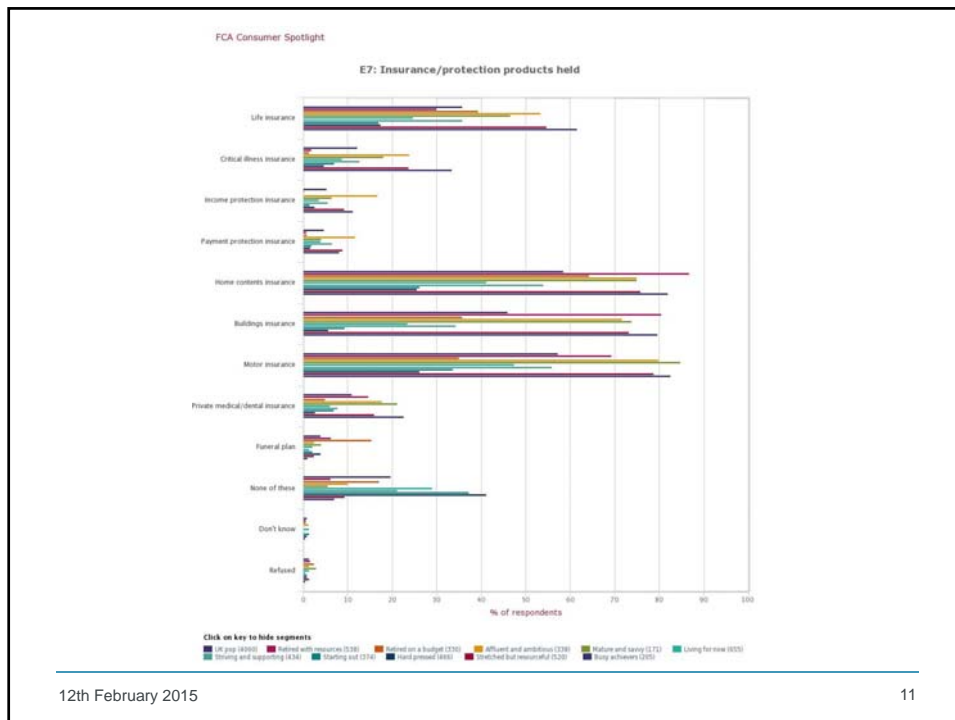
Medium savings




[www.fca.org.uk/consumerspotlight](http://www.fca.org.uk/consumerspotlight)

