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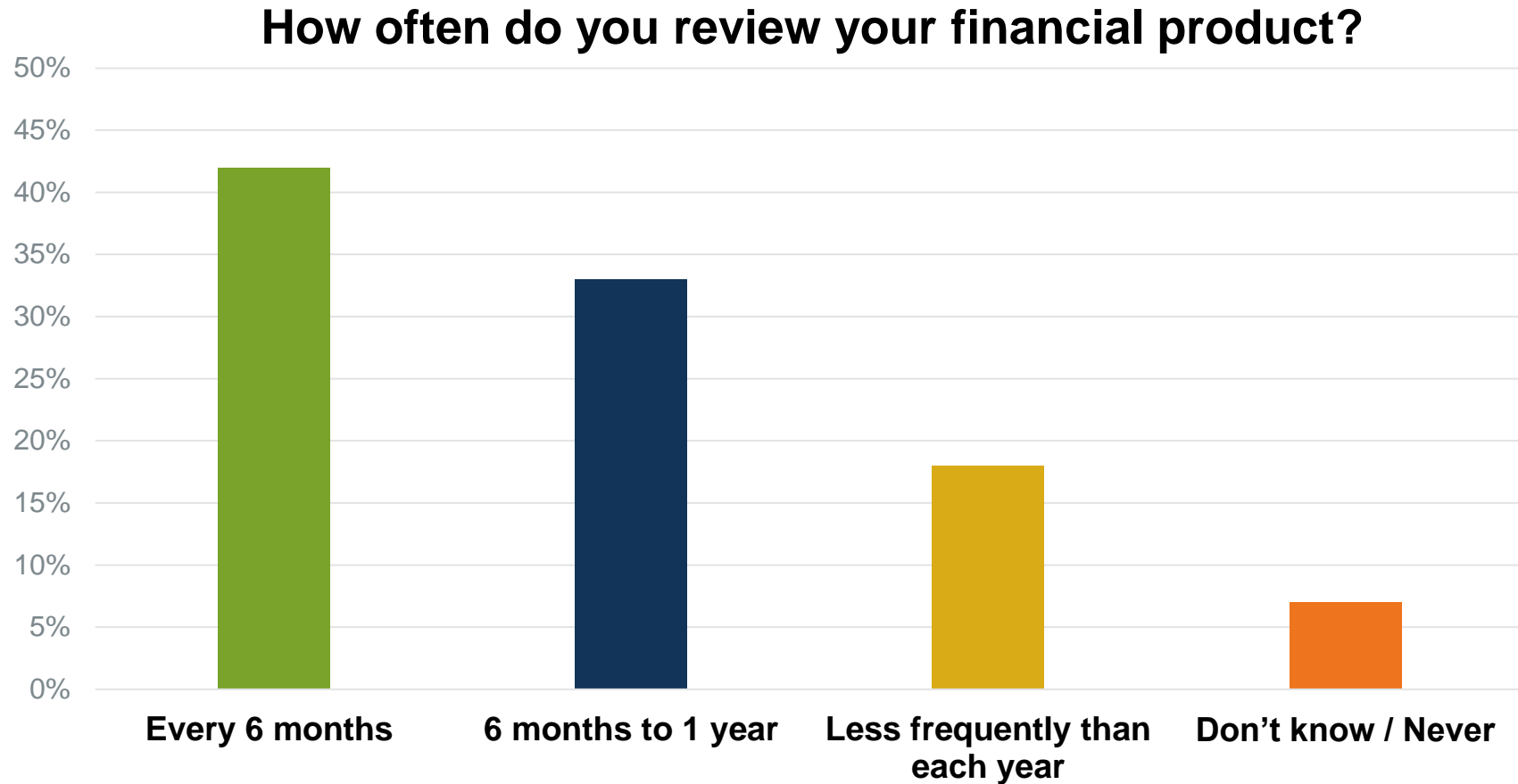
Value of with-profits for consumers

Working party update

Tim Bateman (Chair),
Ross Thompson, and
Catherine Thorn

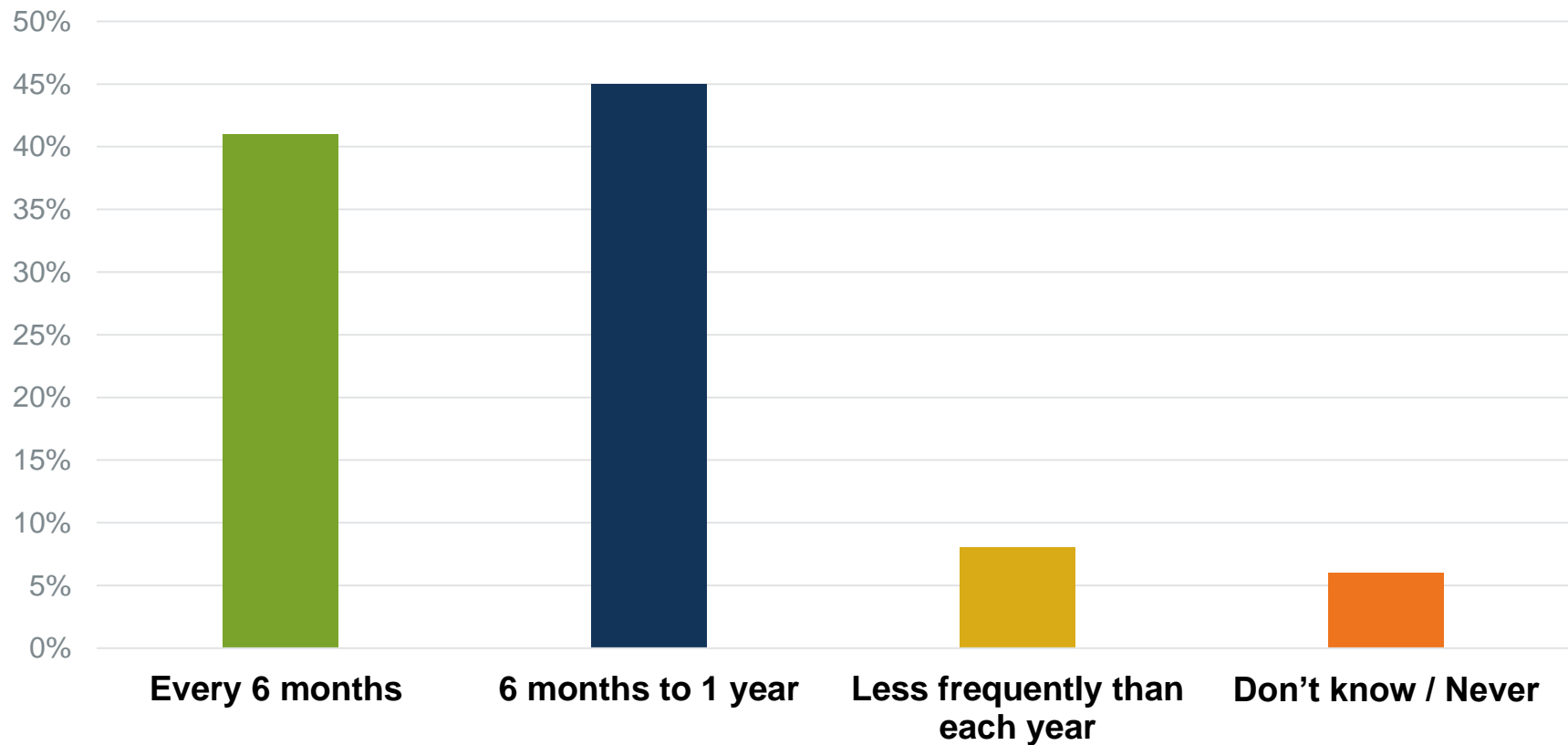


How often do consumers review their financial product?



How often would consumers like to review their financial product?

How often would you like to review your financial product?



Agenda

The value of with-profits for consumers working party.

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

Background

- Tim Bateman – Mazars LLP

Customer Engagement

Ross Thompson – Standard Life

Customer Sentiment

Catherine Thorn – Prudential



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Background

5 March 2018

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

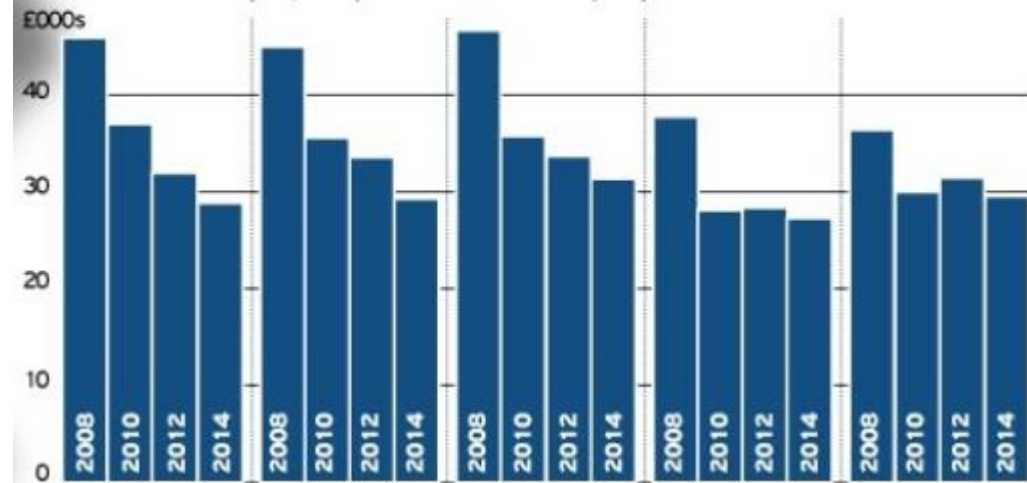
www.thisismoney.co.uk – 12 July 2016

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

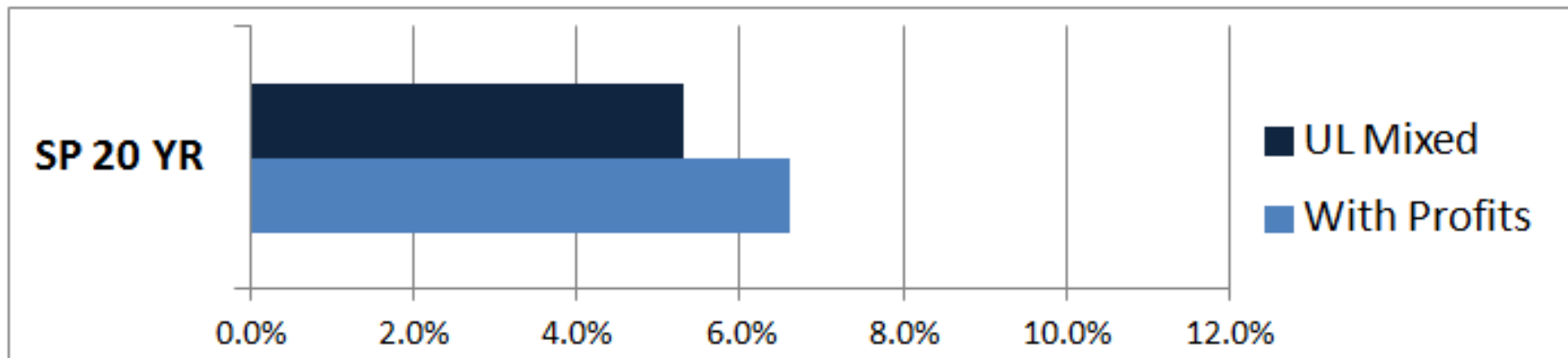
The final value of a 25-year, £50-per-month endowment policy when it matured in...



