



Institute  
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of Actuaries

## Value of with-profits for consumers Working party update

Jonathan Welsh (Deputy Chair),  
Andrew Fraser, and  
Ben Stroud



23 November 2017

### Do consumers understand the financial Information provided?

**Survey of 2,851 policyholders [All financial products]**

Q: How easy or difficult to understand do you find the information sent by your provider?

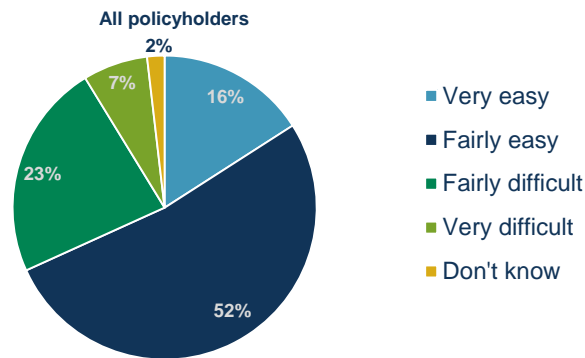
- Very easy
- Fairly easy
- Fairly difficult
- Very difficult
- Don't know

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## How easy or difficult to understand do you find the information sent by your provider?

**68%** Responded "Very Easy" or "Fairly Easy"



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## How does this compare for with-profits policyholders?

### Higher or Lower ?

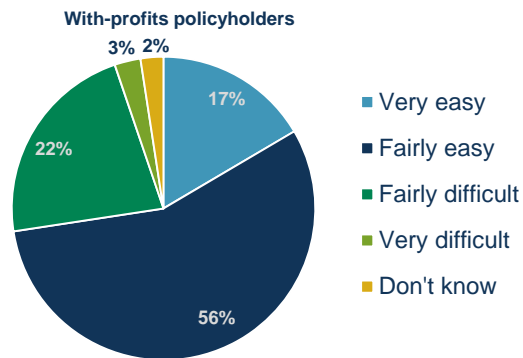
Is the proportion of with-profits customers who find the information "Very Easy" or "Fairly Easy" Higher or Lower than for all financial customers?



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## Higher ...!

**73% of With Profits Customers Responded “Very Easy” or “Fairly Easy”**



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## Agenda

The value of with-profits for consumers working party.

Scope: Do consumers understand the value of their with-profits policies?

### Overview of Phase 1

- Jonathan Welsh - Wesleyan

### Consumer Survey

- Andrew Fraser – Standard Life

### Communications

- Ben Stroud - ReAssure

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## With-profits funds continue to make negative headlines...

### Savers should plot their escape from zombie funds

The Times – 9 July 2016

### Help! Why has my 'with profits' pension fund shrunk 11% in two years as stocks hit record highs?

www.thisismoney.co.uk – 20 May 2015

### Savers see with-profits pensions slashed by 87%: Thousands promised annual payments of £30,000 now set to receive just £3,700

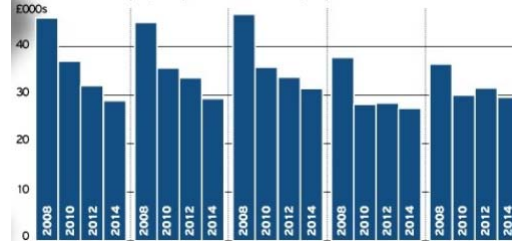
www.thisismoney.co.uk – 12 July 2016

### Endowment Scandal! The endowment scandal gets even worse: 70,000 face selling homes as plans expected to pay £110,000 are now worth just £24,000

Daily Mail – 16 November 2017

### Six years of falling returns

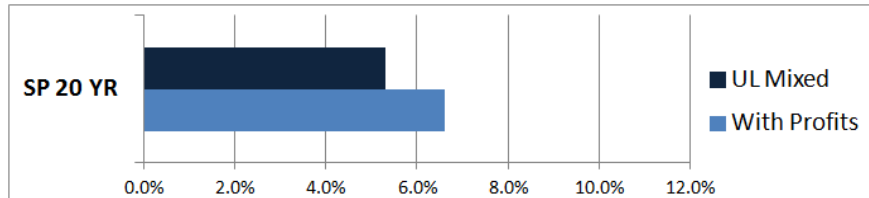
The final value of a 25-year, £50-per-month endowment policy when it matured in...