12th February 2015

10





Institute  
and Faculty  
of Actuaries

## Consumer Behaviour

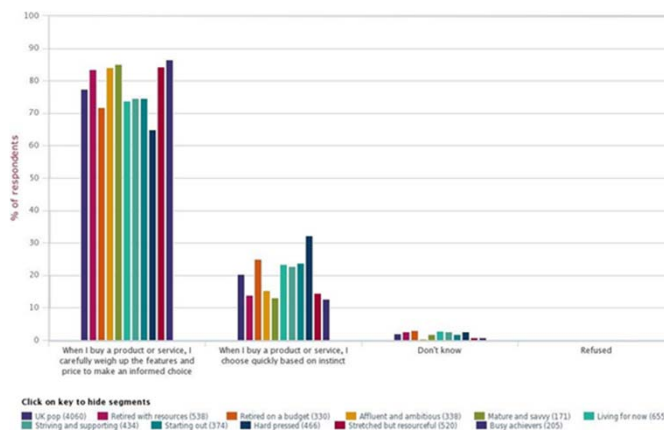
12th February 2015

13

## Consumer Decision Making

FCA Consumer Spotlight

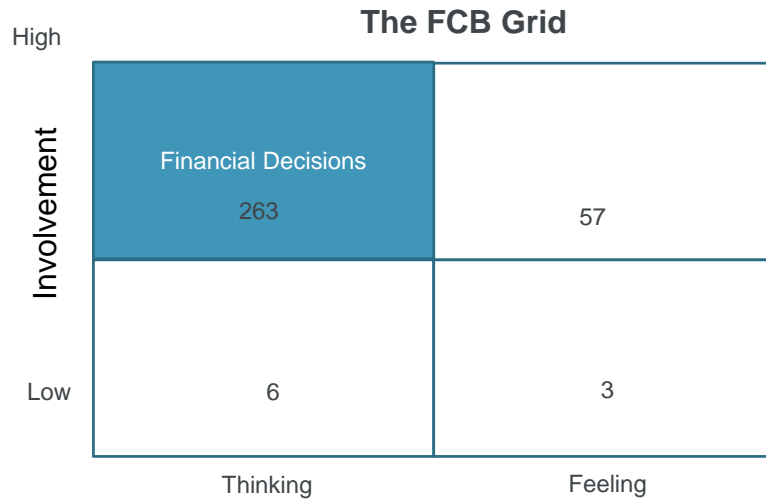
B3: Making informed choices



12th February 2015

14

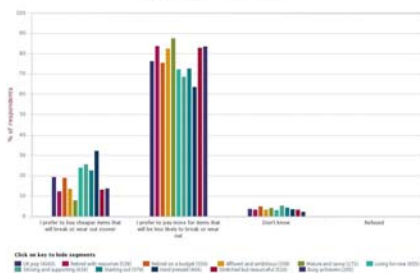
## Financial Decisions



## Quality vs Price

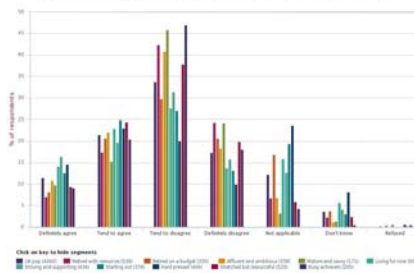
FCA Consumer Spotlight

B3: Paying more for better quality



FCA Consumer Spotlight

Q3: I tend to opt for the cheapest insurance rather than comparing policy features







Institute  
and Faculty  
of Actuaries

## Behavioural Biases

12th February 2015

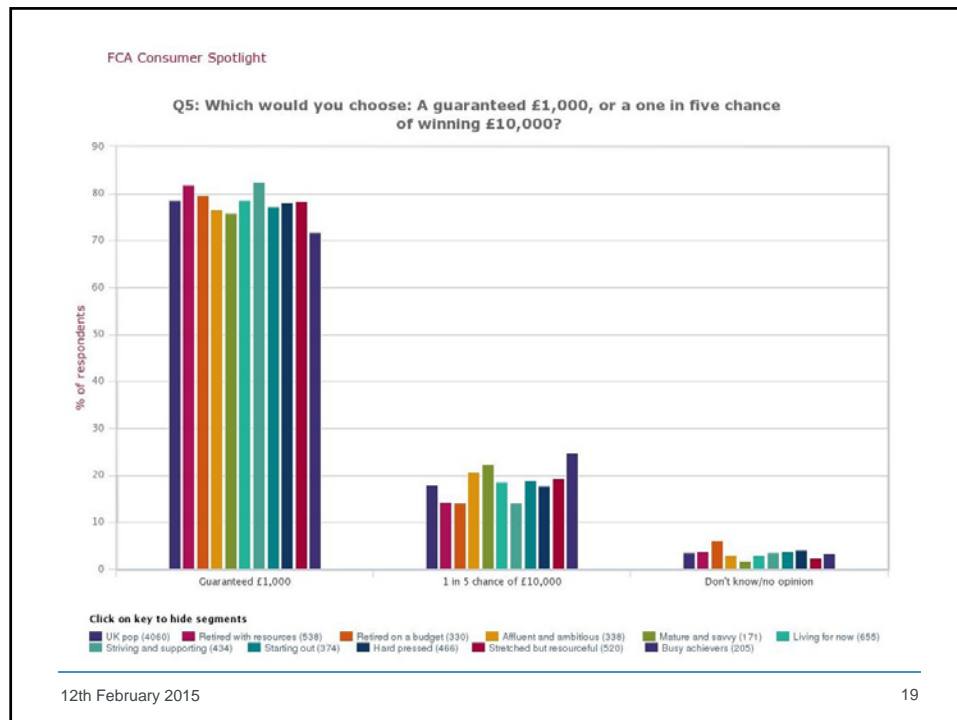
17

### Q5 Which would you choose:

- A** Guaranteed £1,000
- B** One in 5 chance of winning £10,000
- C** No opinion / don't know

