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Value of with-profits to consumers

Phase 2 report

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With-profits from a consumer perspective

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Title

Value of with-profits to consumers: Phase 2 report

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1. Introduction

1.1 Background

In 2016 the Life Board thought it would be worthwhile assessing the views of consumers on with-profits products and whether the current format of communications and disclosure is meeting their needs. Is the documentation they receive clear and do consumers understand what they are getting? Further do they value the product compared with other options? Are there things the Life Industry should now be doing to encourage better understanding via clearer or different communications?

The specific objectives for the Working Party were to consider:

1. Do consumers understand the value of their with-profits policies and, in particular, is the value of inherent guarantees and potential for real asset growth recognised by consumers?
2. What is the consumer's perspective on the run-off of with-profits funds? Are consumers getting what they signed up for and do they understand the potential "end games" of the run-off of the fund?

To this the Working Party, during the course of its work, has added a further objective:

3. To make recommendations and proposals to aid consumer understanding of with-profits business.

1.2 Our approach

Our work has been split into three phases focussing on UK with-profits business:

- Phase 1 – desk-based research. Our Phase 1 report is available here: <https://www.actuaries.org.uk/documents/value-profits-consumers-wp-phase-one-report-april-2018>
- Phase 2 (covered by this report) – consumer survey with questions informed by the Phase 1 output
- Phase 3 – a targeted survey performed by a number of with-profits providers

Our Phase 1 report is now available on the Institute and Faculty of Actuaries website. Phase 2 took place in 2017 and we reported the results / the Phase 2 findings at the 2017 Life Conference and the March 2018 sessional meeting in Edinburgh. An article "With-profits benefits: In the eye of the beholder" by Rosalind Rossouw and Ben Stroud from the Working Party appeared in the Actuary magazine in October 2018 exploring the different perspectives of consumers and providers. Additionally members of the Working Party have been involved in presentations to local actuarial groups and indeed to the International Congress of Actuaries in Berlin in 2018. This report formally concludes Phase 2.

Our work on Phase 3 is now well underway. A number of providers agreed to survey their with-profits policyholders and then collate their responses for our analysis and overview. We anticipate reporting back on Phase 3 initially in the third quarter of 2019. A final report on Phase 3 will be produced in due course.

1.3 Our work in Phase 2

This report will consider various different aspects of Phase 2, from a chronological standpoint. At the heart of Phase 2 is the YouGov developed survey of 4,585 consumers of whom 473 were with-profits policyholders.

The report contains, in sections 2 and 3, some more practical aspects of the Phase 2 work: how we went about getting sign-off for an external survey and how we worked with the survey provider to deliver a meaningful survey. We have included this here as we hope that it will be of general interest to most readers and of practical background for others as they seek to undertake a similar exercise.

Sections 4 and 5 then look at the survey results, the Working Party conclusions and our next steps.

In more detail, this report will consider and provide insights into:

Section

2. **The IFOA process by which external tenders are procured:** the process by which a Working Party such as ours has to go through in order to receive the necessary funding for research of any kind.
3. **The YouGov approach to developing a survey, USPs and learning points:** an overview of what a company such as YouGov can bring to a large scale survey such as the one we planned to do. Our interaction with YouGov and some key learning points.
4. **Survey, results and analysis:** our take on the Survey results much of which has been seen in earlier presentations. The Survey results themselves are available here <https://www.actuaries.org.uk/documents/yougov-survey-results-excel> for anyone wishing to review the data for themselves.
5. **Conclusions and next steps:** what the Phase 2 survey showed and the areas where the Working Party felt more information would be useful. An outline of Phase 3 of the Working Party's activities.

The first three of these four aspects were each looked at by a different sub-group of the Working Party so the views expressed in this paper represent a consensus of the Working Party but are not necessarily the views of all members of the Working Party. The members of the Working Party are listed at the beginning of this paper.

1.4 Support received

We are very grateful for the continued support from the operational teams within the IFoA. There are many people involved in different aspects and for certain periods of time; a constant throughout our work has been the diligent, positive assistance from Mairi Russell without whom I am sure the Working Party would have lost all momentum and purpose.

