

The Actuarial Profession
making financial sense of the future

Life Conference and Exhibition 2011
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Authority



How can actuaries transform the effectiveness of consumer information?

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Agenda

Section	Speaker
1. Introduction	Alan
2. Current State of Consumer Info in the UK	Sandra
3. Designing a Consumer Information Framework	Alan
4. Application of the Consumer Information Framework	Sandra
5. Next Steps	Alan

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1. Introduction

Consumer Information Working Party

- The Consumer Information Working Party formed to explore the **information needs** of different people at different lifestages and how those needs could be better met. We chose to focus in particular on long-term savings and investments.
- As actuaries, we feel we are **uniquely placed** to contribute in this area because of our technical expertise, wide ranging industry roles and duty of care to society.
- The timing of this work coincides with a **significant opportunity** to change how we approach communications – for example given the regulatory changes of the Retail Distribution Review and the legislative changes of Pensions Reform.

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1. Introduction

A long way from ideal

ABI review of Yearly Statements, July 2006:

*“To be useful, these statements should provide customers with necessary information on the performance of their products and prompt action where necessary. But we are a **long way from the ideal.***

*Current pensions and investment statements are **long and unappealing.***

*... In short, **we all appear to overlook the customer.**”*

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1. Introduction

Lack of progress

The Times, January 2011:

*“the arcane lingo of pensions is not just the inevitable consequence of precise people (actuaries) colliding with the messy, real world. It is more sinister than that. Opacity, **complexity and jargon have sometimes been deliberately introduced** into the system the more easily to bamboozle and overcharge the unwary. “*

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1. Introduction

Endorsements - Government

“In a world where seven million people aren’t saving for their retirement it is a challenge for all of us to make pensions easy to understand. As we move towards the launch of automatic enrolment there is a huge opportunity to help people engage with pensions, so that they don’t turn away from pension saving at the first hurdle. I welcome this report for promoting good practice and putting consumer interest at the heart of communications.”

Steve Webb MP, Minister of State for Pensions

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1. Introduction

Endorsements – Consumer Champion

"I am delighted to add my support to this important initiative from the Actuarial Profession. Information currently provided to consumers of the financial services industry is complex, filled with jargon and often incomprehensible. This is vital information that individuals need to be able to understand in order to take control of their financial lives and because of its complexity, it is often ignored. Any initiative that provides clearer, more accessible information to consumers should be applauded and encouraged."

Teresa Fritz, Consumer Champion
(Head of Product Development, MoneyVista)

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1. Introduction

Endorsements - Adviser

"I highly commend this working party for producing an excellent paper that examines the problems facing individuals as they struggle to understand complex financial products. The team has very successfully analysed all the important facts and produced a report that clearly explains the key issues and suggests some practical and workable solutions."

I have been working with individual clients for over 20 years and during that time have gained valuable insights into customer behaviour. The team has done something that I have never been able to do, which is to examine customer communications together with a technical analysis of important factors such as risk and behavioural economics."

I think this report will be a valuable resource not only for the actuarial profession but also for product providers, advisers and the end customer."

Billy Burrows, Director, William Burrows Annuities

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2. Current State of Consumer Information in the UK

Consumer Insights
 Consumer Information Touchpoints
 Current Model for Consumer Information
 Behavioural Economics Implications
 Consumer Information Failures
 Other Countries and Industries

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2. Current State of Consumer Information in the UK