12th February 2015

18

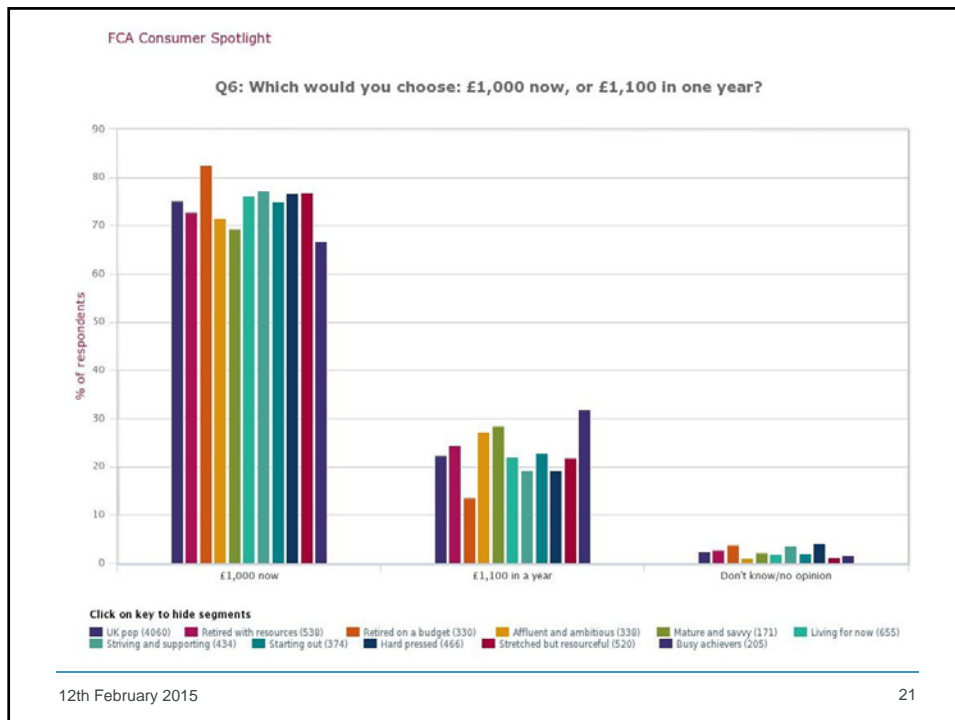



## Q6 Which would you choose:

**A** £1,000 now

**B** £1,100 in one year