2. Procuring the survey - the IFoA procurement process

2.1 Introduction

We recognised external research was fundamental to ensuring we met our Working Party objectives and so we looked to the IFoA to guide us through this process. As we embarked on this new phase of our research, the Working Party discovered that none of the team had had any previous experience with the IFoA which involved gaining permission and funding for an external piece of work. Thus the process we embarked on in late 2016 was new to us all and gave us all new insights into the “behind the scenes” workings of the staff at the IFoA.

2.2 Initial discussions

Our first steps were to talk to the IFoA about the process to obtain funding for an externally run survey of the wider public. The IFoA was very supportive and the process outlined to the Working Party in early January 2017 was as follows.

1. For requests below £5,000:
 - a. The relevant practice research sub-committee(s) must approve the request first.
 - b. Following approval, sign-off will be sought from the relevant Practice Board(s).
Where the research is cross-practice, approval may be sought from more than one Practice area.
 - c. The application will then be passed to the Head of Research and Knowledge who will ensure that the appropriate Executive resource is in place to carry out the request (for example, managing the recruitment of a research assistant or setting up legal contracts for the purchase of data).
 - d. The Research Thought Leadership Committee (RTLTC) will receive a retrospective report of funding approved.
2. For requests of £5,000 or more:
 - 1 a. to c. as above, with the addition of:
 - d. The RTLTC will provide final approval of the funding request.
3. On approval, the IFoA Executive will then:
 - Formally commit the funds, in line with the IFoA’s scheme of delegation.
 - Negotiate any legal agreements, in line with the IFoA’s scheme of delegation.
 - Sign legal contracts, in line with the IFoA’s scheme of delegation.
 - Project manage output, including monitoring compliance with legal arrangements.

2.3 Developing the survey questions

In order to work out which particular process we would have to follow, we needed a better view on the likely costs of the survey. So the Working Party then set about developing a reasonable draft of the survey questions. This took us longer than expected as we formulated, discussed and refined in greater detail the areas we wished the survey to cover. Even though we didn’t want to waste time “gold plating” here, as we felt the survey organisation may well have a greater understanding of how to phrase and position the questions, a couple of months went past on this activity. With the benefit of hindsight we may usefully have spent further time polishing the questions as there was very limited time to discuss some of the finer details of the survey questions with the provider, for reasons that will become clearer shortly.

By late March 2017 we had developed a bank of around 15-20 questions. It was now time to get one of the IFoA’s team to give us an indication of the likely costs.

In early April we had a response: For a two wave campaign with YouGov (covering around 2,000 members of the public), with 10-15 questions to everyone followed by another 3-5 questions, we would need c£9,000 based on similar surveys the IFoA has done in the past.

It was also proposed by the IFoA team at this stage that it would be cost-effective to combine our research with that of another Working Party. The Consumer Risk Metrics Working Party were considering how consumers view risk and seeking to develop a simple and easy to understand risk metric that would allow consumers to understand risk in a consistent way. As this research was broadly aligned with ours and almost certainly it would be appropriate for the same survey population to consider both sets of questions we agreed to proceed on this basis. Based on this guidance we completed an application form for funding at the level of £10,000 to give some margin for higher costs due to our niche area of enquiry and submitted the application in early May.

The internal processes of the IFoA then swung into action with approval being given by the research sub-committee, the Life Practice Board and finally the RLTC.

We heard the good news in late July and also that a member of the Research Project Team would be allocated to this exercise and they would lead the process from the IFoA perspective.

2.4 The race against time for the 2017 Life Conference

Earlier in the year the Working Party had successfully applied for a speaking slot at the 2017 Life Conference in Birmingham. We had a highly desirable session on the morning of the first day in the main auditorium – it seemed the topics we wanted to cover were very popular. All the focus now for the Working Party was on getting hold of the survey results and producing some good quality material for the Conference.

The Research Project Manager (“RPM”) was appointed in August and some time was spent reviewing the questions with her before starting on the tender document.