The Telegraph – March 2014

## With-profits funds have performed comparably to similar unit-linked funds...

### Single Premium Pensions – 20 Year Return Comparison

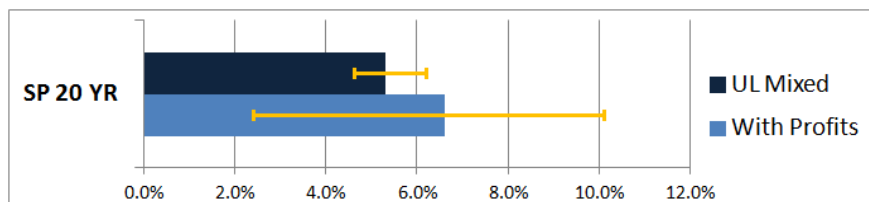


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Source: Money Management surveys – values typically as at 1<sup>st</sup> Jan 2016. 1 March 2015 where PRA returns have been used.

## With-profits funds have performed comparably to similar unit-linked funds...

### Single Premium Pensions – 20 Year Return Comparison



... But performance varies by fund

And “performance” depends on customer expectation

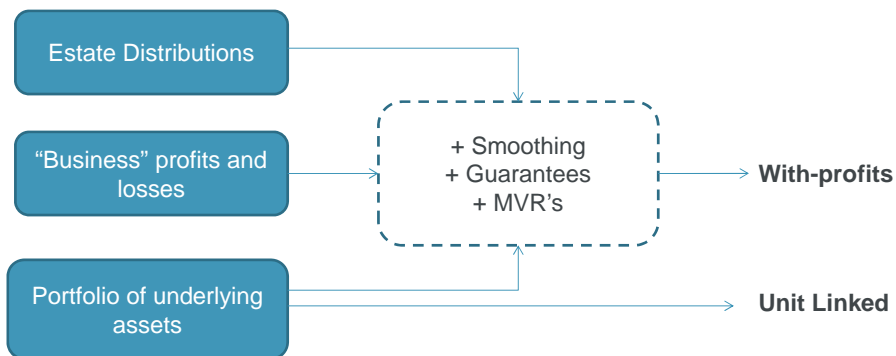
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Source: Money Management surveys – values typically as at 1<sup>st</sup> Jan 2016. 1 March 2015 where PRA returns have been used.

## ... “with-profits” can have very different exposures



## ... “with-profits” can have very different exposures



... These features do present communication challenges that are not present in other investment products

## Review of with-profits communications

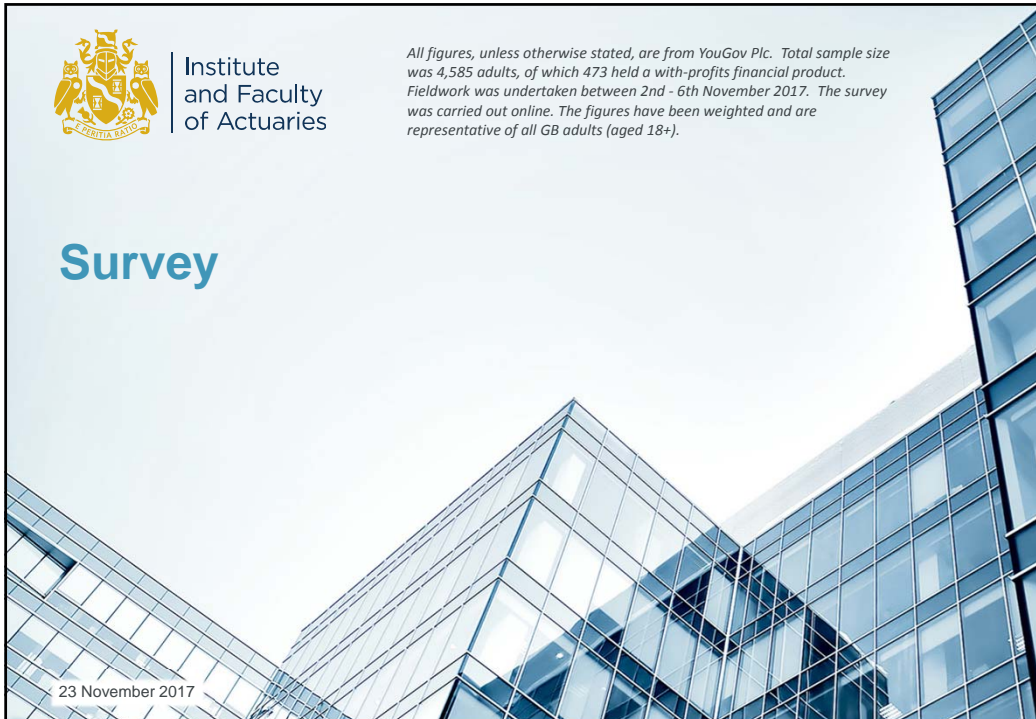
- Reviewed 36 with-profits communications
- Identified comparable key aspects, including FG16/8 guidance
- Information provided and terminology used varied widely by firm
- Presented proposals for improvements
- See phase 1 presentation for more information:

<https://www.actuaries.org.uk/practice-areas/life/research-working-parties/value-profits-consumers>