**C** No opinion / don't know



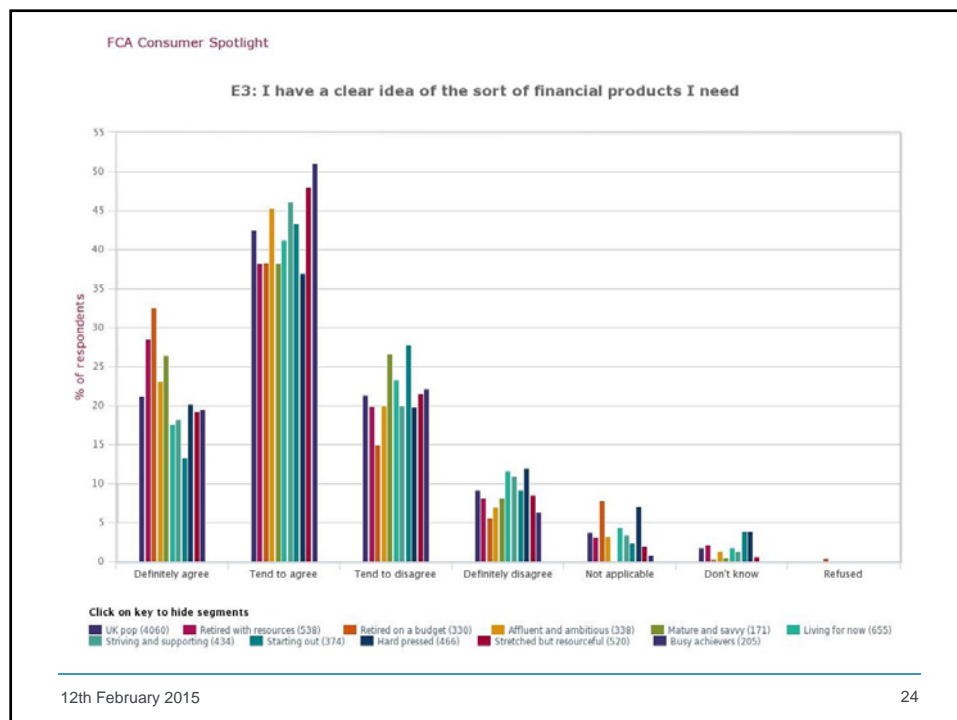
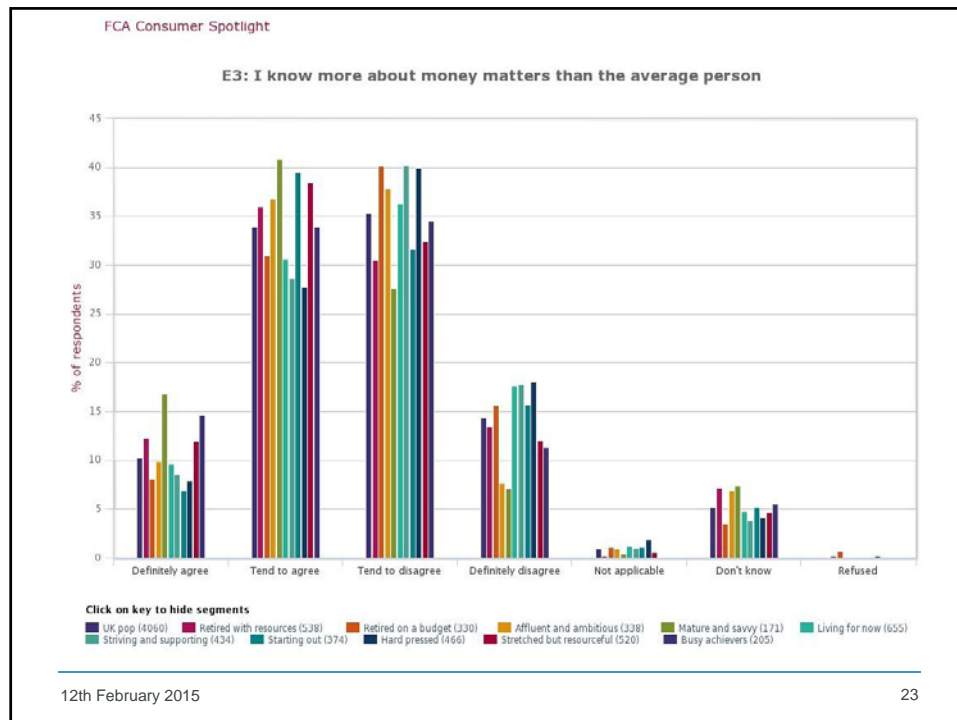
 Institute and Faculty of Actuaries