The Telegraph – March 2014

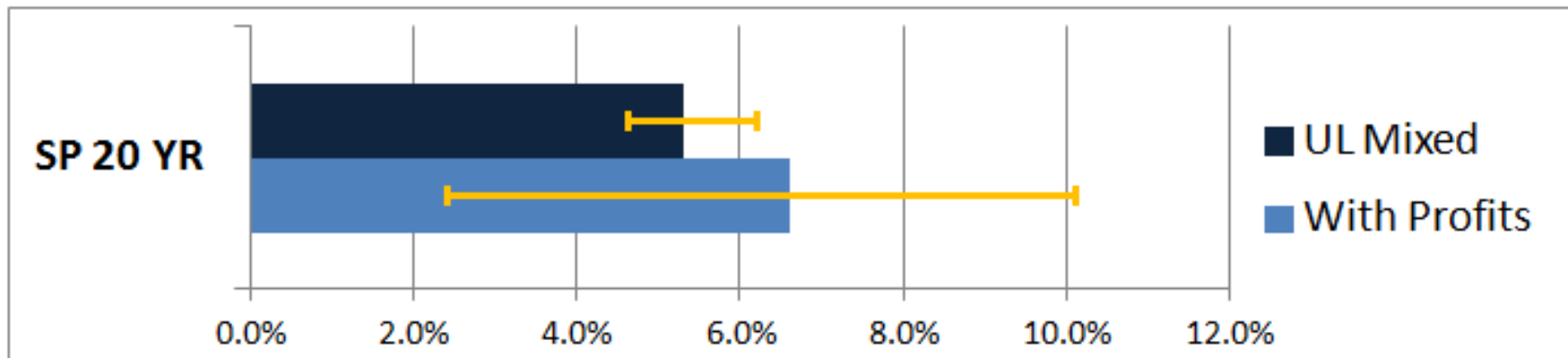
With-profits funds have performed comparably to similar unit-linked funds...

Single Premium Pensions – 20 Year Return Comparison



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

Phase 1 Summary

- With-profits performance has been comparable to similar UL funds ...
 - On average
 - But it is highly variable, dependent upon the fund
- Information provided on benefit statements varies:
 - Content
 - Terminology
- Unclear how communications regarding changing investment mix have been handled
- There is little existing consumer-specific with-profits research

Survey

Purpose

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

Objectives

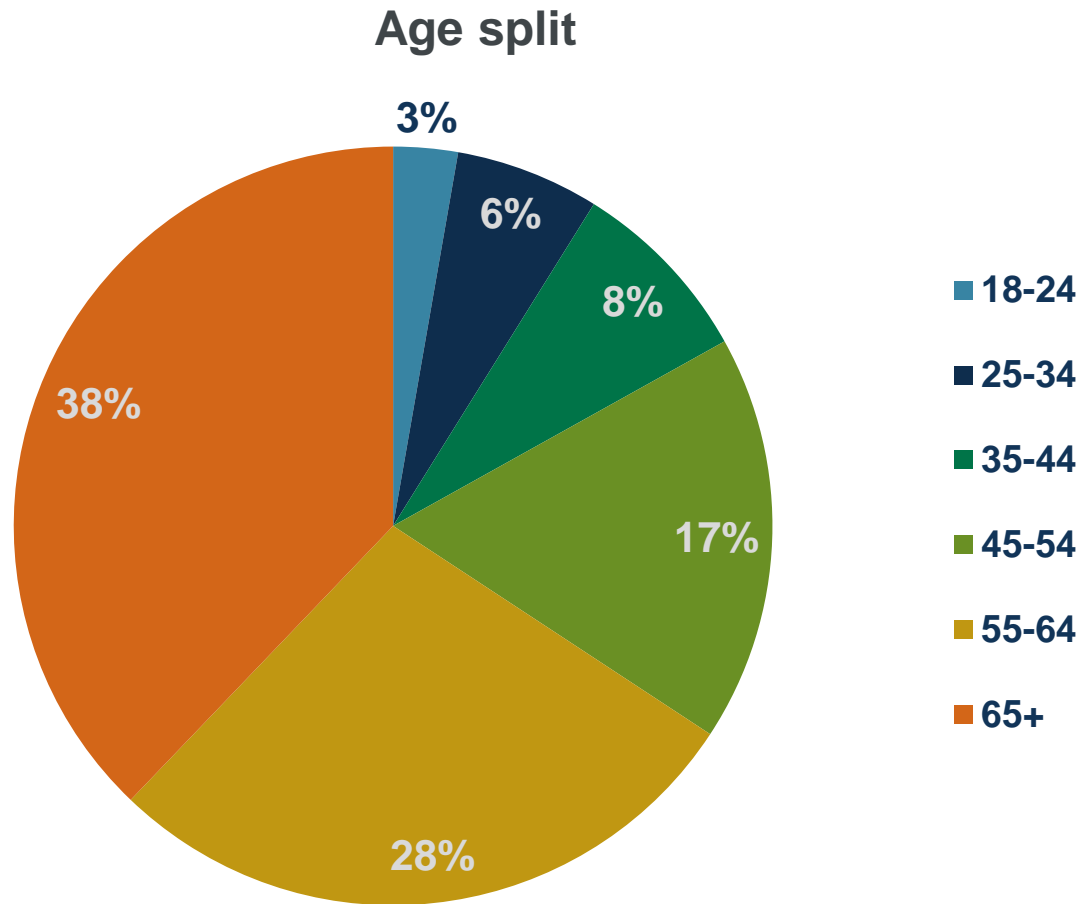
- Do consumers understand the value of their with-profits policies?
- What information about their products do consumers value?
- Do with profits consumers understand the changing nature of their policy?

Survey methodology

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

Survey population

With-profits financial product (sample size 473)





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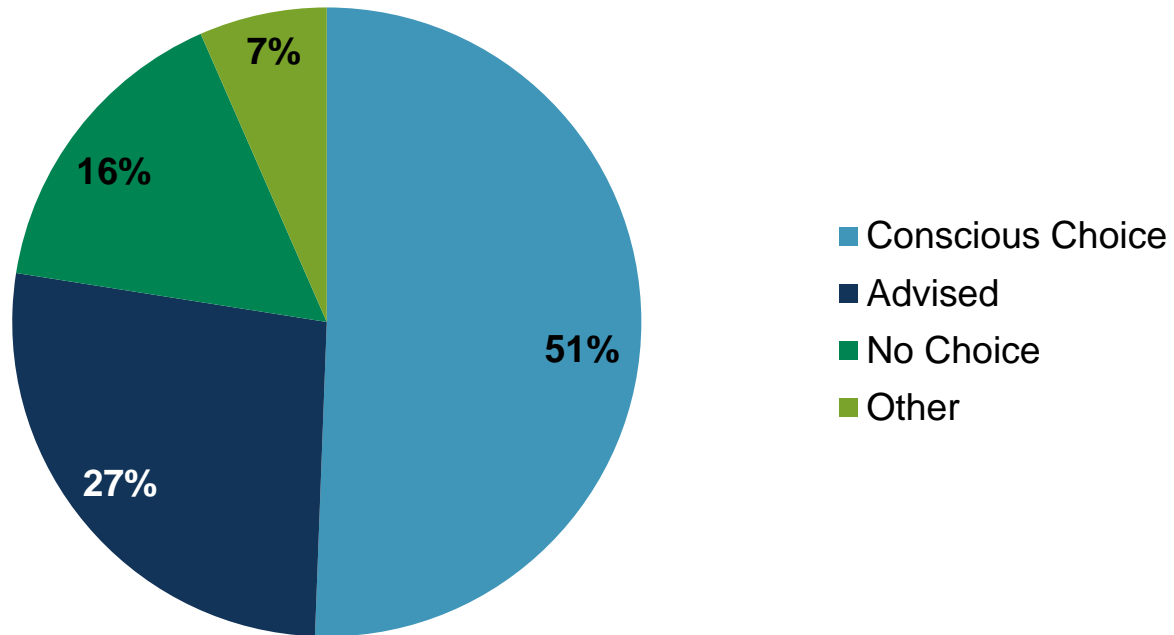
All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,585 adults, of which 473 held a with-profits financial product. Fieldwork was undertaken between 2nd - 6th November 2017. The survey was carried out online. The figures have been weighted and are representative of all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

Customer Engagement

5 March 2018

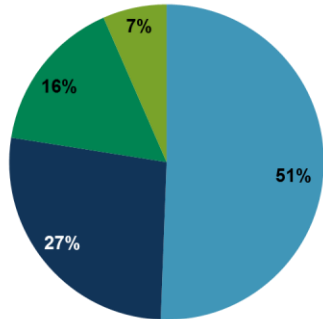
Why with-profits?

Customers were asked the reasons for choosing a with-profits product



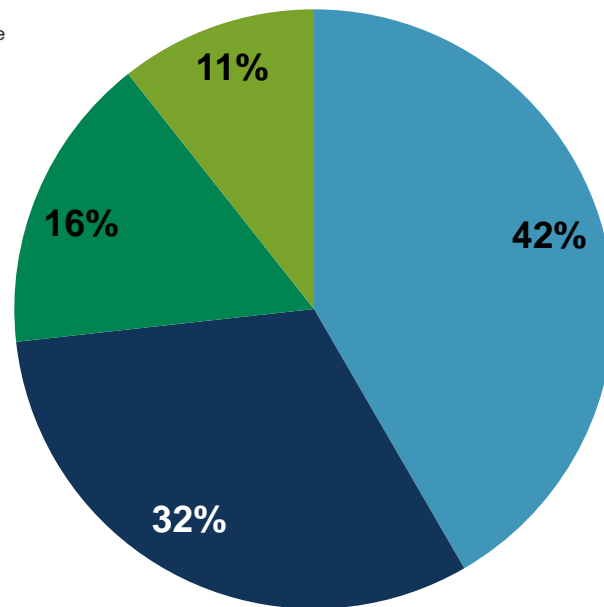
Why with-profits?