By early September we were ready to pull the tender together. The RPM led on this with input from the Working Party to ensure we were covering all the aspects of the survey that we needed. Again the process took a little while as we refined and honed the tender document and got all the internal approvals necessary. The tender went out to three potential survey providers in late September with a very short response time, during which the providers raised a number of questions about the survey and the intended audience. So by the start of October we had responses from the three candidates and, thanks to the IFoA, a scoring template. We quickly evaluated the responses from the tender process and sought input from experience of the RPM and the wider IFoA team. After a few clarificatory questions we had concluded the process – YouGov were selected.

The RPM then had the very important role of overseeing the contractual aspects of the work and finalising the budget. YouGov were on board by the middle of October. We had roughly 3 weeks to design the survey with YouGov, launch the survey, assemble the data being fed back and analyse the results.

3. Working with YouGov

At this point the Working Party were now pushing extremely hard to get the survey into the YouGov system and out to their consumer survey population as soon as possible. We set the Life Conference slot we had been allocated (November 23rd) as our target deadline, and with around 5 weeks to go, this was now looming.

Time was not the only constraint we had to manage. The funded survey costs of £10,000 covered a maximum number of YouGov survey questions we could include in our survey, as well as a maximum number of reviews and accompanying refinements to these questions by YouGov.

3.1 The YouGov approach.

YouGov have a team of analysts who prepare surveys for the wider public on a regular basis. They also have a fairly wide spread population of “volunteers” to whom they will send surveys. These volunteers represented a broad cross-section of the UK population – covering geographical areas, socio-economic levels and age groups. And this volunteer population can be refined to some extent to be more suitable for the target audience. In our case we wanted to aim the survey at with-profits policyholders who would be a sub-set of a wider “Financial Services” grouping. This pre-arranged organisation of volunteers enables YouGov to achieve a very rapid turn-around to the survey. Once designed, the survey could be sent out to the target audience, completed and returned within 48 hours – this was a very welcome factor as we continued our race against time to be ready for the 2017 Life Conference.

3.2 Working with YouGov

As a result of this element of time being extremely short, the actual time spent with YouGov getting their guidance was very short, and although we were managing a time constrained process, in hindsight we would have wanted to have invested more time working with YouGov given their significant experience of running such surveys. The survey had to be scripted, tested and authorised by YouGov and ourselves. We opted to hold daily short conference calls for the Working Party where we refined and slimmed down our suggested survey. This was then followed up by intermittent calls and emails with YouGov to change, discuss or remove certain of the questions. YouGov were very responsive and had a keen appreciation of the deadlines we were racing against. Nevertheless, it felt like a little more time at the stage of the survey production may have enabled us to further clarify and simplify some of the survey questions. Given our time constraints and our agreed budget, unfortunately this was simply not possible.

The Working Party decided that it would be difficult to use the survey to probe in any depth regarding the objective to consider “What is the consumer’s perspective on the run-off of with-profits funds?”. In recognition of this one simple question was asked to explore the extent to which the survey respondents had any understanding of the status of the fund they were invested in.

3.3 The Survey goes live

The Working Party signed off the survey on 31 October. YouGov very efficiently composed, checked and signed off the survey according to their standards. The survey went live on the YouGov systems on 2 November. The survey was carried out online. Two waves were run with all responses received by 6 November.

3.4 The Survey sample

YouGov surveyed a total sample population of 4,585 adults, of which 473 held a With-profits financial product. These were grouped according to certain key factors such as age band, gender, geographical location, socio-economic group etc.

The different groupings were then weighted in order to be representative of all GB adults (aged 18+).

We obtained the first cut of the YouGov survey results on 7 November. We had a number of questions and discussions with YouGov and requested a few changes to the format of the output. YouGov diligently and very helpfully responded to our queries and produced an analysis the following week which arrived around 15 November.

3.5 Survey result analysis - the race against time for the 2017 Life Conference

The Working Party had a week to review the survey results and prepare the Life Conference presentation, which then still required a peer review. The next section covers how we managed to complete this in more detail.