- Full details will be documented in our final report

## Phase 1 Summary

- With-profits performance has been comparable to similar UL funds
- It can be variable, but with an element guaranteed
- Updates important as WP funds change over investment lifetime
- Information provided on benefit statements varies:
  - Content
  - Terminology
- There is little existing consumer-specific with-profits research



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*All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,585 adults, of which 473 held a with-profits financial product. Fieldwork was undertaken between 2nd - 6th November 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).*

# Survey

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## Survey

### Purpose

**Better engagement** with customers and **improved communications**.

### Objectives

- Do consumers understand the value of their with-profits policies?
- What information about their products do consumers value?
- Do with profits consumers understand the changing nature of their policy?



## Survey methodology

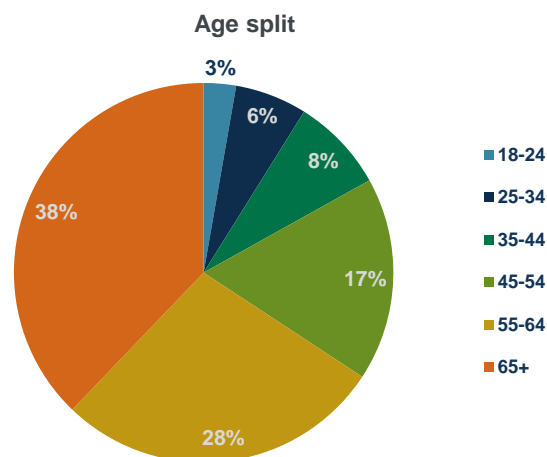
- Method – **online survey** carried out by **YouGov**
- Numbers of interviewees:
  - At least one financial product: 2,851
  - With-profits product: **473** (17%)
- Fieldwork was undertaken between 2<sup>nd</sup> – 6<sup>th</sup> November 2017
- Analysis split by categories

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## Survey population

With-profits financial product (sample size 473)

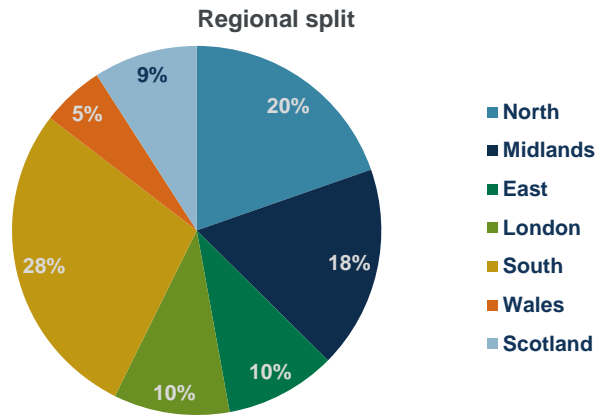


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## Survey population

With-profits financial product (sample size 473)



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## Key Survey Results

Hold to Maturity?

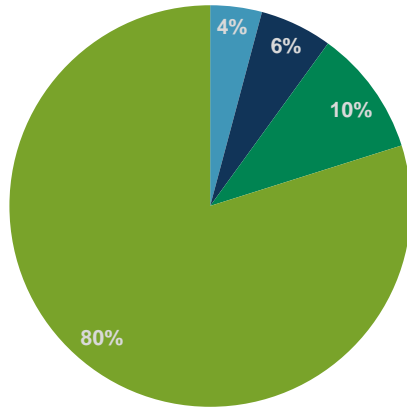
What percentage of the with-profit customers we surveyed said they would **hold their policy to maturity?**

- A. 50%
- B. 65%
- C. 80%

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## Key Survey Results Hold to Maturity?



*"Don't take too much notice to be honest, I just pay into it waiting for it to mature"*

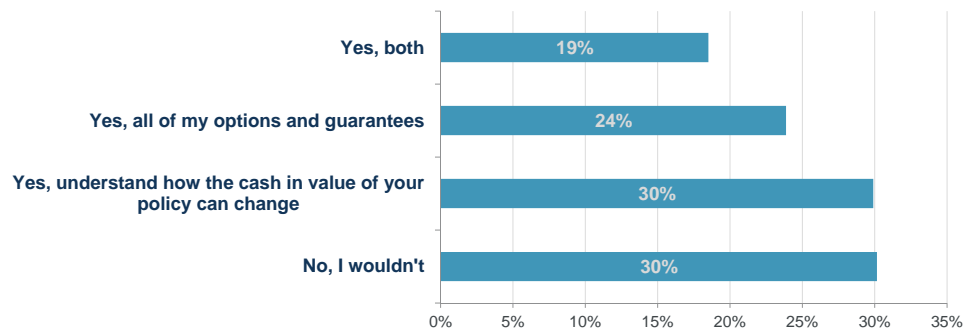
- Cash in early
- None of these
- Don't know
- Hold to maturity

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## Key Survey Results Cash in value

Would you say you would know all of your **options and guarantees** and understand how the **cash in value** of your policy can change?