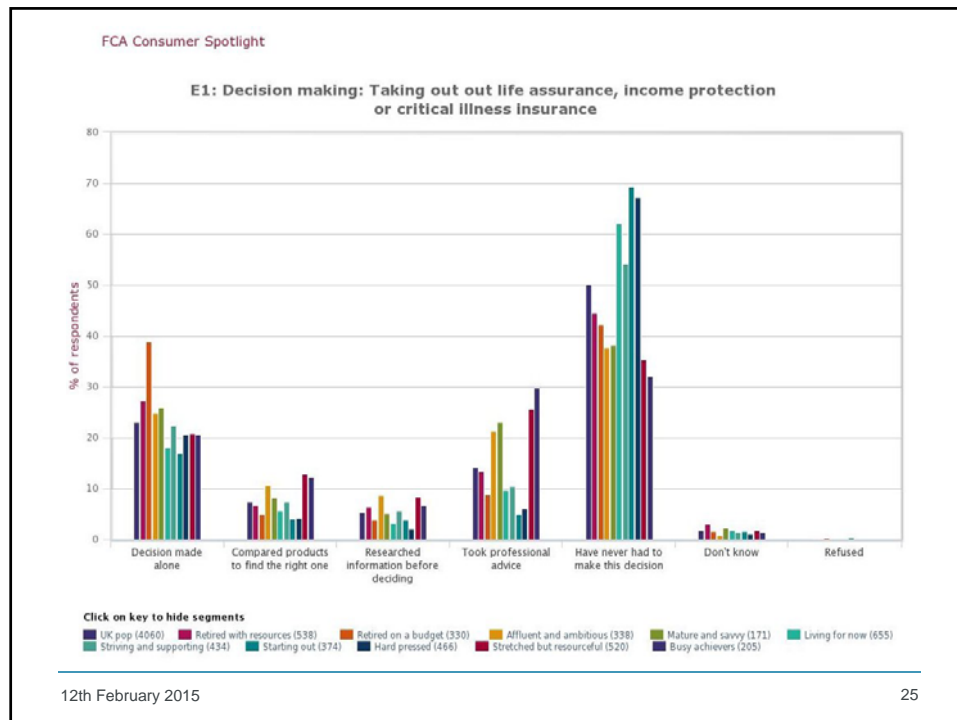
## Consumer Understanding

12th February 2015

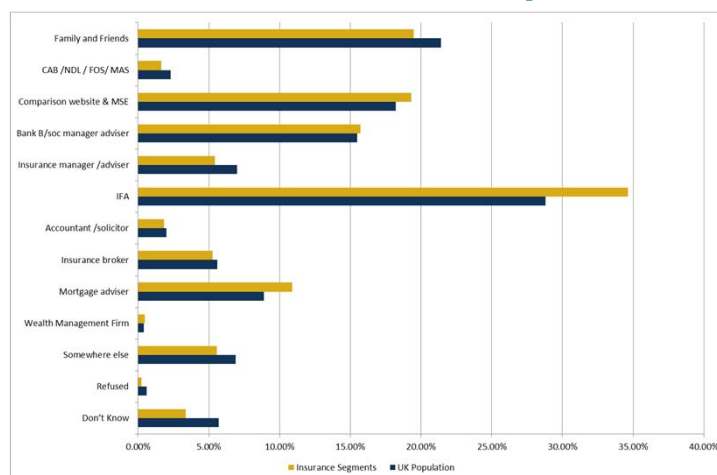
22

Expertise  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support





## E2: Information Sources: Life insurance, Critical illness and Income protection

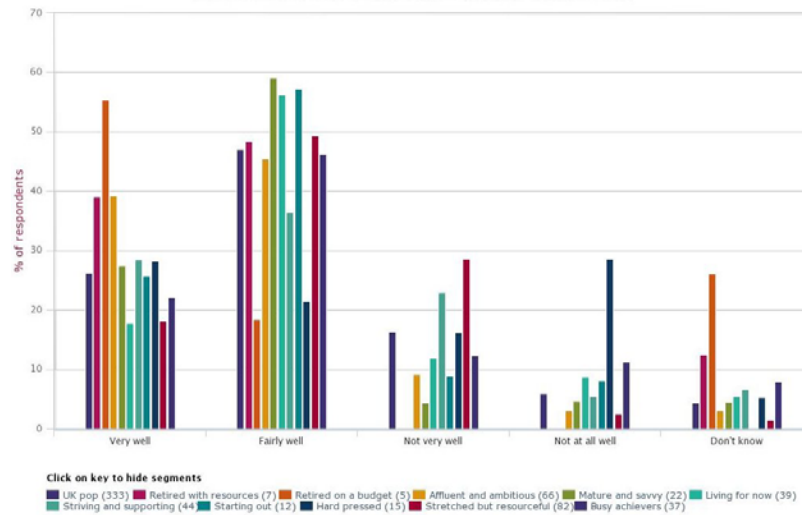


Source: FCA Spotlight question E2 for protection combined for segments 3.Affluent & Ambitious, 9. Stretched but Resourceful and 10. Busy Achievers

12th February 2015

26

## FCA Consumer Spotlight

G3: Income and payment protection:  
How well are policy terms and conditions understood?