4. Survey, results and analysis

While there can be arguments around the reliability of survey responses and the confidence with which one can make judgements, particularly with what could be an emotive subject such as with-profits, the Working Party felt there was a narrative that one could loosely arrive at based on this survey.

The final questions and survey responses as analysed by YouGov can be found here:

<https://www.actuaries.org.uk/documents/yougov-survey-results-excel>

4.1 Survey – the questions

With the benefit of hindsight, as noted above, there are some questions which could have been more appropriately phrased in order to more confidently assess the responses. One such example is where participants were asked whether they understood “all of” their options and guarantees. While it is possible this question received low responses because of the way in which it was worded (as one cannot ever truly say they know all of their options), the Working Party felt relatively few people would take this literally and most would infer the intention of the question.

Similarly, some of the questions could be said to have been phrased in such a way as to lead the participant one way or the other, for example “*How long do you intend to hold on to your with-profits product?*” could be seen as directing the participant to doing “the right thing”. Again, the Working Party considered that the impact of such phrasing should not detract from the ability to determine a loose narrative from the responses.

4.2 Survey – the results

The Working Party received the survey results from YouGov in spreadsheet form. As part of the agreed survey cost, YouGov had been contracted to provide the survey output in a certain manner, with specified output fields and forms. Within this, we received results for the population as a whole, as well as for the subsection who stated they had a with-profits product. The output contained many different data flags and categories, and the YouGov survey results could be cut and the data represented in numerous ways. Once we started to review the survey results, we requested further versions of the survey output presented in an altered format to allow us to complete further detailed analysis.

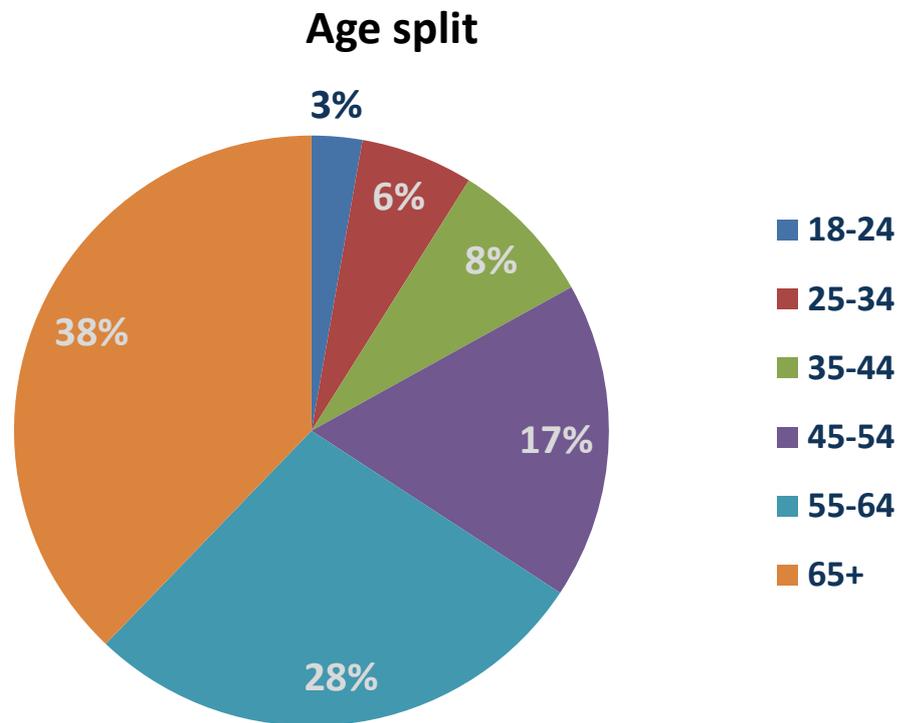
While there were a number of other ways the Working Party may have wanted to analyse the data, the iterative nature of such analysis, when combined with the re-cutting requests we made, started to become an additional constraint, particularly as YouGov had been contracted to provide the survey results in a specific form and within an agreed budget.