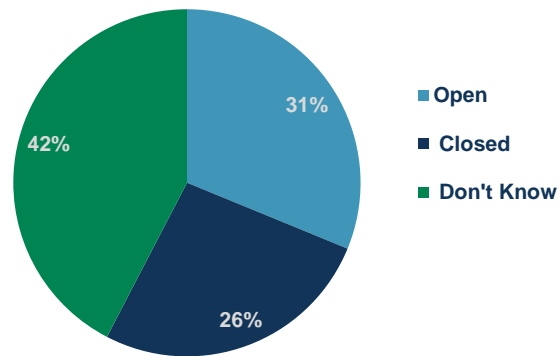
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## Key Survey Results

### Open or Closed

Is your with-profits product **open or closed?**



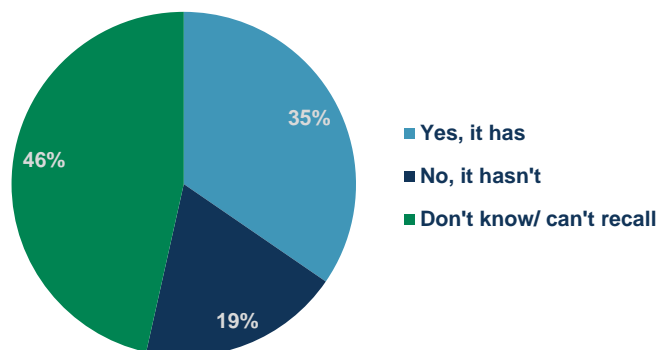
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## Key Survey Results

### Investment Strategy

Has the **investment strategy** changed over the last 5 years?

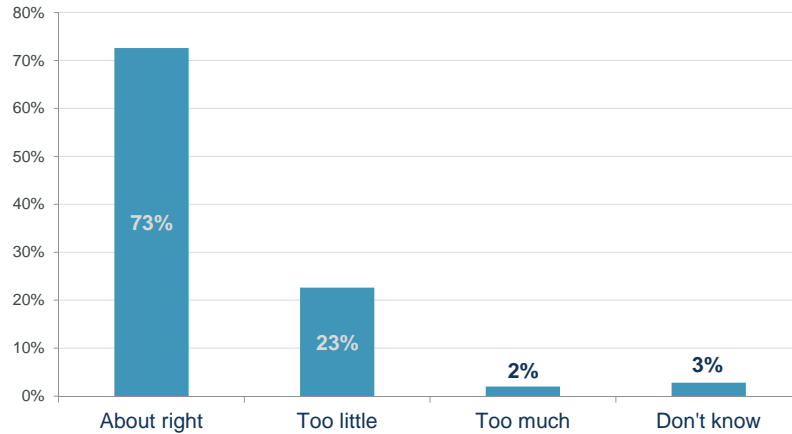


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## Key Survey Results Engagement

Financial Statements Received

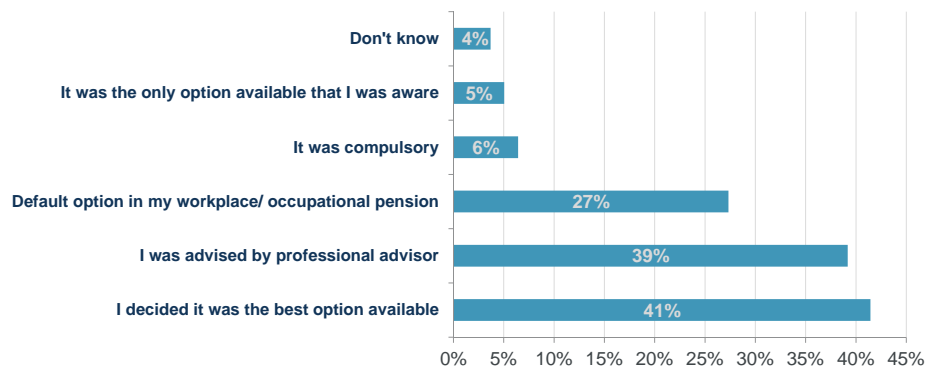


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## Key Survey Results Engagement

Which were the reasons why you purchased your with-profits product(s)?