Customers were asked the reasons for choosing a with-profits product



- Conscious Choice
- Advised
- No Choice
- Other

Conscious Choice responses in more detail:

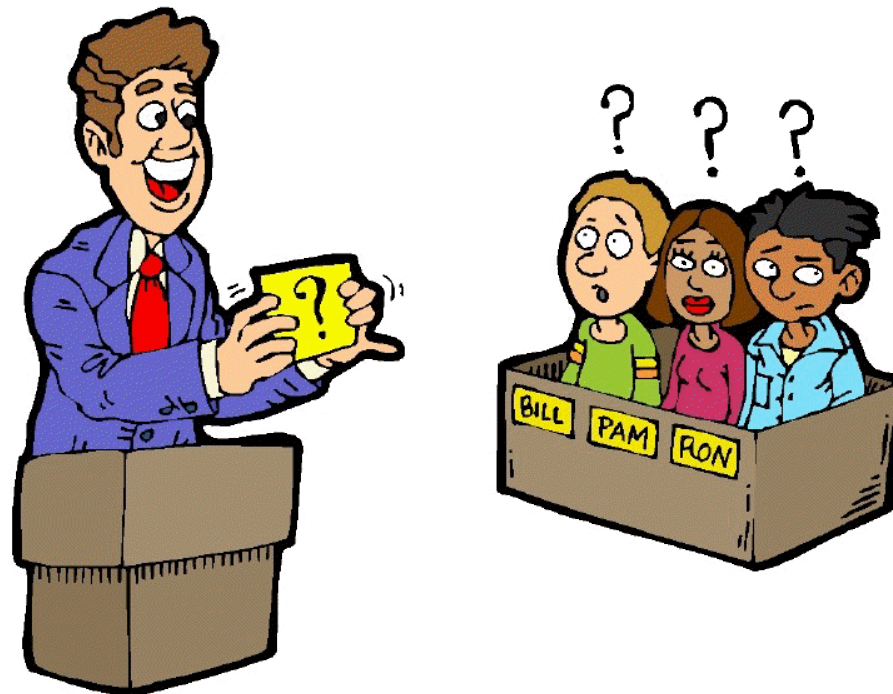


- Best option available
- Met my investment objectives
- Wanted a particular provider
- I saw the product advertised

Customers appear to have been engaged with the product originally!

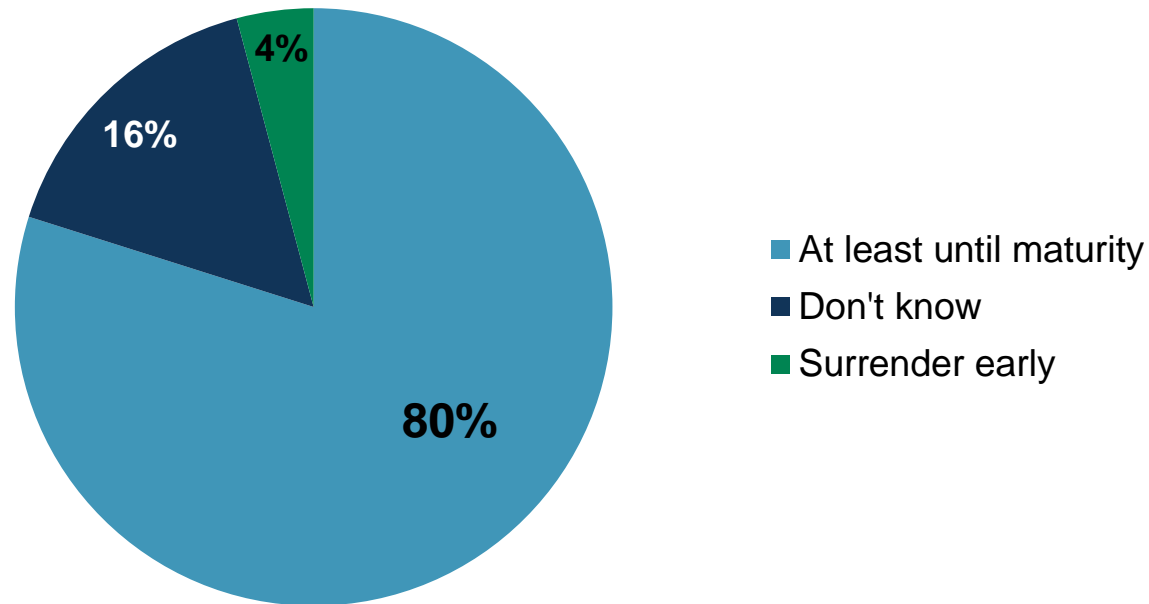
Customer loyalty / apathy?

Customers were asked how long they were likely to hold on to their with-profits product ... Any guesses how many would stay until/after maturity?



Customer loyalty / apathy?

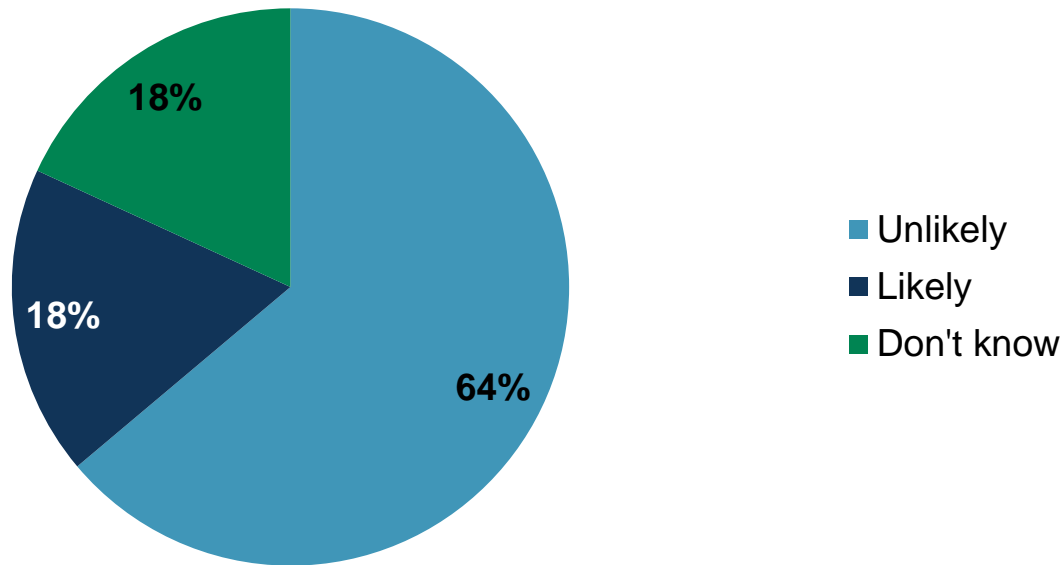
Customers were asked how long they were likely to hold on to their with-profits product ... Any guesses how many would stay until/after maturity?



Is this customer loyalty, apathy or a fear of exit penalties?

No exit penalties?

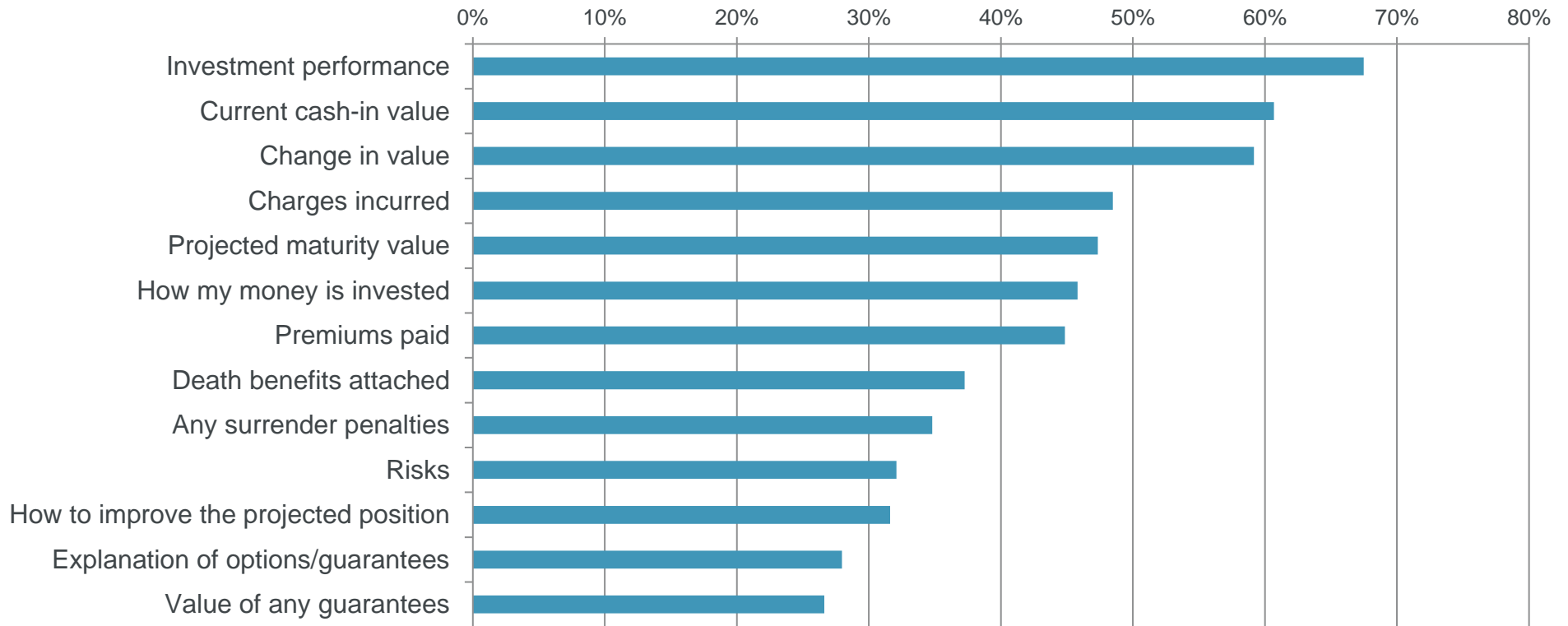
Customers were asked how likely they would be to surrender early if there were no exit penalties



Customers do seem to be loyal to their investments or reluctant to part with them! Are they still so engaged with their products?