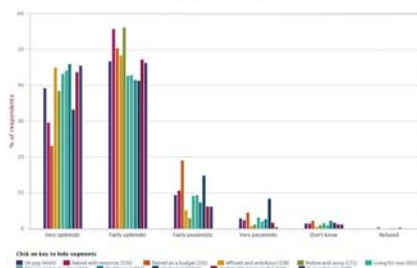
12th February 2015

27

## Health Optimism

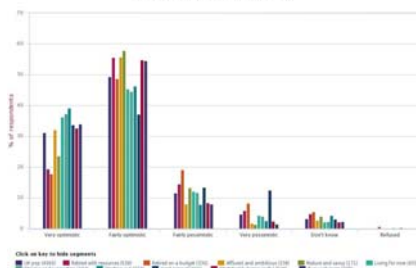
FCA Consumer Spotlight

## B5: Optimism about short-term health



FCA Consumer Spotlight

## B5: Optimism about long-term health



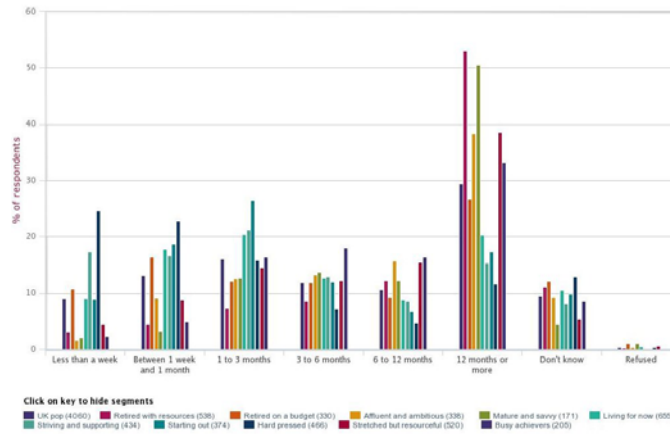
17 February 2015

28

## Income Optimism

FCA Consumer Spotlight

D2: How long could you make ends meet if your income dropped by 25%?

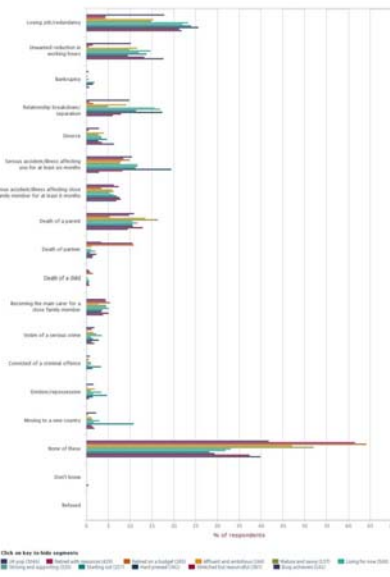


17 February 2015

29

FCA Consumer Spotlight

D5: Difficult life experiences (last three years)