4.3 Survey – the participants

The survey was completed by a total of 2,851 people (out of the 4,585 originally surveyed) who had at least one financial product, within which 473 (17%) had a with-profits product. This sample was deemed to be of sufficient size to allow some conclusions to be drawn.

The Working Party were satisfied with the make-up of the respondent population by age, giving a good cross section, but with a heavier weighting on older ages. Given the heritage of with-profits and the

likely slant towards pension products this was deemed to be a good, representative spread of responses by age.



4.4 Survey – our Life Conference presentation

The Working Party worked as a team to prepare the Life Conference presentation, which was (against very severe time constraints) peer reviewed ahead of the presentation. The results were presented at the Life Conference on 23 November and the presentation can be found here

<https://www.actuaries.org.uk/documents/a2-life-conference-2017-value-profits-working-party> .

4.5 Survey – further analysis

Following the presentation we had more time to review the results and develop our analyses further. The following narrative combines responses from a number of the questions included and tries to compare and contrast responses to ascertain customer behaviour and sentiment.

Motivation for buying the product

When asked why customers had chosen with-profits products in the first place, over half (51%) indicated it was a conscious choice on their part – either they decided it was the best option, it met their investment objectives or they responded to a specific provider or marketing. This suggests a level of initial personal research in order to determine their selection. Over a quarter (27%) of responders were advised to take with-profits (either by a professional advisor or by family or friends). This suggests that with-profits customers were engaged with the product features offered at outset and chose their product for a reason.

Motivations for continuing with the product

When asked how long customers intended to hold on to their with-profits product, 80% responded that they intended to hold on to it until maturity or later. Further, only 4% intended to surrender their product

early (the remainder replied they did not know). The Working Party concluded that this was a sign of either customer loyalty, a fear of exit penalties, or simply a lack of engagement.

In order to determine whether exit penalties were a factor in this decision, responders were asked how likely they were to surrender their with-profits produce if there were no exit penalties. While more could have been done to clarify what sort of penalties we meant (MVRs, explicit deductions or expenses or loss of guarantees etc), the Working Party were happy that the meaning of the question was clear. Here 64% said they were unlikely to surrender early. While this is less than the 80% who said they planned to stay until maturity, it is still a very high proportion of customers. This appeared to rule out this as a reason for customers sticking with with-profits.

Customer engagement

To assess customer engagement, the survey asked what sort of information people would like to see included in annual statements throughout their product's term. Large swathes of the population replied with some of the more important items (investment performance, current value, changes in value, charges incurred, projected maturity value etc), which was encouraging. However, much fewer responses showed that people wanted to see an explanation of the risks, information on options and guarantees and what they could do to improve the projected value.

Some statistics that particularly caught the eye of the Working Party:

- 47% of responders said they wanted to know their projected maturity value, but only 32% wanted to know what they could do about it. When considering this relates to either mortgage endowment shortfalls or pension savings at retirement, the Working Party concluded that this showed a low level of engagement with their products' final outcomes
- 61% of responders said they wanted to know the product's current cash-in value, but only 28% wanted an explanation of their options and guarantees, and further only 27% wanted the value of any guarantees attaching to the product. Again, this shows a desire for the important information but something of an unwillingness to engage with the product features in more detail.
- Of all the responses, 43% of the items requested to be included in annual statements related to what could be termed "backwards-looking" (eg investment performance, charges incurred, etc), and only 23% of information requests was for information that would prompt some action (such as how to improve the product's projected value, what options are available). This seemed to be indicative of a certain lack of engagement throughout the product's lifecycle.

Responders were then asked what information they would want to receive as their product approached maturity. Now people seem to become more engaged, with 53% wanting to see some explanation of their options (cf 32% in annual statements). This seems to suggest a reawakening and uptake in engagement approaching the end of the product's term.

Customer understanding

Moving from engagement to customer understanding, responders were asked to select the benefits of having a with-profits product. Some of the key differentiators of with-profits products relative to alternatives gave low scores – guarantees (only 17%), pooled investments (16%) and smoothing of investment returns (14%).