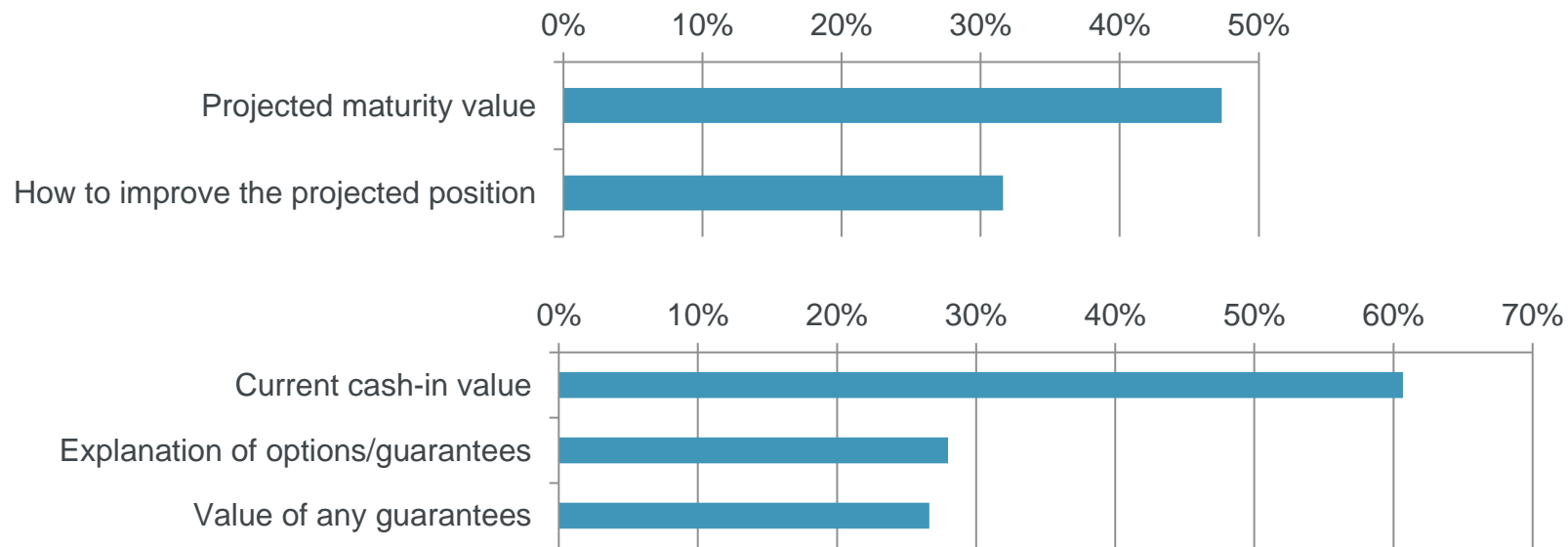
Are customers engaged?

Customers were asked what info they would like to receive **in annual statements**



Are customers engaged?

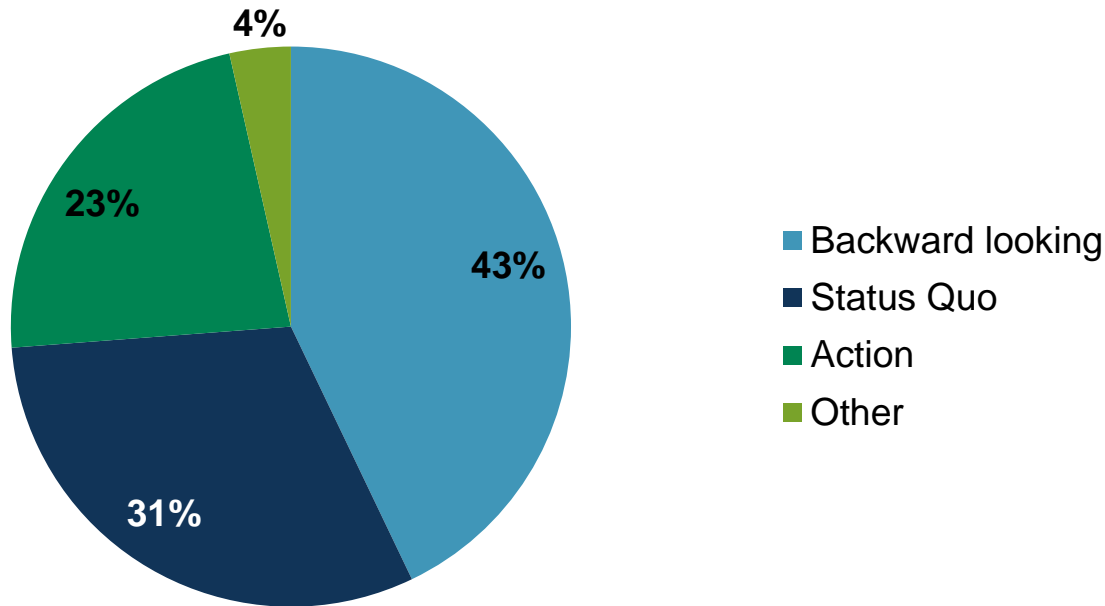
Customers were asked what info they would like to receive **in annual statements**



Customers don't seem to want to know what they can do about it, or what risks and protections they should be aware of!

Are customers engaged?

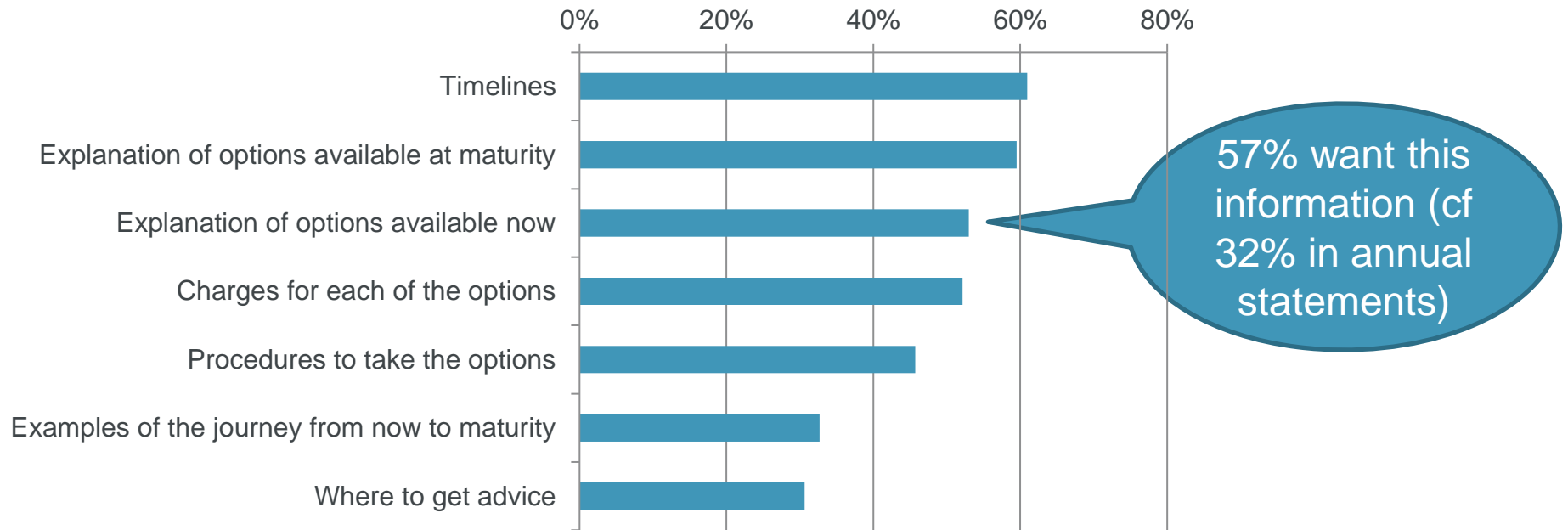
Customers were asked what info they would like to receive in **annual statements** – classified differently:



Customers don't seem to want to know what options they have **NOW** to improve things in future!

Are customers engaged?

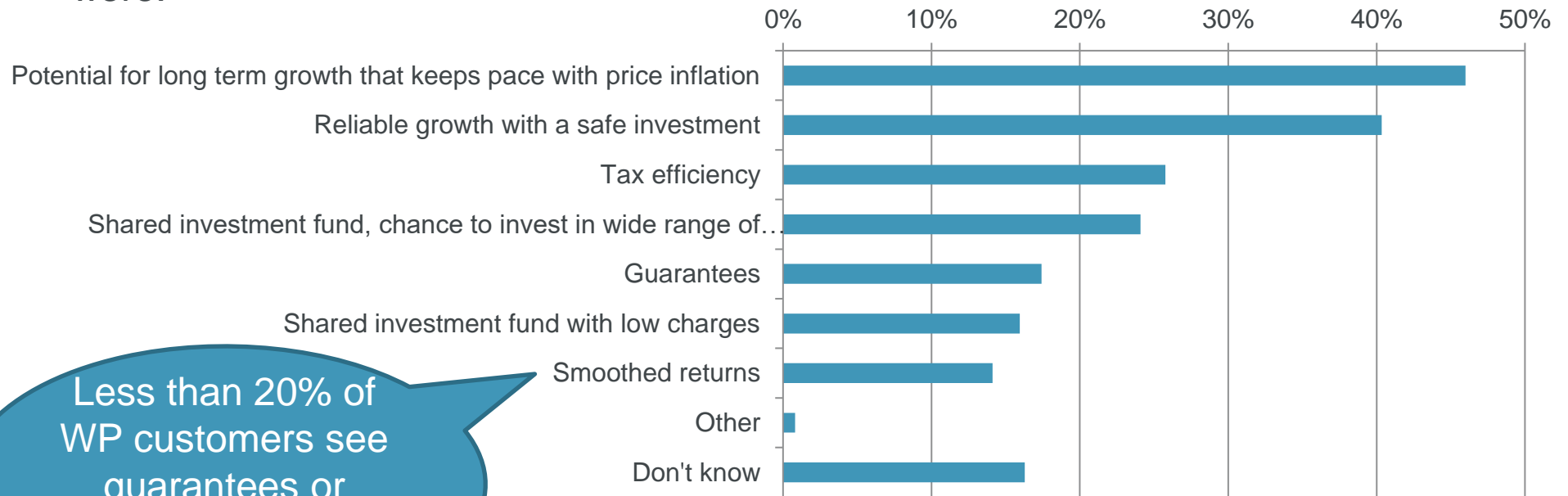
Customers were then asked what info they would like to receive **when approaching maturity**:



Suddenly customers become interested in what they can do about it (fund switches etc) – will this make a difference?!