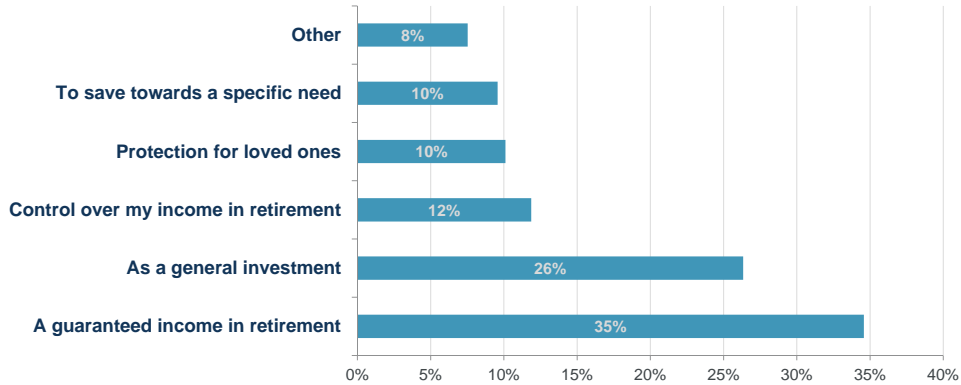


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## Key Survey Results Engagement

Which is the MAIN reason why you initially took out this product?



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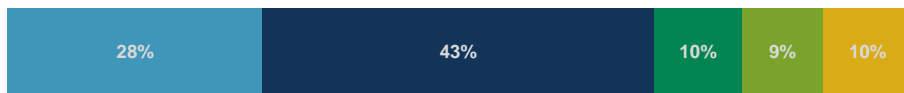
27

## How often do consumers want information?

Providers should communicate **“early and often”**

MAS review of retirement language

### Information frequency



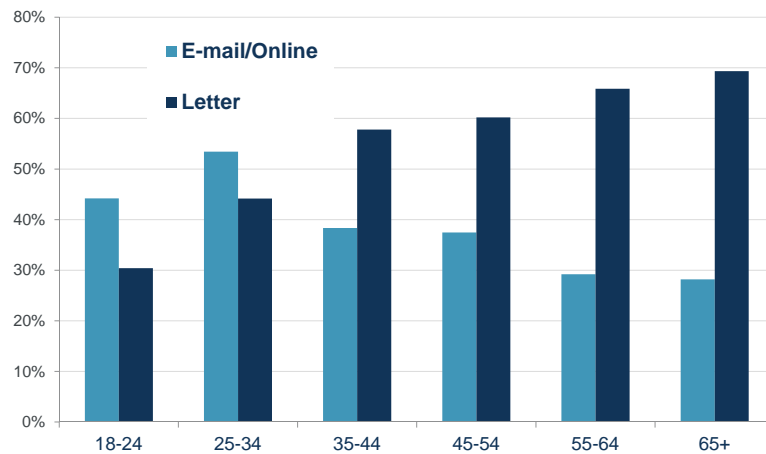
- At least once every 6 months
- Every 6 months to once a year
- Once every 1 to 5 years
- Less than once every 5 years / never
- Don't know

*“The problem with all the information is when to read it all”*

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## Key Survey Results Correspondence



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## Communications

Identifying the problem



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## Communications

### Identifying the problem

With-profits annual benefit statements...

- Provide **lots of** 'useful' information
- **Bespoke** and can be very detailed
- Lack consistency

## Communications

### Identifying the problem

Provide lots of 'useful' information

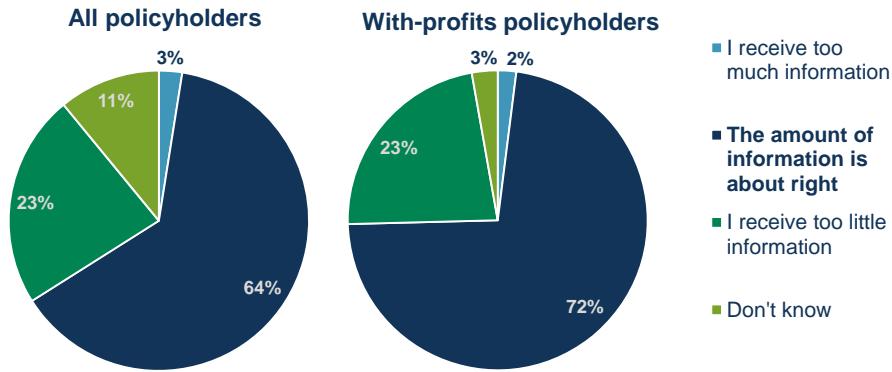
Q: How much information do you receive for your policy?

