

Consumer Understanding



Cars are complex. Consumers don't need to know the inner workings, just some basic information to ensure it meets their needs, along with the comfort that it has a regular MOT / Service from a professional.



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Value of with-profits for consumers

Working party update

Tim Bateman (Chair), and
Ben Stroud



Working party members:

- **Chair:** Tim Bateman (Mazars)
- **Deputy Chair:** Jonathan Welsh (Wesleyan)
- **Secretary:** Ben Stroud (ReAssure)
- Kris Overlunde (PwC)
- Rosalind Rossouw (Sun Life Financial of Canada)
- Ross Thompson (Standard Life)
- Catherine Thorn (Prudential)
- Catherine Zhang (Abbey Life)
- *Andrew Fraser (Standard Life) – till May 2018*
- *Rebecca MacDonald (PwC) – till July 2017*

Agenda

The value of with-profits for consumers working party.

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

Background & Survey Methodology

- Tim Bateman – Mazars

Customer Engagement & Sentiment

Ben Stroud – ReAssure

Conclusion & Next Steps

- Tim Bateman – Mazars



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Background

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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

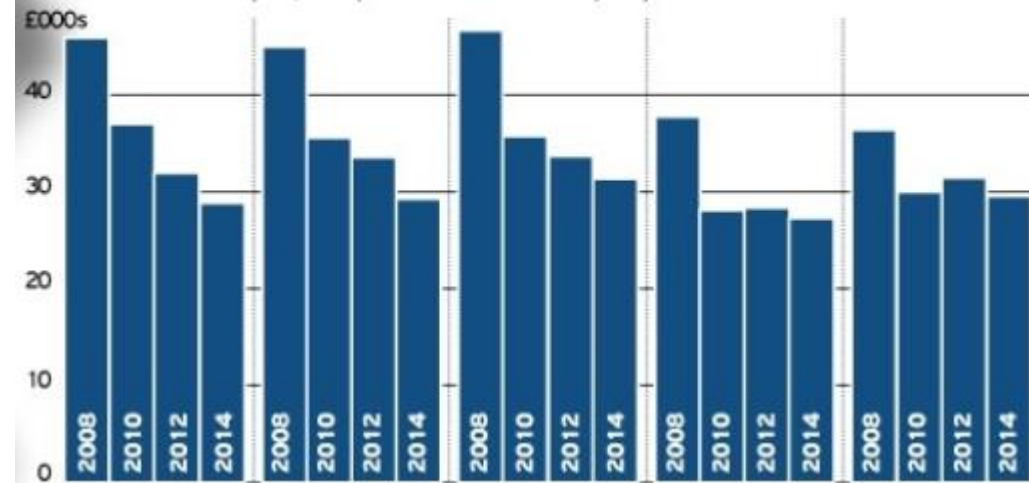
www.thisismoney.co.uk – 12 July 2016

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

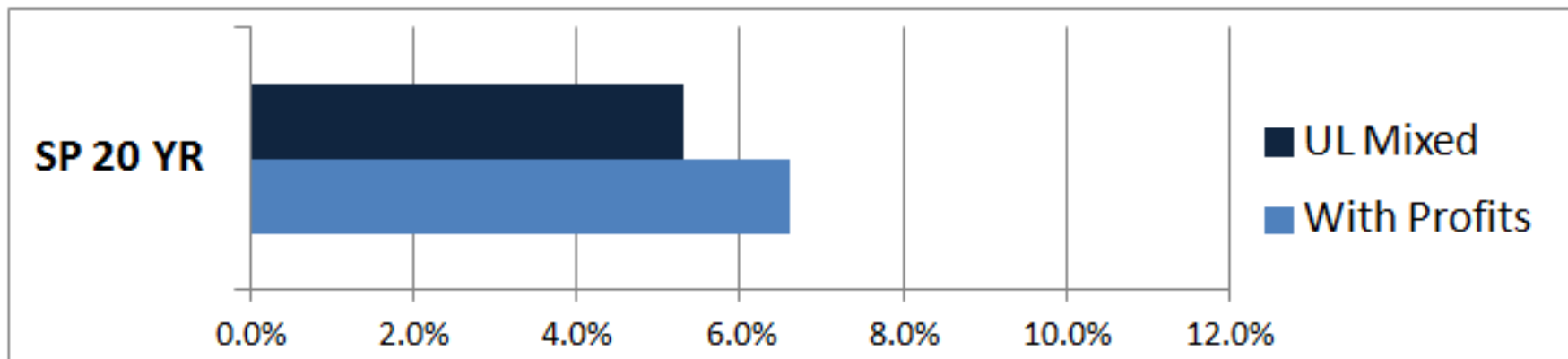
The final value of a 25-year, £50-per-month endowment policy when it matured in...