Customer understanding - Benefits

Customers were asked what the benefits of having a with-profits product were:

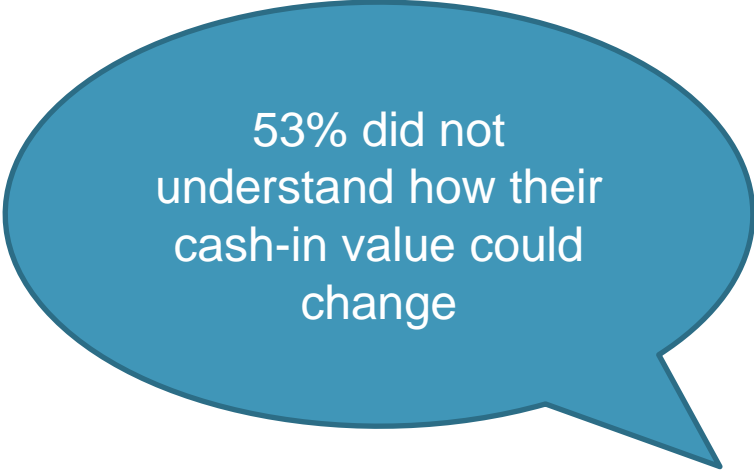


Less than 20% of WP customers see guarantees or smoothing as a benefit!

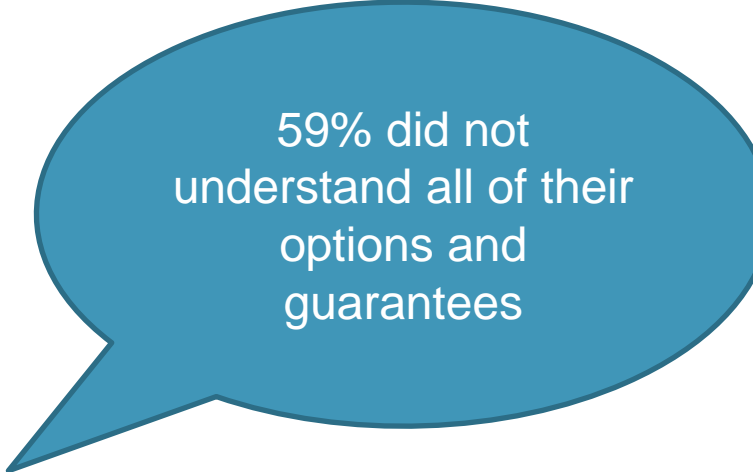
Guarantees and smoothing are what we think of as two of the main benefits of WP over other investment types. Are we so out of line with customers' thinking?

Customer understanding – Value and Options

Customers were asked if they understood how the cash-in value of their WP product could change and if they understood all of their options and guarantees



53% did not understand how their cash-in value could change



59% did not understand all of their options and guarantees

What does this mean for customer communications? What more can we do to try and land the message and the important features of products?

What do customers value about with-profits?

The survey produced some other surprising results:

- High reported understanding of with-profits terminology
- Understanding of the options available doesn't increase with age
- 40% of people don't understand the implications of cashing in early
- 18% review their product 'never'

Customers chose with-profits for a reason and seem to be keen to stick with it to the end.

What more can we do to help increase **customer engagement and understanding** or help us **improve communications**?



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Customer Sentiment

An alternative analysis



5 March 2018

Tools to look at customer sentiment

- Survey included options about free text answers to questions *'What do you like or dislike about your annual statement?'*
 - Positive and negative feelings expressed – how do we measure?
 - Analysed with deep neural network (trained to predict the next character in the text of Amazon reviews)
 - Learns to identify sentiment of text
 - Can be used even on small amounts of data
-

Sentiment value character by character

This is one of Crichton's best books. The characters of Karen Ross, Peter Elliot, Munro, and Amy are beautifully developed and their interactions are exciting, complex, and fast-paced throughout this impressive novel. And about 99.8 percent of that got lost in the film. Seriously, the screenplay AND the directing were horrendous and clearly done by people who could not fathom what was good about the novel. I can't fault the actors because frankly, they never had a chance to make this turkey live up to Crichton's original work. I know good novels, especially those with a science fiction edge, are hard to bring to the screen in a way that lives up to the original. But this may be the absolute worst disparity in quality between novel and screen adaptation ever. The book is really, really good. The movie is just dreadful.

Radford A, Sutskever I, et al, 2017 “Unsupervised sentiment Neuron System”
available at <https://blog.openai.com/unsupervised-sentiment-neuron/>

Customer sentiment in survey responses

'What do you like about your annual statement?'

(+1.11) [My provider] has done an excellent job for me with my SIP and I get full annual info from [my adviser] who provides my monthly income.

(+1.10) Clear and concise; everything I need on one page.

(-0.77) Nothing. Don't know enough

(-0.76) No, waste of paper

??? They are obliged to send them. Like is not a useful word in this context

Customer sentiment in survey responses

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(-0.76) No, waste of paper

(-0.67) They are obliged to send them. Like is not a useful word in this context

Overall sentiment +0.095

Customer sentiment in survey responses

‘What do you dislike or would change about your annual statement?’

(+0.45) Being jargon free; easier to understand

(-1.62) Too long and complicated and does not explain anything relevant in plain English

(-1.52) Waste of paper, for which I am paying.

??? Too lengthy; too wordy; too much legal waffle ; lay out very boring ; small font; incomprehensible explanations; poor definitions; too repetitive

Overall sentiment -0.096

Customer sentiment in survey responses

‘What do you dislike or would change about your annual statement?’

(+0.45) Being jargon free; easier to understand

(-1.62) Too long and complicated and does not explain anything relevant in plain English

(-1.52) Waste of paper, for which I am paying.

(-1.91) Too lengthy; too wordy; too much legal waffle ; lay out very boring ; small font; incomprehensible explanations; poor definitions; too repetitive

Overall sentiment -0.096

Digital fingerprint allows grouping of responses

Grouping (clustering) does not rely on customers using identical language, or even spelling correctly!

Example responses grouped together:

Easy to understand

'Easy to understand; informative'

'Clear;concise;up to date'

Value

'Clear about its overall value.'

'Comparisons of value now against 1 year previously'

Automated grouping of responses reveals themes

Key themes important to customers in communications

- I want it to be easy to understand (17%)
 - I want to know the value (6%)
 - Many customers don't have a view (77%)
-



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Conclusion and next steps

5 March 2018

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 – maybe more as they nearer to maturity
 - Consumers state 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 some evidence of a transition towards a preference for digital communications
 - Will evolve as younger generations engage with with-profits?
-

Next steps

- Second survey planned to get deeper understanding of with-profits customers
 - Use sentiment measures – including open questions with free text responses, like a product review on an e-commerce website
 - Grouping allows meaningful analysis of unprompted replies
- Inviting companies to participate
 - Potential for benchmarking
- Engagement with FCA

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



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.

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

- **Chair:** Tim Bateman (Mazars LLP) tim.bateman@mazars.co.uk
- **Deputy Chair:** Jonathan Welsh (Wesleyan) Jonathan.Welsh@wesleyan.co.uk
- **Secretary:** Ben Stroud (ReAssure) Ben.Stroud@reassure.co.uk

Further working party details, including our Life Conference 2017 and CILA 2017 presentations can be found here:

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

Working party members:

- **Chair:** Tim Bateman (Mazars)
- **Deputy Chair:** Jonathan Welsh (Wesleyan)
- **Secretary:** Ben Stroud (ReAssure)
- Andrew Fraser (Standard Life)
- *Rebecca MacDonald¹ (PwC)*
- Kris Overlund (PwC)
- Rosalind Rossouw (Sun Life Financial of Canada)
- Ross Thompson (Standard Life)
- Catherine Thorn (Prudential)
- Catherine Zhang (Abbey Life)

Contributors

Our special thanks go out to the following contributors to Phase 1:

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



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Appendix

23 November 2017

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?

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?

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)?

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?

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?

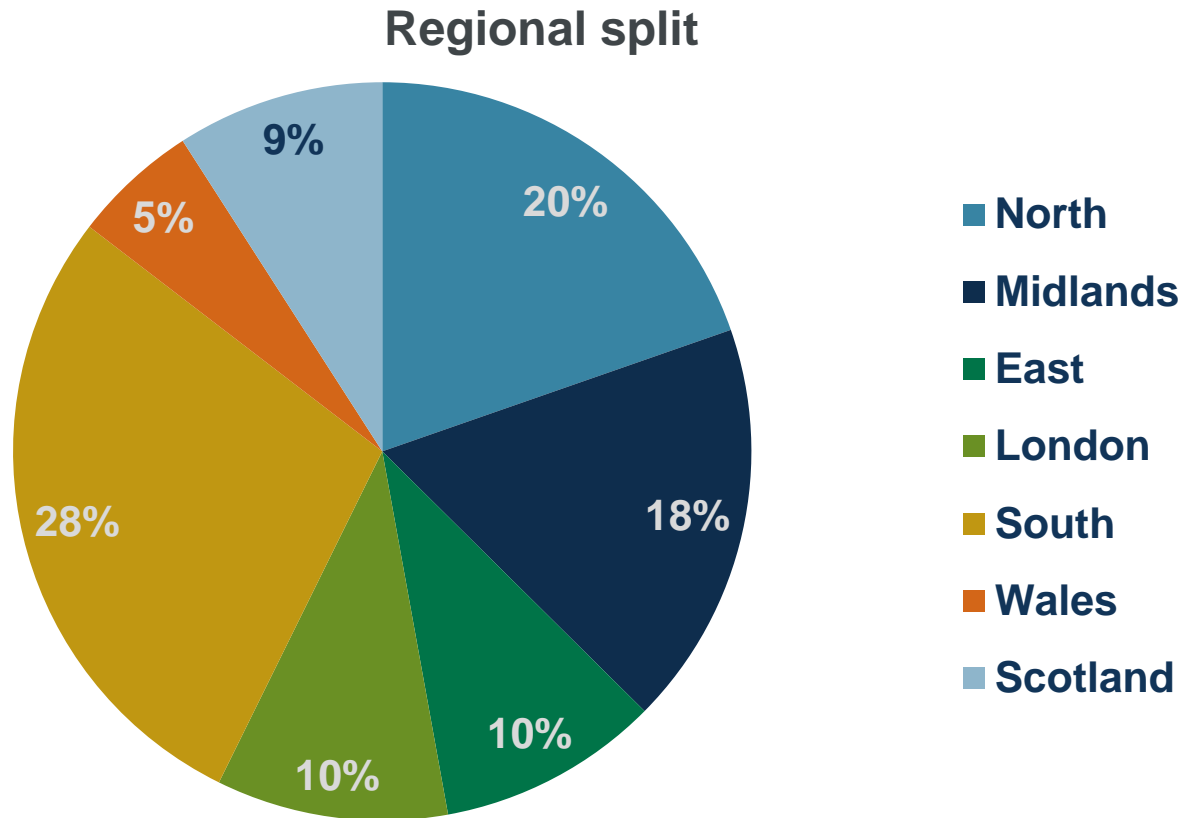
Survey questions

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)?

Survey population

With-profits financial product (sample size 473)



Key Survey Results

Hold to Maturity?