- I feel I receive too much information
- The amount I receive is about right
- I feel I received too little information



Communications  
**Identifying the problem**

Provide **lots of** 'useful' information



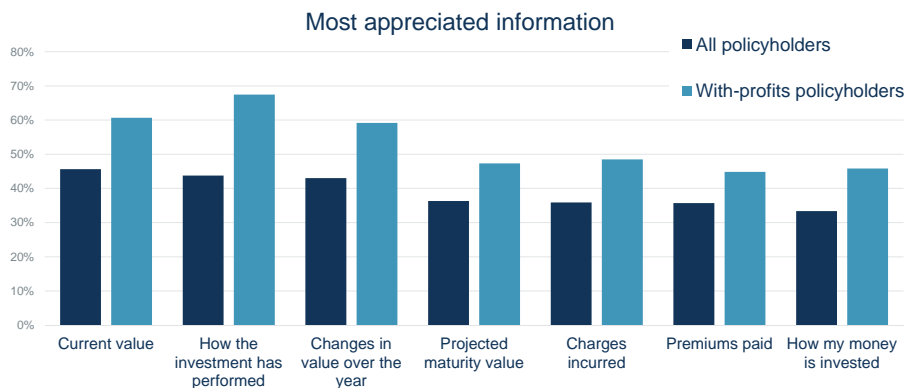
Policyholders think it is **'about right'**

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Communications  
**Identifying the problem**

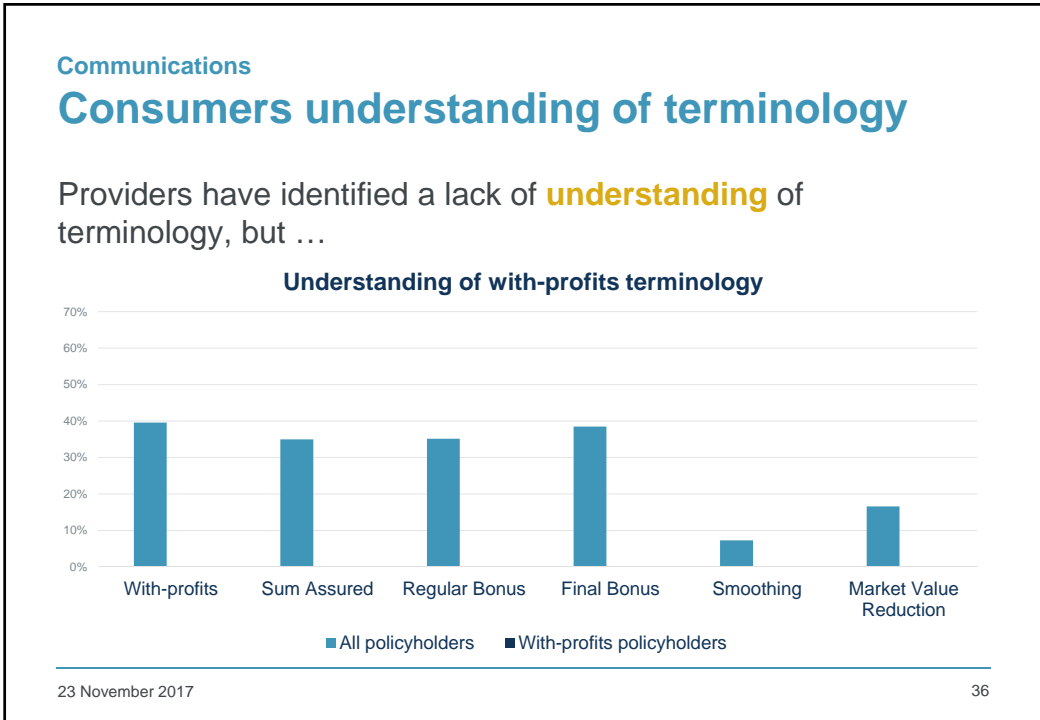
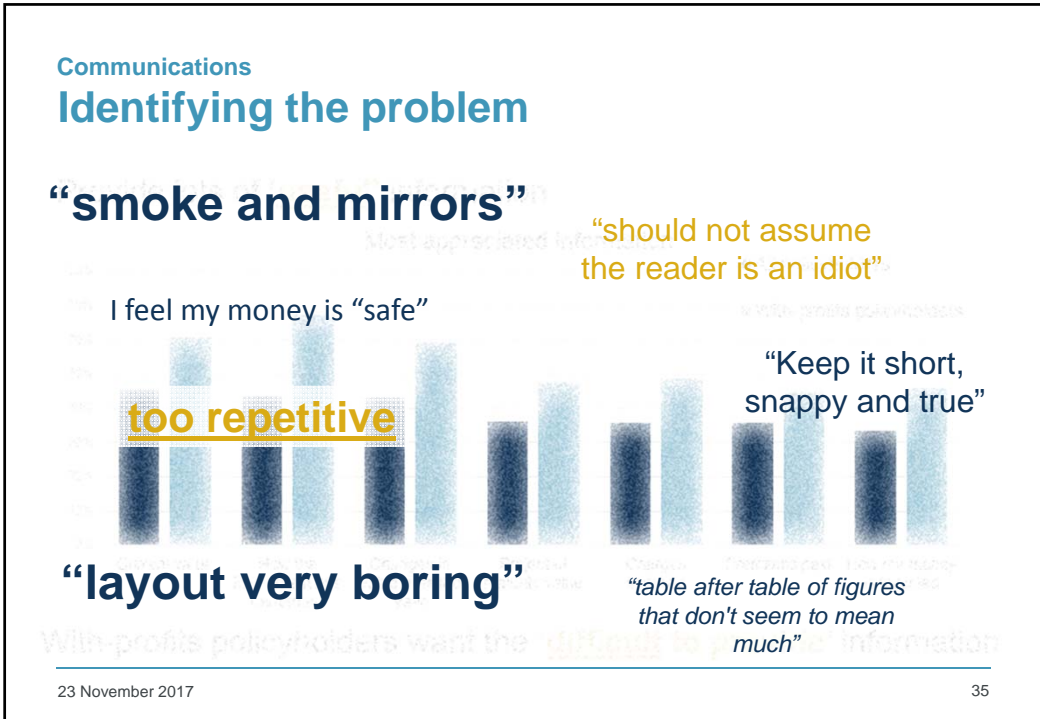
Provide lots of **'useful'** information