17 February 2015

30



Institute  
and Faculty  
of Actuaries

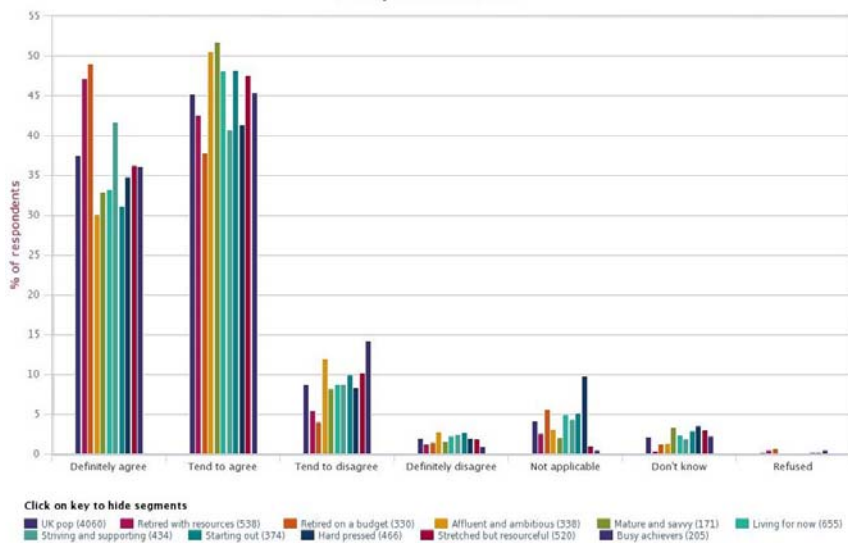
## Loyalty and Inertia

12th February 2015

31

### FCA Consumer Spotlight

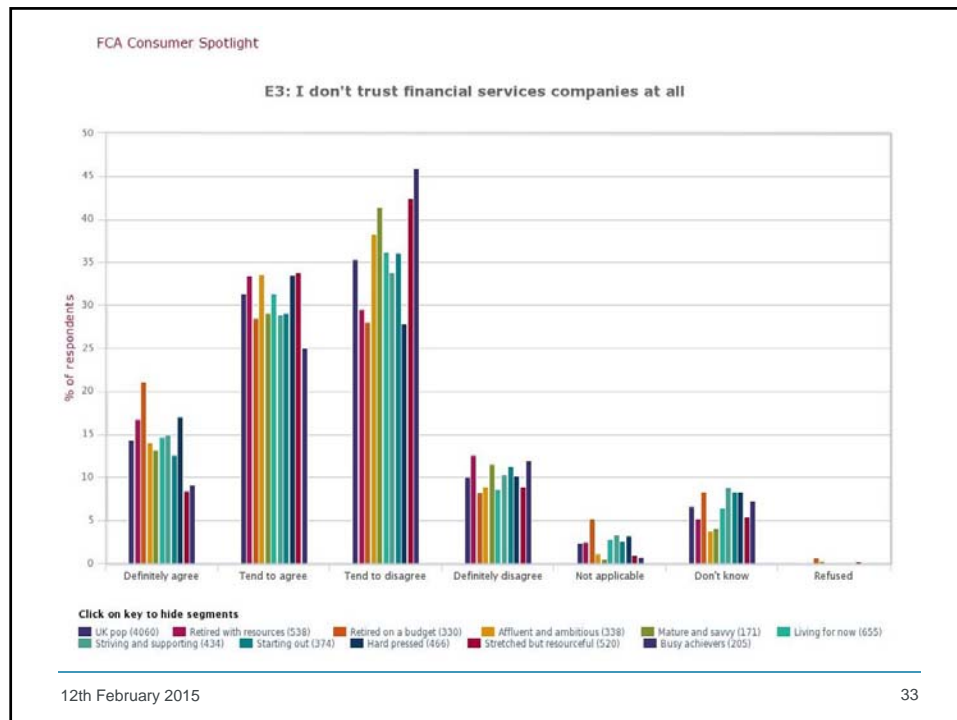
Q3: I only use trusted companies that I know well or have used before for my financial needs



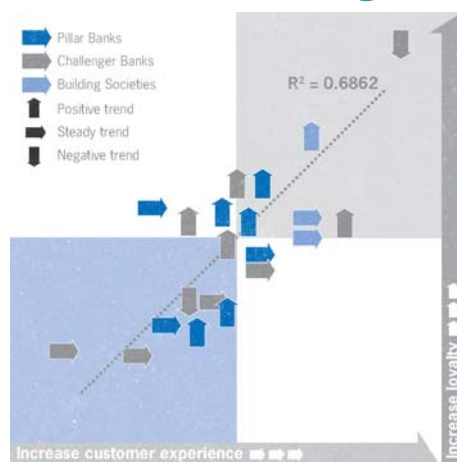
12th February 2015

32





## Customer Experience & Customer Loyalty – Banks & Building Societies



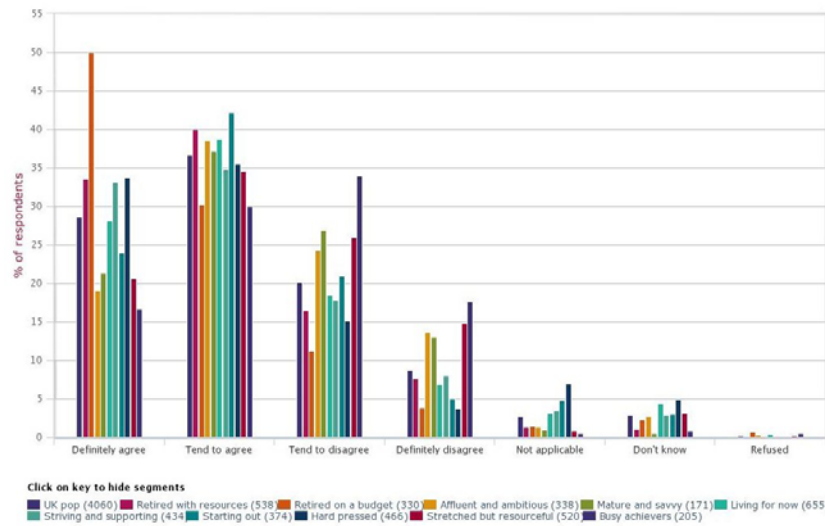
Source: Grant Thornton Customer Experience and Customer Loyalty (CLIX)