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

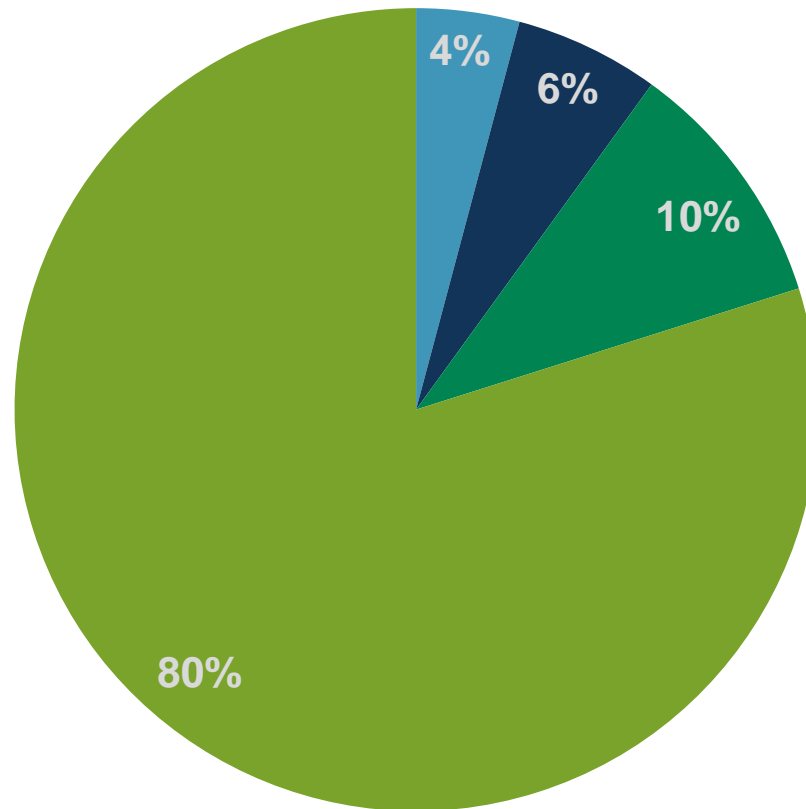
A. 50%

B. 65%

C. 80%

Key Survey Results

Hold to Maturity?



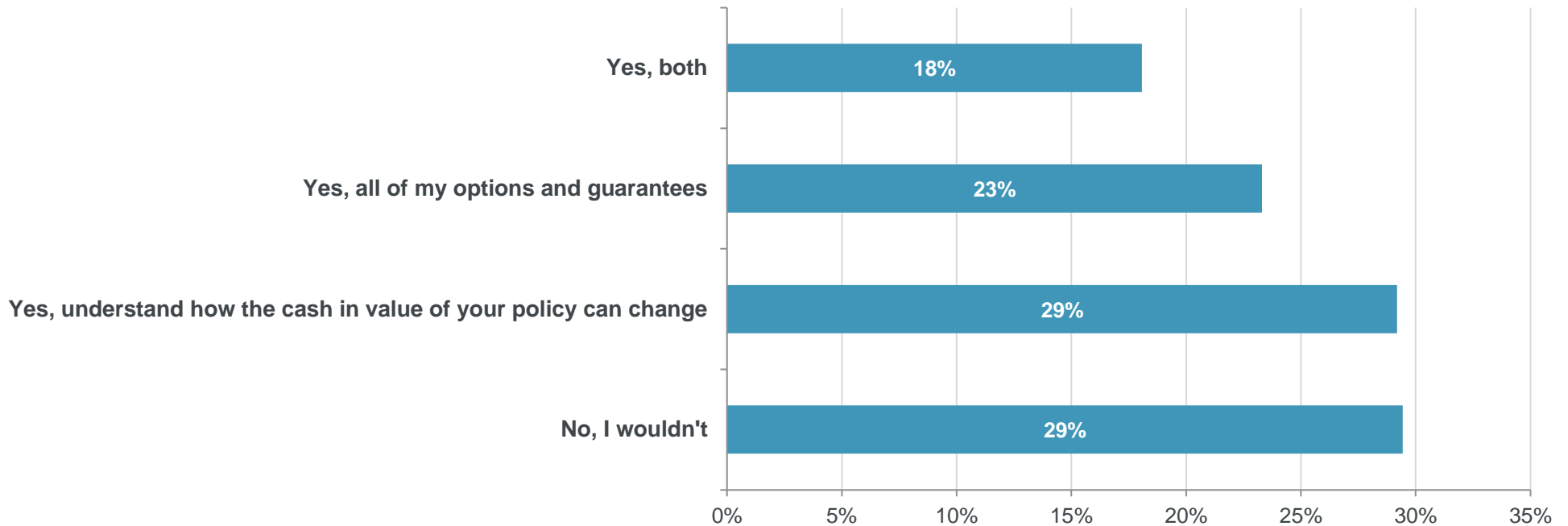
“Don't take too much notice to be honest, I just pay into it waiting for it to mature”

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

Key Survey Results

Cash in value

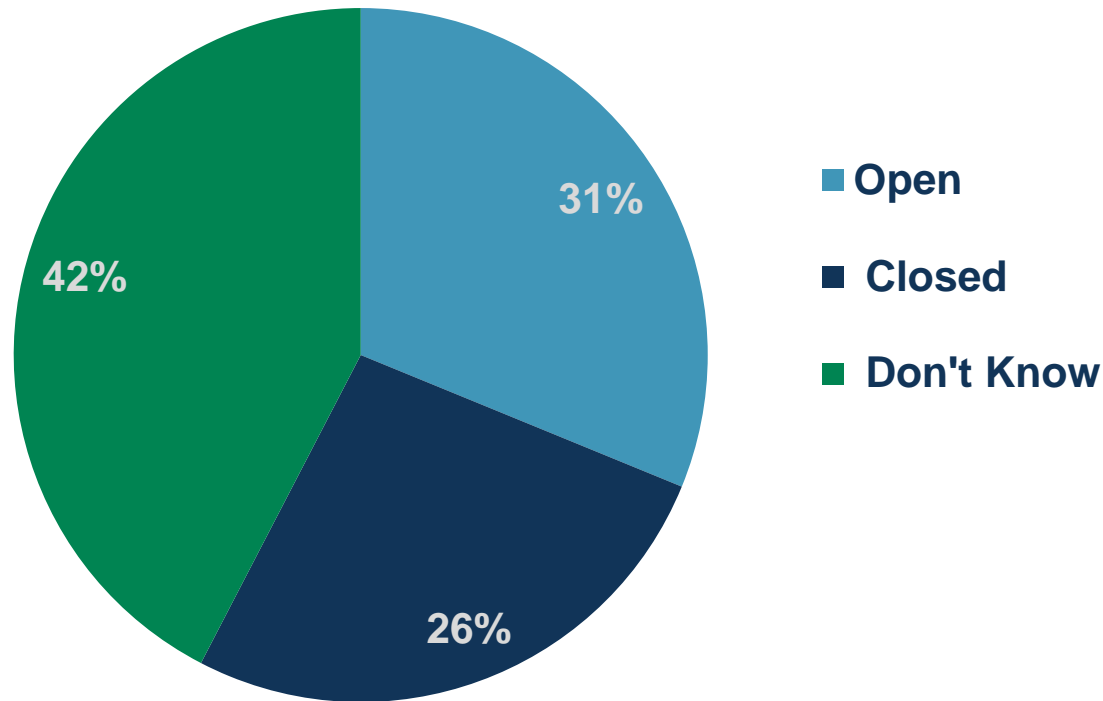
Would you say you would know all of your **options and guarantees** and understand how the **cash in value** of your policy can change?



Key Survey Results

Open or Closed

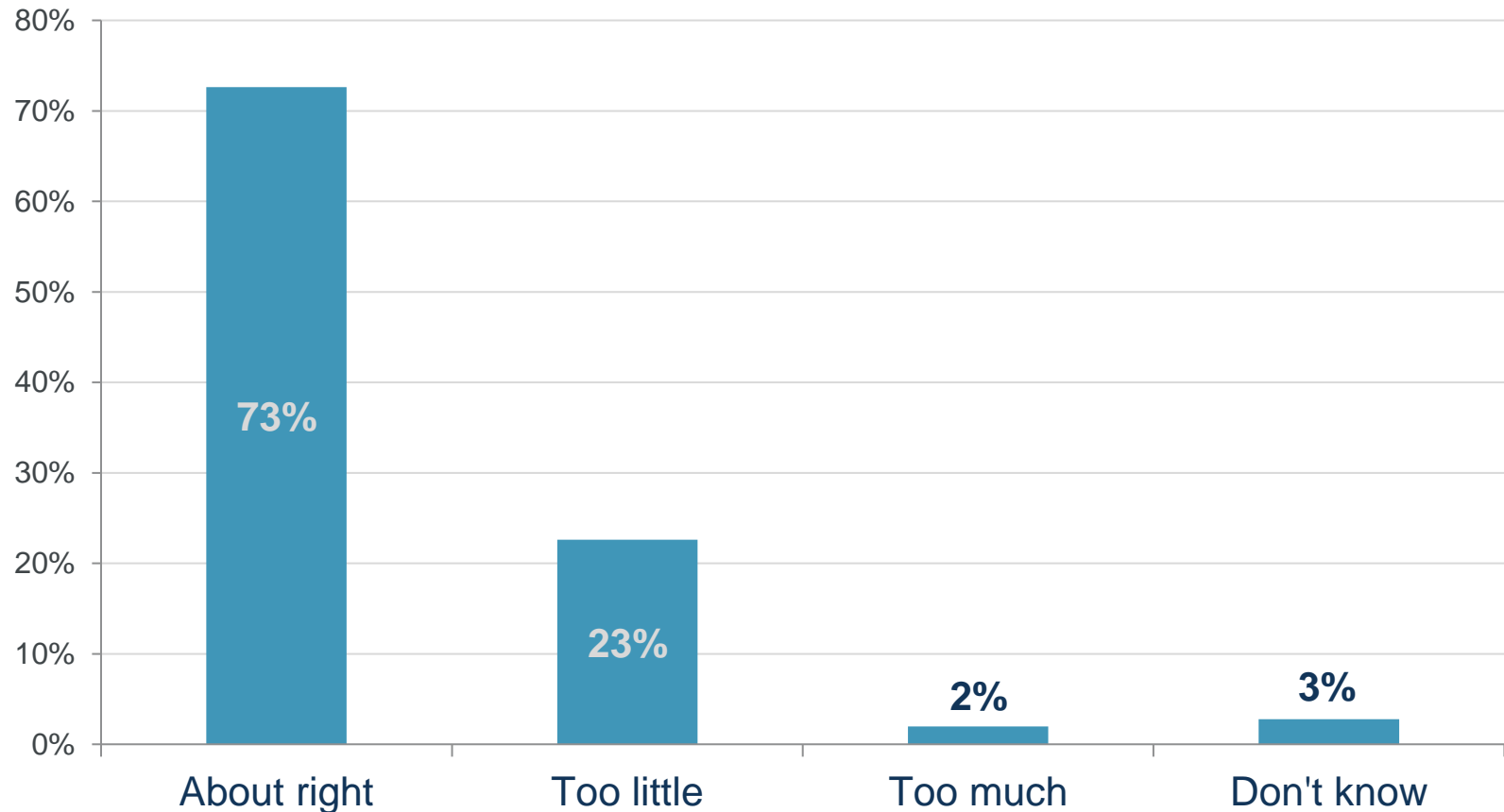
Is your with-profits product **open or closed?**