With-profits policyholders want the **'difficult to provide'** information

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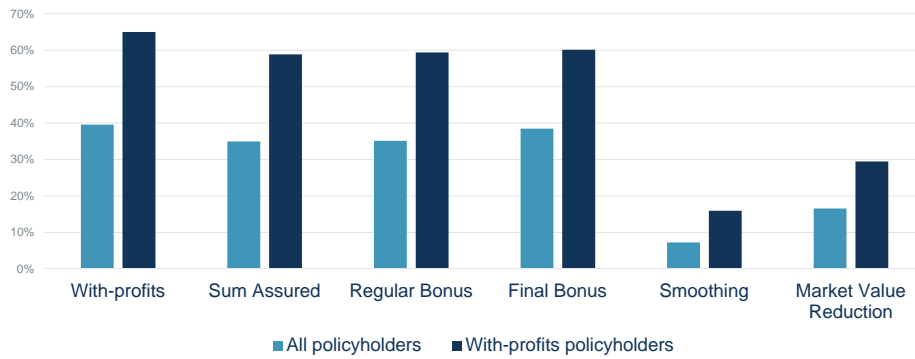


Communications

## Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ... many believe they understand

Understanding of with-profits terminology



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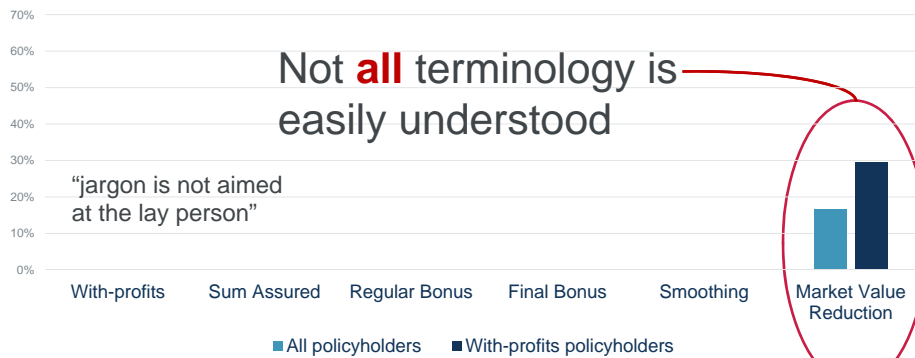
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Communications

## Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ... many believe they understand

Understanding of with-profits terminology



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## Summary and Conclusions – 1 of 2

- Returns are competitive, but we could do more to “advertise”.
  - With profits can change over the lifecycle - ongoing engagement is important.
  - Consumers want regular and detailed information – even if they don’t immediately use it!
  - Consumers feel they have a reasonable understanding of the information being provided...
  - ... And better relative to holders of financial products generally.
-

## Summary and Conclusions – 2 of 2

- However, certain key issues are not well understood...
  - ...And there is a substantial proportion who will not actively manage their policy.
  - Clearer communication is key, but only one part of the solution.
  - There is evidence of a transition towards a preference for digital communications but this is not immediate.
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## Next steps

- Complete analysis of survey data.
- Full survey results will be made available in full on the institute website.
- Produce written report of our findings
- Supplement this survey with more information from firms
- Edinburgh sessional meeting

**Please contact us if you have any further feedback or comments.**

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## Questions

## Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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

## Contributors

Our special thanks go out to the following contributors to the working party:

