

Highlights of Life Conference 2011
Alan Ritchie, Standard Life

**How can actuaries
transform the
effectiveness of
consumer
information?**

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Hands up, if



Agenda

1. Introduction

2. Imagine...

3. Current State of Consumer Info in the UK

4. Designing a Consumer Information Framework

5. Proposed Outcomes

6. Next Steps

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2

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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3

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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4

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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5

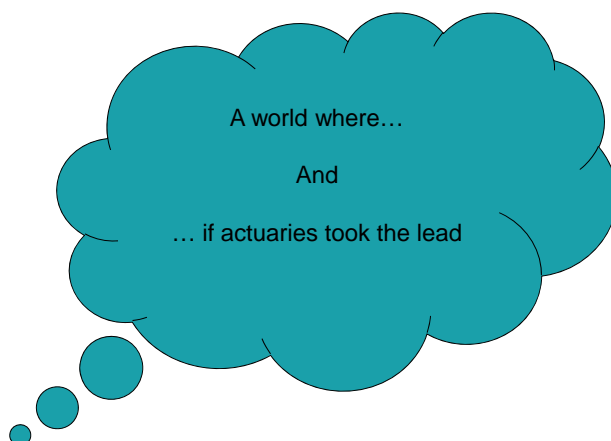
Agenda

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6

2. Imagine...



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7

Agenda

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4. Designing a Consumer Information Framework
5. Proposed Outcomes
6. Next Steps

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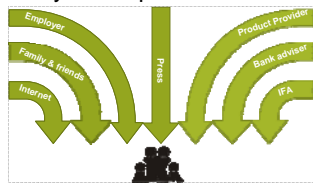
8

2. Current State of Consumer Information in the UK

Consumer Insights

9

Many touch-points:



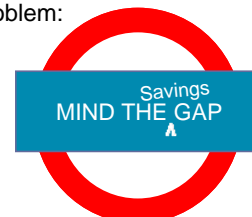
Many regulators:



Lack of engagement:



Big Problem:



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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

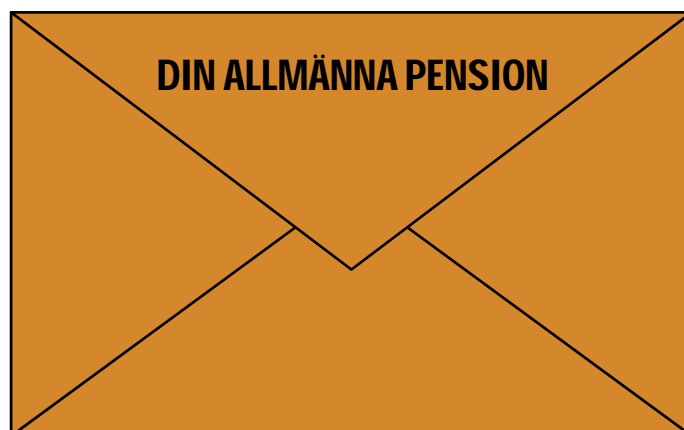
Consumer information failures

“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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12

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13

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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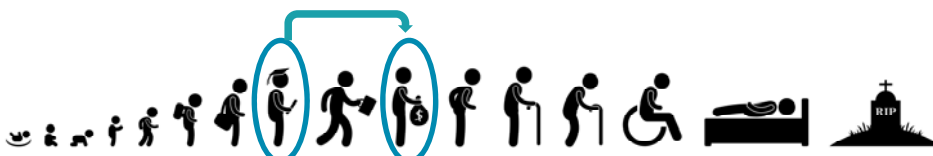
14

3. Designing a Consumer Information Framework

Principle 1

Information should relate to a consumer's financial goals:

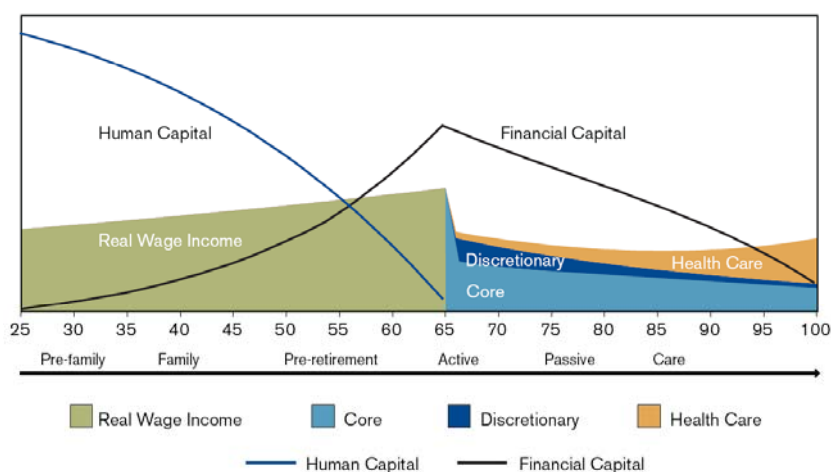
- Financial goals should be framed in terms of consumption needs and wants
- Outcomes and risks should be assessed relative to the consumption goal
- All significant forms of asset and liability risk should be considered



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3. Designing a Consumer Information Framework

Principle 1 continued – financial lifecycle



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16

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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17

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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18

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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19

3. Designing a Consumer Information Framework

Workshop discussion



2012-01-24 Transforming Consumer Information

Agenda

1. Introduction
2. Imagine...
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4. Proposed Outcomes

Arguably the most difficult challenge is how to implement such a model. We recommend that information providers focus on three outcomes:

1. Communicate savings progress relative to the consumer's goal;
2. Communicate risk and reward by reference to the chances of achieving the consumer's goal; and
3. Ensure communications are engaging, easy to digest and free of bias (meeting the Principles described earlier).

Agenda

- | |
|---|
| 1. Introduction |
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5. Next Steps

And urge the Actuarial Profession to take the lead with six next steps:

- A. Champion cultural change with providers of information
- B. Explore how best to communicate financial risk
- C. Apply a consistent approach to financial projection for consumers
- D. Promote rules of thumb – the savings ‘five a day’
- E. Provide independent decision aids for consumers
- F. Support better financial information and education in schools

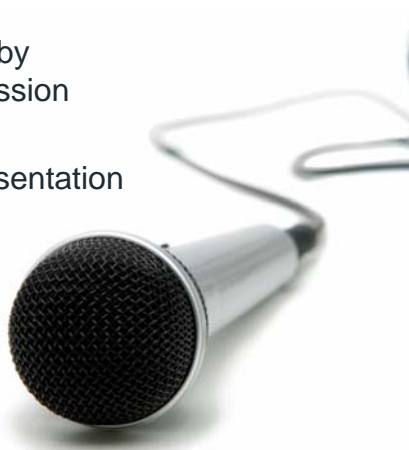
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24

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.



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25