Key Survey Results

Engagement

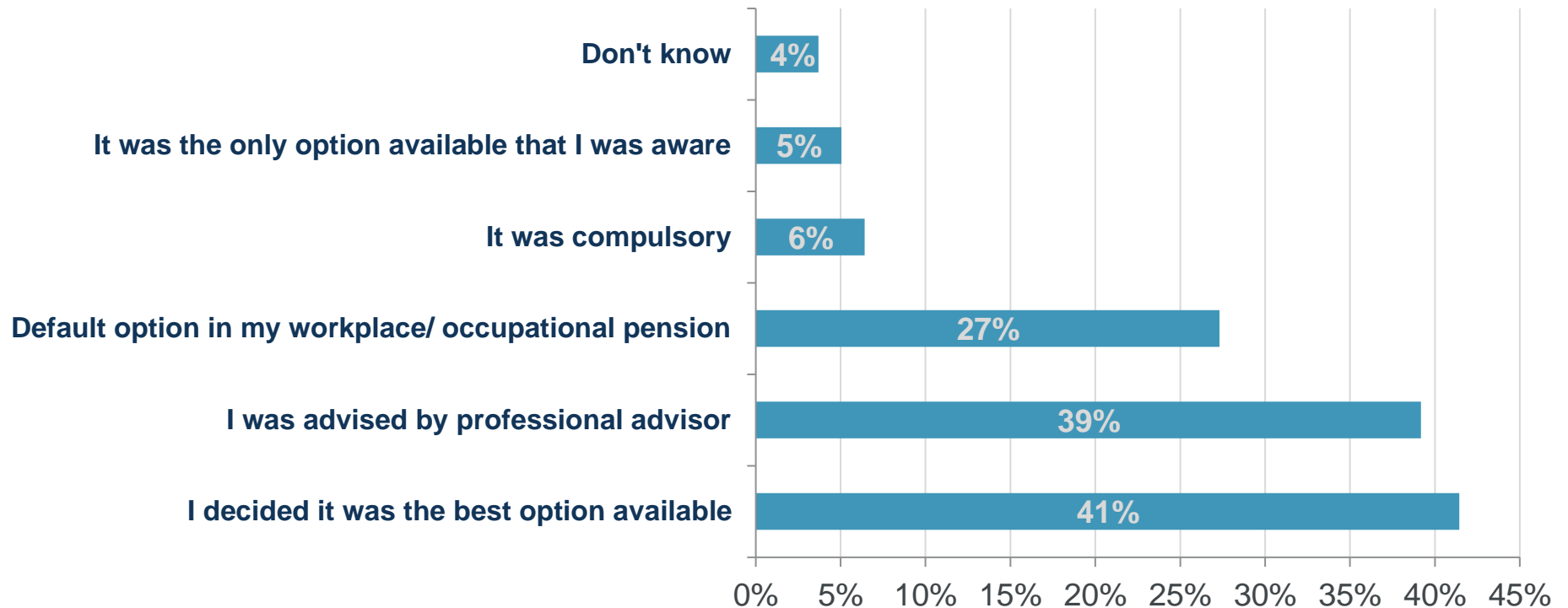
Financial Statements Received



Key Survey Results

Engagement

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

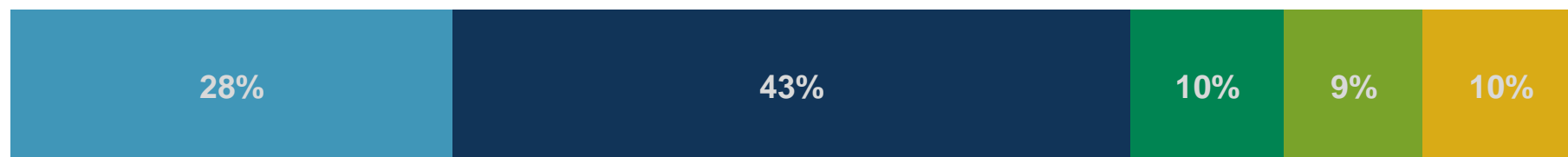


How often do consumers want information?

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

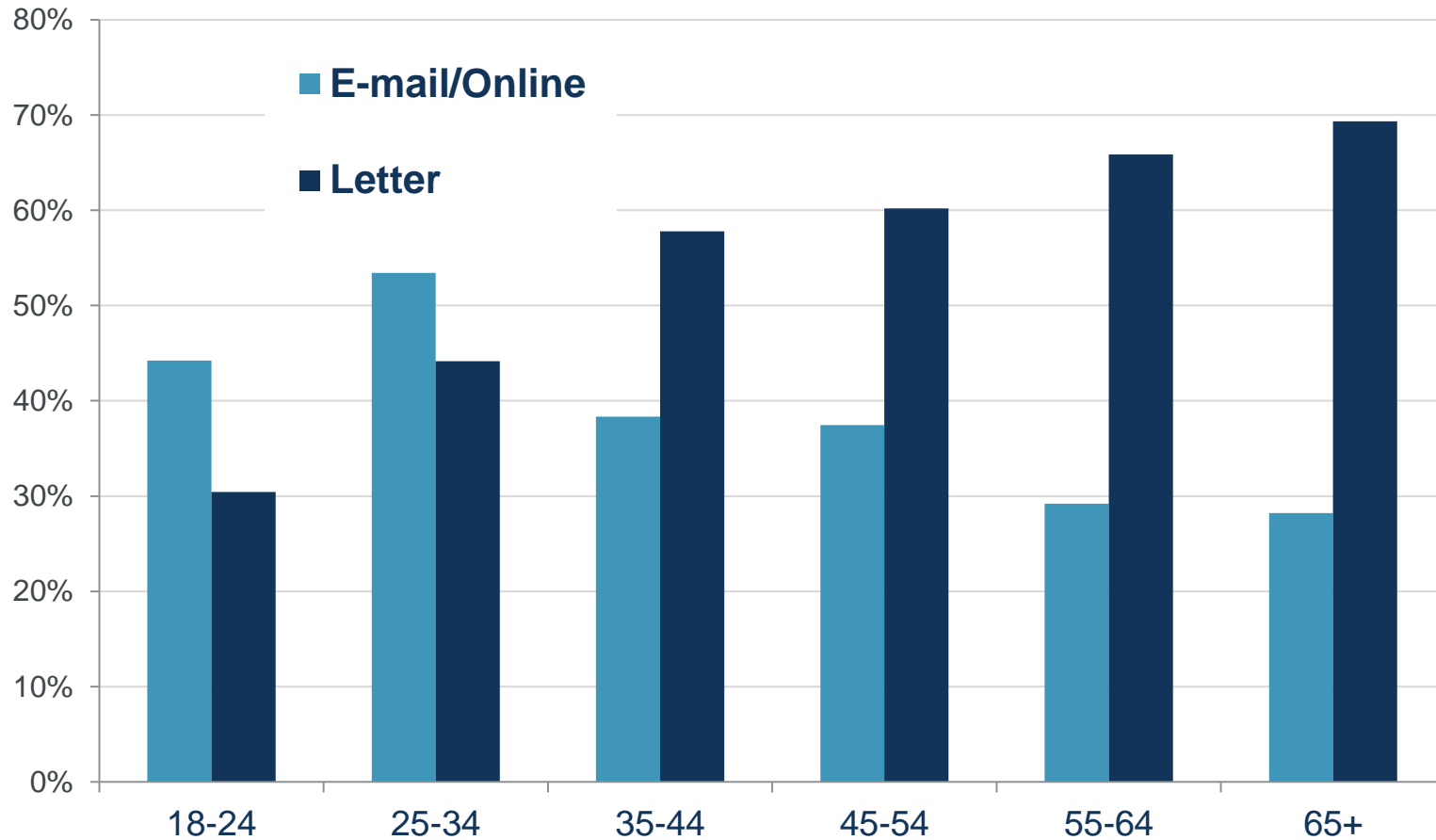
■ Less than once every 5 years / never

■ Don't know

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

Key Survey Results

Correspondence



Identifying the problem

With-profits annual benefit statements...

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

Identifying the problem

Provide lots of 'useful' information

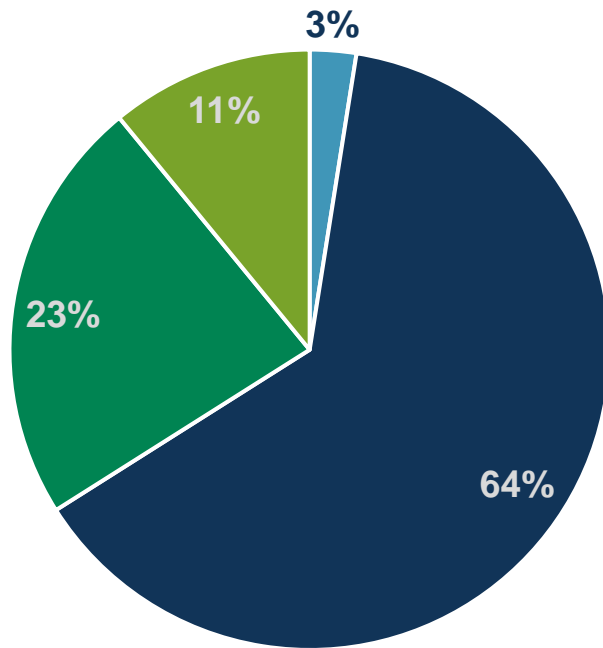
Q: How much information do you receive for your policy?