- Mazars
- Wesleyan
- ReAssure
- Standard Life
- NFU Mutual
- Sun Life Financial of Canada
- Aviva
- LV=
- Equitable Life
- PwC
- KPMG
- Healthy Investment
- Kingston Unity
- Royal London
- AEGON
- Phoenix Life
- Legal & General
- Scottish Widows
- ABI
- MAS

## Working party members:

- **Chair:** Tim Bateman (Mazars)
- **Deputy Chair:** Jonathan Welsh (Wesleyan)
- **Secretary:** Ben Stroud (ReAssure)
- Andrew Fraser (Standard Life)
- *Rebecca MacDonald<sup>1</sup>* (PwC)
- Kris Overlund (PwC)
- Rosalind Rossouw (Sun Life Financial of Canada)
- Ross Thompson (Standard Life)
- Catherine Thorn (Prudential)
- Catherine Zhang (Abbey Life)

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1. Currently on maternity leave – thanks for the support Rebecca!

Should you require any further information, please do not hesitate to contact:

- **Deputy Chair:** Jonathan Welsh (Wesleyan) [Jonathan.Welsh@wesleyan.co.uk](mailto:Jonathan.Welsh@wesleyan.co.uk)
- **Secretary:** Ben Stroud (ReAssure) [Ben.Stroud@reassure.co.uk](mailto:Ben.Stroud@reassure.co.uk)
- Andrew Fraser (Standard Life) [Andrew.M.Fraser@standardlife.com](mailto:Andrew.M.Fraser@standardlife.com)

Further working party details, including our CILA 2017 presentation can be found here:

<https://www.actuaries.org.uk/practice-areas/life/research-working-parties/value-profits-consumers>

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## Survey – Representative sample

1. The survey has been done by YouGov and a key reason they were chosen is their experience of finding a representative sample
2. They have a UK panel of 800,000 and using a 2,000 nationally representative sample gives a margin of error of +/- 2%
3. The final data is statistically weighted to the national profile, using key sources such as the census and ONS population data
4. We were told anything above 50 people with with-profits would be sufficient - we got 473 (16%) out of 2,851.



## Survey questions

### At least one financial product (sample size: 2,851)

1. Which, if any, of the following financial products do you personally currently own?
2. Which, if any, of the following are reasons why you purchased any financial product?
3. Which ONE of the following BEST describes the reason why you initially took out this product?
4. In general, how often, if at all, do you review any of your financial products?
5. And how often, if at all, would you like to receive information from your provider about your financial products?
6. Which, if any, of the following statements describes the information you currently receive about your financial products?

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## Survey questions

### At least one financial product (sample size: 2,851)

7. How easy or difficult to understand do you find the information you currently receive?
8. In which ONE of the following ways would you most like to receive/ view your annual financial product statements?
9. Which ONE of the following statements best applies to your financial products in general?
10. Which, if any, of the following do you currently receive as part of your annual statements?
11. Is there anything you like about your financial product statements?
12. Is there anything you dislike/ would change about your financial product statements?
13. Which, if any, of the following types of information would you like to receive in order to understand the options available to you?

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## Survey questions

### At least one financial product (sample size: 2,851)

14. How likely, if at all, do you think you would be to cancel your life insurance policy early?
15. Which, if any, of the following phrases would you say you understand the meaning of?
16. Would you say you fully understand the charges that might incur if you cash in early on this financial product?
17. How likely, if at all, are you to hold this product through to its maturity date (i.e. the end date of the policy )?

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## Survey questions

### With-profits financial product (sample size 473)

1. How easy or difficult do you currently find the information you receive about your with-profits policy to understand?
2. Which, if any, of the following describe any of the financial products that you own?
3. Which, if any, of the following types of information would you like to receive?
4. Which, if any, of the following are reasons why you purchased a with-profits financial product?
5. Which, if any, of the following do you think are benefits of holding a with-profits product?
6. Does the with-profits financial product pay both regular and final bonuses on the policy?
7. Do you understand the difference between regular and final bonuses?

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## Survey questions

### With-profits financial product (sample size 473)

8. If you had to choose, which ONE of the following best describes what you would prefer?
9. Which ONE, if any, of the following statements best applies to you?
10. Which, if any, of the following actions would you take?
11. Through which, if any, of the following ways would you be likely to seek further information?
12. Which, if any, of the following types of information would be important for you?
13. In which, if any, of the following ways would you like to receive/ be able to view your annual financial product statements?
14. Which ONE, of the following statements best applies to you?

## Survey questions

### With-profits financial product (sample size 473)

15. Would you say you would know all of your options and guarantees and understand how the cash in value of your policy can change?
16. Is your with-profits product you are invested in open or closed?
17. Has your with-profits financial product changed any of its investments over the last 5 years (e.g. reducing the proportion of the fund which is invested in equities)?