Consumer Insights

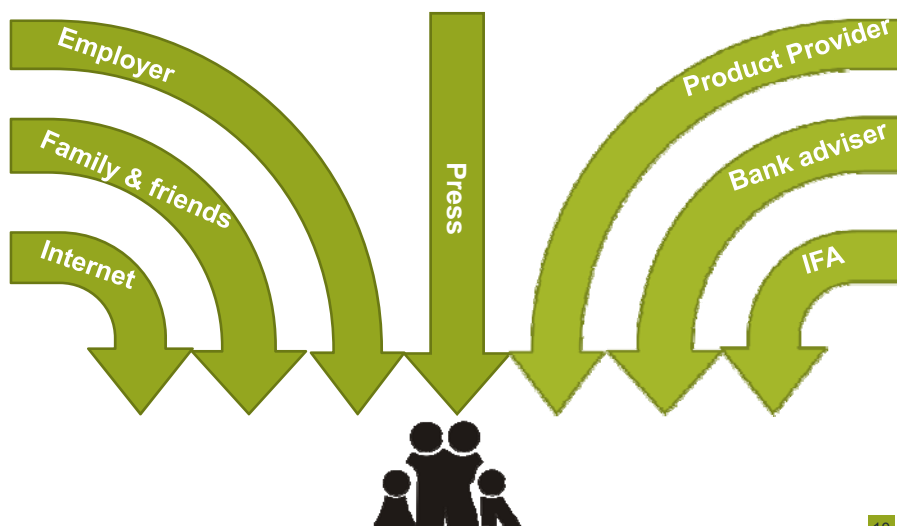
In households headed by an individual aged under age 45, median financial wealth (which excludes current account balances, housing wealth and pensions assets) is typically zero.



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2. Current State of Consumer Information in the UK

Consumer information touchpoints

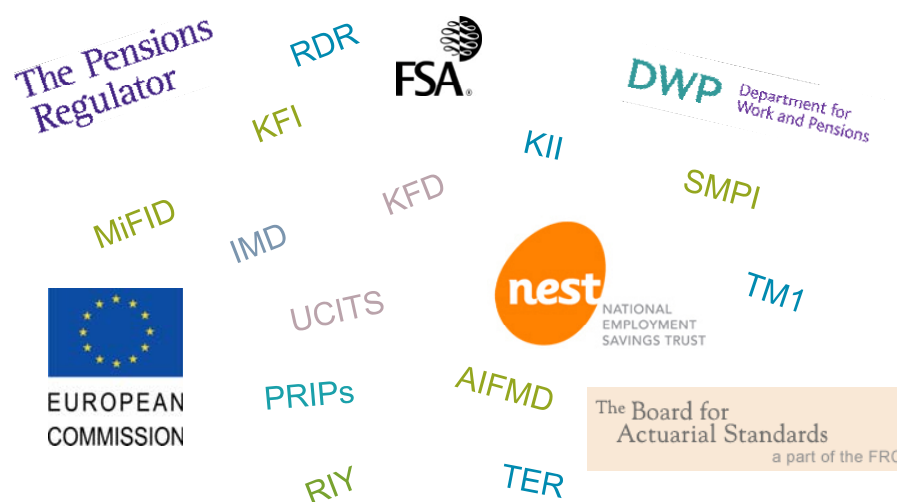


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2. Current State of Consumer Information in the UK

Current model for consumer information



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2. Current State of Consumer Information in the UK

Behavioural economics implications



2. Current State of Consumer Information in the UK

Consumer information failures

“What a marvellous sales presentation this gave the intermediaries who specialise in the mortgage market. The total outlay after tax is about the same as a principal and interest repayments, the loan would be repaid on the “conservative” assumption of 80% of reversionary bonusesand at the end we have got the other 20% of reversionary bonuses, plus terminal bonuses providing a very large capital sum.....What will happen when all these policies mature in 20 odd years’ time? Well I do not know, but I am glad to say that I will not be around to deal with the problem. **”**

Mr W Proudfoot FFA (died 1990)