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

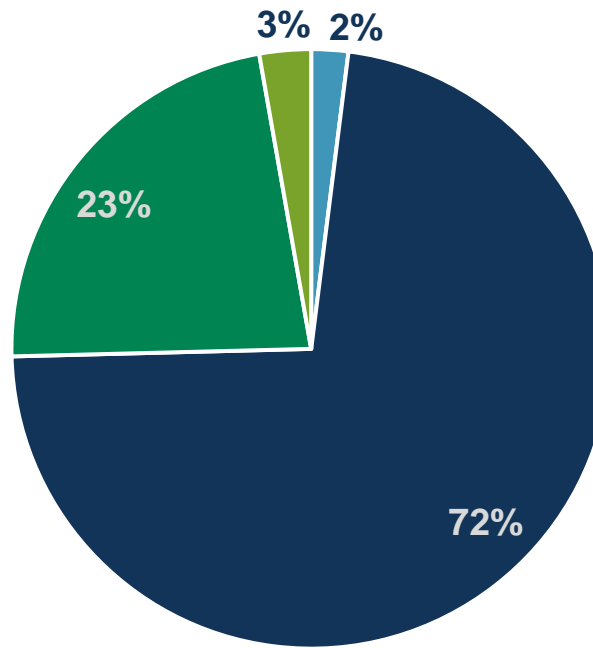
Identifying the problem

Provide lots of 'useful' information

All policyholders



With-profits policyholders



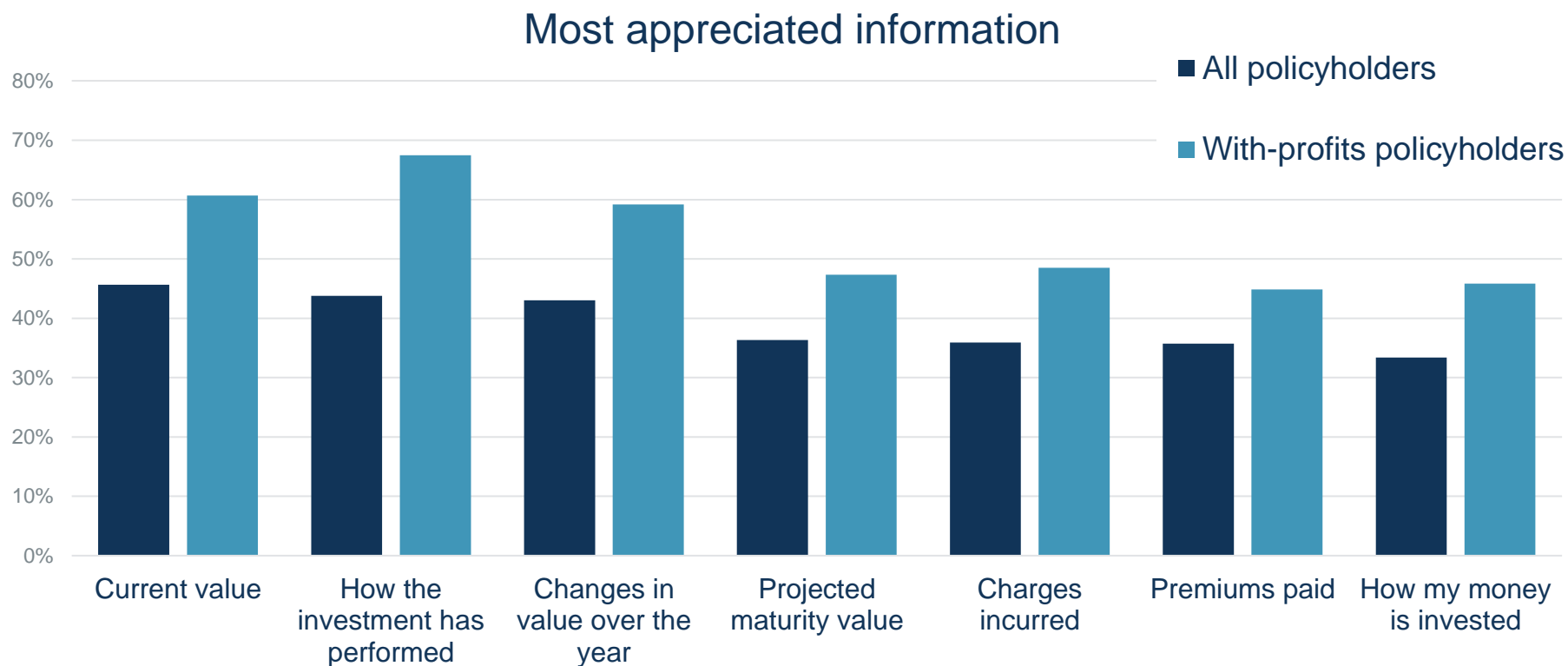
- I receive too much information
- **The amount of information is about right**
- I receive too little information
- Don't know

Policyholders think it is 'about right'

Communications

Identifying the problem

Provide lots of **'useful'** information



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

Identifying the problem

“smoke and mirrors”

I feel my money is “safe”

too repetitive

“should not assume
the reader is an idiot”

“Keep it short,
snappy and true”

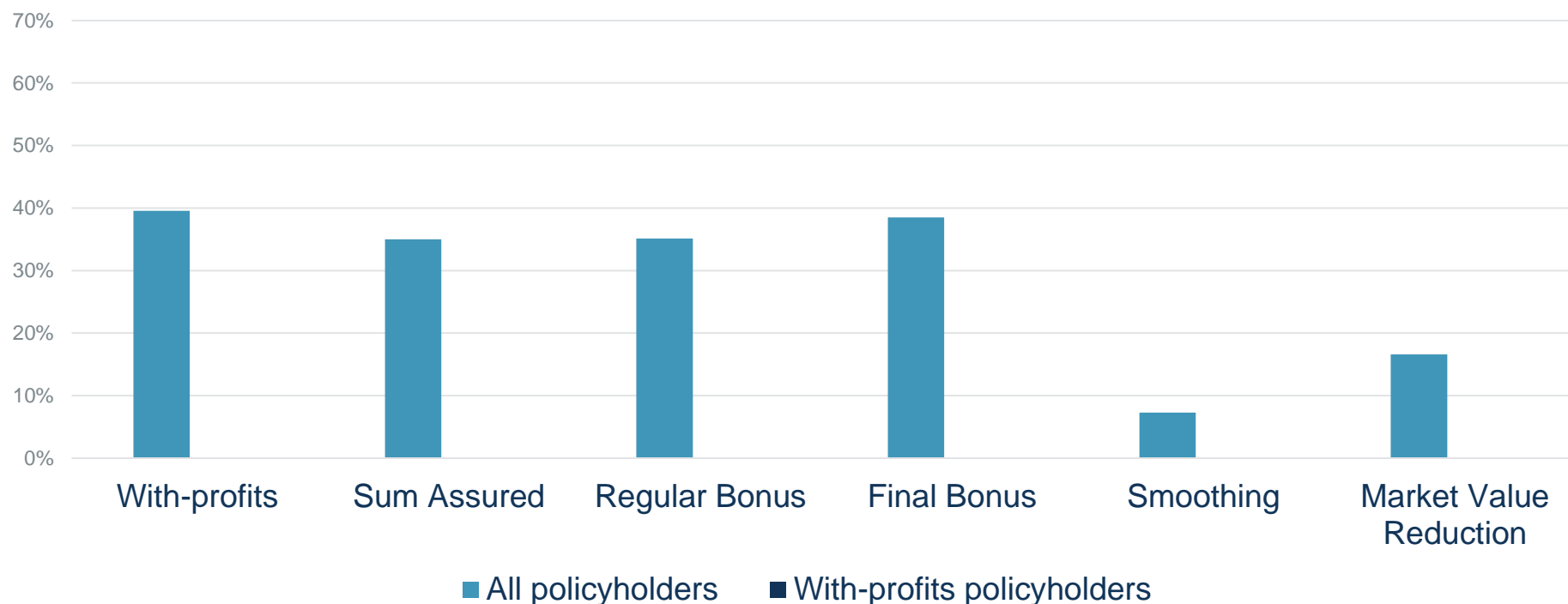
“layout very boring”

*“table after table of figures
that don't seem to mean
much”*

Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ...

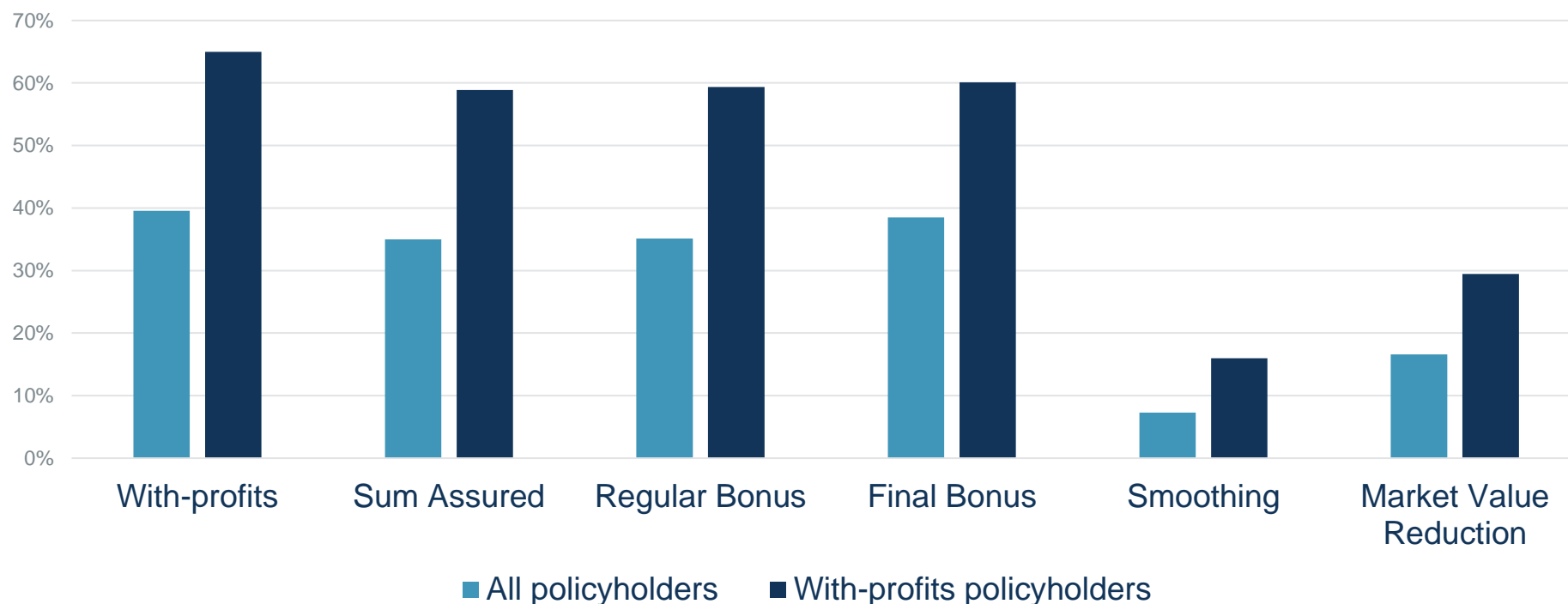
Understanding of with-profits terminology



Consumers understanding of terminology

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

Understanding of with-profits terminology



Consumers understanding of terminology

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

Understanding of with-profits terminology