12th February 2015

34

## FCA Consumer Spotlight

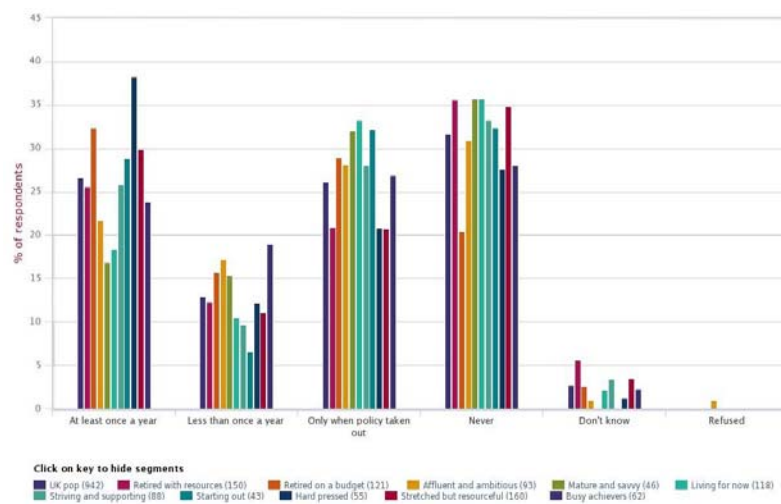
## Q3: I prefer to stick with one company rather than keep changing suppliers



12th February 2015

## FCA Consumer Spotlight

## G13: Life insurance: Frequency of checking that cover is adequate



12th February 2015

36



Institute  
and Faculty  
of Actuaries

## Product Fairness

12th February 2015

37

## Product Fairness difficult to judge

Revealed: the 14 tactics used to rip off  
pension savers - *The Telegraph* 11/12/14

Annuities the prime candidate for a new  
mis-selling scandal - *Sunday Times* 14/12/14

Pensions crackdown as damning report  
reveals half of savers get stung with a worse  
annuity than they deserve - *This is Money* 11/12/14

12th February 2015

38

## Annuity Market Review

Occasional Paper No.5

**The value for money of  
annuities and other retirement  
income strategies in the UK**

December 2014

Financial Conduct Authority



12th February 2015

39

## Over 50s Products

### OPINION FORMERS MAIN CRITICISMS

- **Payout can be substantially less than premiums paid**
- **Some plans make you pay until death**
- **Lack of flexibility – possibility of losing everything if you stop paying in, inability to reduce premiums**
- **Promoted using celebrities and free gifts**



Source: Simon Cox, Royal London, ILAG Seminar, 23<sup>rd</sup> October 2014

## Mitigating Market Criticism

### Market Issue

- Payout can be substantially less than premiums paid
- Some plans make you pay until death
- Lack of flexibility – possibility of losing everything if you stop paying in, inability to reduce premiums
- Use of celebrities and free gifts
- Added value features

### Market response

- ✓ Increased price to consumers
- ✓ Almost all now have premium cap or a maximum term.
- X Some plans still make you pay forever
- ✓ Modern twist on paid up value
- ✓ Flexibility to reduce premiums
- Market still operates this way
- ✓ Terminal Illness Benefit
- ✓ Funeral Benefit Option
- ✓ Bereavement counselling

Source: Simon Cox, Royal London, ILAG Seminar, 23<sup>rd</sup> October 2014



Institute  
and Faculty  
of Actuaries

## Summary and Conclusions

Expertise  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

12th February 2015

42

## Which segment are actuaries in?



**Consumer Spotlight**

**Mature and savvy**

**Who are they?**  
 Mature and educated, majority male  
 Half are married, many with children who have left home  
 In work, with income from other sources too  
 Comfortable, with money to spare  
 An even mix of mortgages and outright ownership

**How do they think?**  
 Confident and bold  
 Extremely well informed, through a range of digital and traditional channels

**Which financial products do they use?**  
 A range of products, some through employment benefits  
 Most have savings, half have investments  
 High number of cards and loans, but regularly repaid

- 7% of the population
- Higher incomes
- Vast majority in work
- Most own their home with a mortgage or outright
- Higher savings

FCA  [www.fca.org.uk/consumerspotlight](http://www.fca.org.uk/consumerspotlight)

12th February 2015

43



Institute  
and Faculty  
of Actuaries

## Consumer Behaviour and Product Design

Kathy Byrne

12th February 2015