2. Current State of Consumer Information in the UK

Other countries and industries

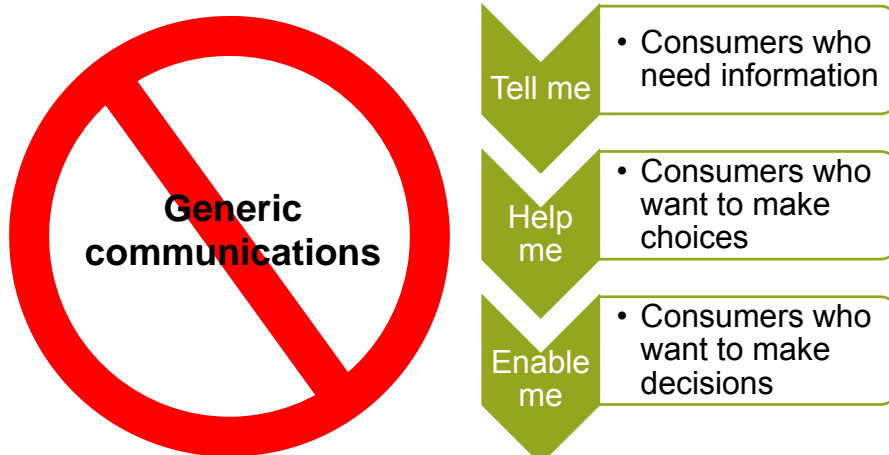


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2. Current State of Consumer Information in the UK

Conclusions - Segmentation



3. Designing a Consumer Information Framework



We define a possible framework for the provision of information to consumers of long-term savings and investment products, based upon three key principles

Anticipated Benefits:

- More engaged and better informed customers.
- Higher revenue for providers and distributors
- Lower costs from customer complaints and mis-selling claims.

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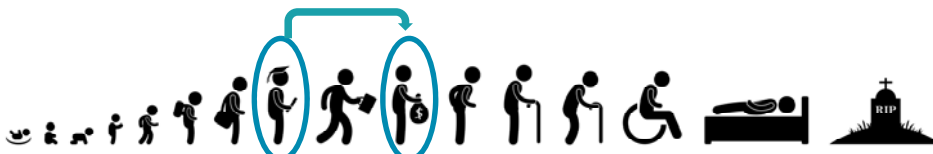
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3. Designing a Consumer Information Framework

Principle 1

Information should relate to a consumer's financial goals:

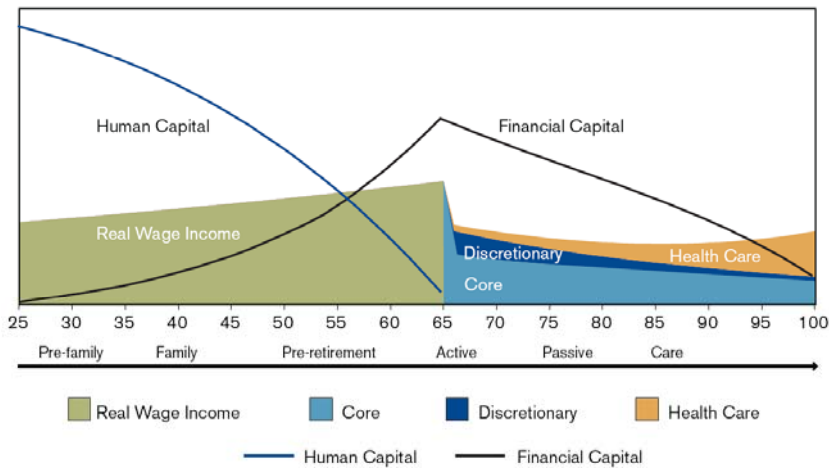
- Financial goals should be framed in terms of consumption needs and wants
- Outcomes and risks should be assessed relative to the consumption goal
- All significant forms of asset and liability risk should be considered



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3. Designing a Consumer Information Framework

Principle 1 continued – financial lifecycle



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3. Designing a Consumer Information Framework

Principle 2

Delivery should facilitate consumer engagement:



Segmentation - Design information that is appropriate for each consumer segment



Tiering - Tier information to each engagement level



Format and Framing - Present information in a format and frame to facilitate decisions



Timing - Time information to when people need to make decisions



Consistency - Ensure information is consistent across the full range of consumer touch points

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3. Designing a Consumer Information Framework

Principle 2 cont. – Tiers of Information

Tier	Purpose
1 Limited	Direct people onto a generally appropriate path, and outline benefits of further education / engagement and how to go about it
2 Basic	Basic education of problems, needs, and potential generic solutions
3 Detailed	Detailed education about one or more particular solutions to a specific problem that applies to consumer

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3. Designing a Consumer Information Framework

Principle 3

Consumer Information should be free of bias.