Further, the survey asked whether people understood how the value of their product could change (only 53%) and whether they understood their options and guarantees (59%). While still over half of the population, these scores for the understanding of some very important issues were worryingly low, despite all the efforts from the industry to improve customer communications.

Analysis of free text responses

In addition to the questions in the survey which had a list of responses that respondents could choose from, there were a couple of open questions which offered respondents the opportunity to respond using free text. These questions asked what people liked, disliked or would change about their financial product statements. Over 60% of respondents filled in these questions, some with detailed responses, telling us in their own words what they thought of the communications from their providers, the good and the bad.

Given the richness of this source of data, and that we wanted to use what the customers were telling us, we used a model to measure the sentiment expressed in the text, and to group the responses into 'themes'. Within these themes, we could have a measure of the positivity or negativity and the strength of sentiment expressed. For example, grouped together under the same theme of providing information, the model identified the negative sentiment expressed in the comment 'difficult to find relevant information' and the positive sentiment in 'easy access, straightforward and clear statements'.

The model used had been trained on 82 million Amazon reviews, and is described in Radford A, Sutskever I, et al, 2017 "Unsupervised sentiment Neuron System" available at <https://blog.openai.com/unsupervised-sentiment-neuron/> .

This analysis (omitting the customers who did not express a particular view) identified a number of themes which were important to respondents, which we categorised into the following groups.

- Clarity
- Easy to understand
- Keeps me informed
- Value
- Available online

The presentation at the March 2018 sessional meeting in Edinburgh can be found here <https://www.actuaries.org.uk/documents/value-profits-consumers-working-party-update-0> and contains a little more background as well as an example of the tool in use.

4.6 Survey – other presentations

The Working Party also made presentations at a number of other fora including:

- The March 2018 sessional meeting in Edinburgh;
- Presentations to local actuarial groups (Yorkshire Actuarial Society and the Phoenix Actuaries in Birmingham);
- The International Congress of Actuaries in Berlin in 2018; and
- An article "With-profits benefits: In the eye of the beholder" by Rosalind Rossouw and Ben Stroud from the Working Party appeared in the Actuary magazine in October 2018 exploring the different perspectives of consumers and providers.

5. Conclusions

Our objectives at the inception of the Working Party, as set out in Section 1, were to consider:

1. Do consumers understand the value of their with-profits policies and, in particular, is the value of inherent guarantees and potential for real asset growth recognised by consumers?
2. What is the consumer's perspective on the run-off of with-profits funds? Are consumers getting what they signed up for and do they understand the potential "end games" of the run-off of the fund?
3. To make recommendations and proposals to aid consumer understanding of with-profits business.

Findings

The survey provide something of a narrative, in the eyes of the Working Party. With-profits customers are engaged with the product at outset and are again engaged with it nears the end of the term, but in the middle they are reluctant to engage with the product or review its performance and investments.

Further the results suggest a low level of general understanding or appreciation of the key features of with-profits. This provides some cause for concern in the age of pensions transfers and drawdown products being seen as more desirable than potentially valuable guaranteed annuity incomes.

Recommendations

Some clear, consistent, generic explanations of with-profits products, features and important considerations may be needed. Customers receiving statements, asking for current values or looking to take action should be given clear information and sufficient warnings about the consequences of actions.

Next Steps – Further Consumer Surveys

The Working Party took some time to further reflect on the Phase 2 survey questions themselves and concluded that it would be even more insightful to prepare a more focussed survey for use by providers.

We concluded that further research should be undertaken to delve into some of the areas raised in Phase 2 in more detail, preferably with a larger, yet tailored with-profits population. This led us to the concept of a survey carried out by providers to their with-profits customers. This became Phase 3 of the Working Party's research.

Our work on Phase 3 is now well underway. A number of providers agreed to survey their with-profits policyholders and have now collated their responses for our analysis and overview. We anticipate reporting back on Phase 3 the third quarter of 2019. A final report on Phase 3 will be produced in due course.

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