Such as:

- Methodology or Model Bias
- Input or Assumption Bias
- Presentation Bias



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4. Application of the Consumer Framework: Example

Consumer Segment A		Consumer Segment B
Mass affluent / HNW.	Financial Wealth	Constrained / mass market.
Parent with young children.	Life stage	Parent with young children.
Medium to high.	Risk Capacity	Low.
Initially unadvised.	Distribution Channel	Unadvised. Simplified advice?
Informed via self education. Adviser later?	Financial Capability	Low/uninformed (unengaged).

4. Application of the Consumer Framework Saving for Retirement: Initial Stage



Consumer Segment A		Consumer Segment B
Employer / Internet / Product Provider / Adviser later?	Touch points	Employer / MAS / CAB
Help me → Enable me	Engagement type	Tell me → Help me
Basic → Detailed	Information tier	Limited → Basic
Retirement age	Key decisions	Save in a pension
Employer's scheme		Employer's scheme
How much to save		How much to save
Where to invest		Where to invest
Previous schemes		

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4. Application of the Consumer Framework Saving for Retirement: Initial stage



Consumer Segment A	Goal related information	Consumer Segment B
Calculator	Contributing	Messaging on 'free money'
Graph : time in retirement	Illustrative info	Indicative Tables
Benefit statement relative to goals	Benefits	Save sooner + rules of thumb + 'people like you'
Investment options	Investment choices	'Save more tomorrow'
Help Me: fund tool		Tell me: defaults
Enable me: alternatives		Help Me: fund tool
Signposting	Transfers	

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4. Application of the Consumer Framework Saving for Retirement: Ongoing Requirements



Consumer Segment A		Consumer Segment B
Financial websites / Product Providers / Adviser	Touch points	Financial websites / Product providers
Help me → Enable me	Engagement type	Tell me → Help me
Basic → Detailed	Information tier	Limited → Basic
Need to make changes to my plan / revise my goal?	Key decisions	Need to make changes to my plan / revise my goal?

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4. Application of the Consumer Framework Saving for Retirement: Ongoing requirements



Consumer Segment A	Goal related information	Consumer Segment B
Three revised projections relative to goal	Provider communication	Revised projected income at age x
Relative to goal, e.g. Change in RAG	Market impact feedback	Relative to goal, e.g. Change in RAG
Tools to test options	Updated 'at outset' info	Table of options

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4. Application of the Consumer Framework Saving for Retirement: At retirement



Consumer Segment A		Consumer Segment B
Internet / Product provider material / Financial adviser	Touch points	Product provider material / Employer
Help me → Enable me	Engagement type	Tell me → Help me
Detailed	Information tier	Basic
When to retire + lifestyle	Key decisions	When to retire
Targeting + inflation		How much available
Drawdown : capital		Annuity: mitigating risks
Mitigating risks		Bequests
Bequests		

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4. Application of the Consumer Framework

Saving for Retirement: At retirement



Consumer Segment A	Goal related information	Consumer Segment B
All products	Product Options	Focus on annuity options + signposting
Access to modelling tool	Consistent info	Options + RAG risk ratings
Help determining shape and level of income	Income	Inflation examples + default RPI annuity
LTC costs + stats on mortality/morbidity	Long term care	Costs in retirement + LTC funding
Investment strategies for risk mitigation	Drawdown	Signposting
Info + case studies	Estate Planning	Basic info + signposting

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5. Next Steps

Arguably the most difficult challenge is how to implement such a model. We recommends some next steps:

- Championing cultural change with providers of information
- Grasping the opportunity of regulatory reviews
- Applying a consistent approach to financial projections for consumers
- Providing independent decision-aides for consumers
- Introducing an independent watermark of quality
- Exploring how best to communicate financial risk

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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