The Telegraph – March 2014

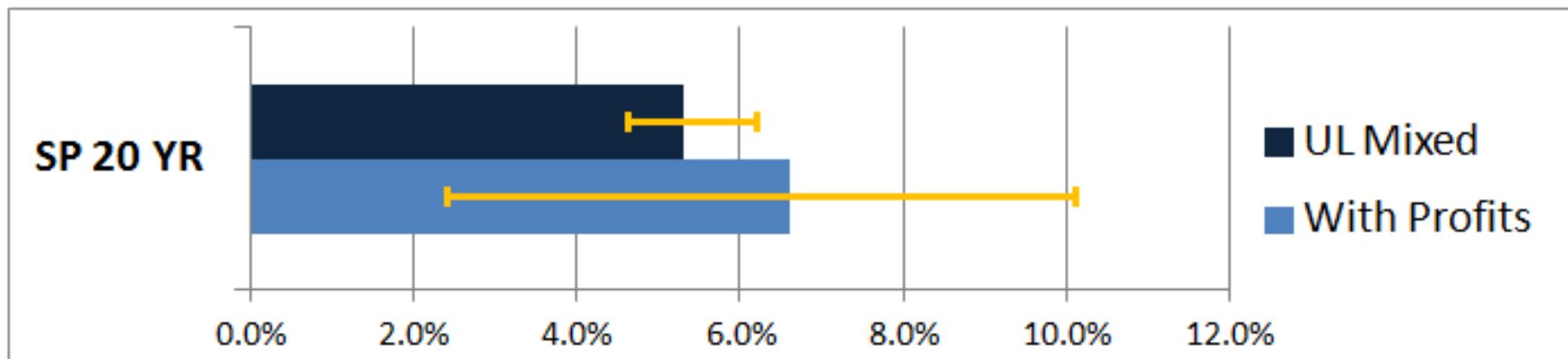
With-profits funds have performed comparably to similar unit-linked funds...

Single Premium Pensions – 20 Year Return Comparison



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

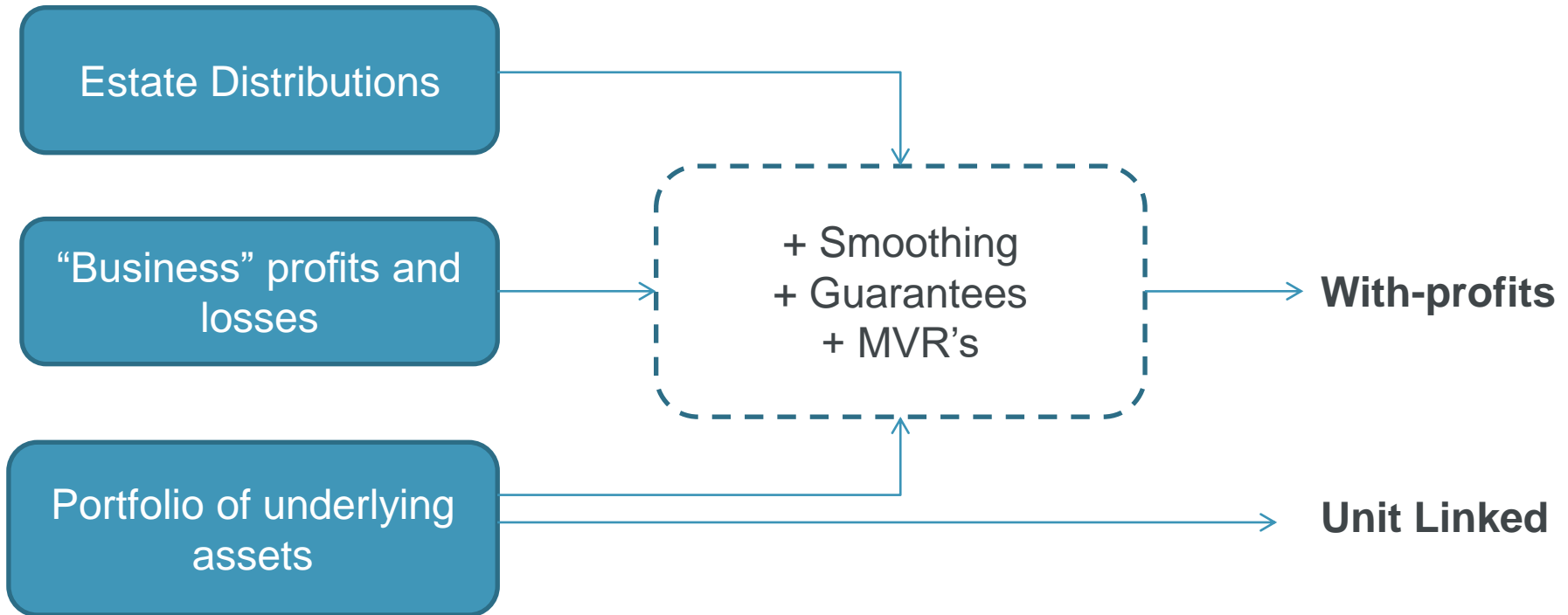
Single Premium Pensions – 20 Year Return Comparison



... But performance varies by fund

And “performance” depends on customer expectation

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



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

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
- 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 Methodology

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Survey methodology

- **Online survey** carried out by **YouGov**
- Fieldwork was undertaken between 2nd – 6th November 2017
- **Single/Multiple choice** questions & **open-ended** questions
- 19 questions if has **at least one financial product** + another
16 questions if has a **with-profits policy**
- Final data is statistically weighted to the national profile, and split by categories, e.g. age, gender, social groups

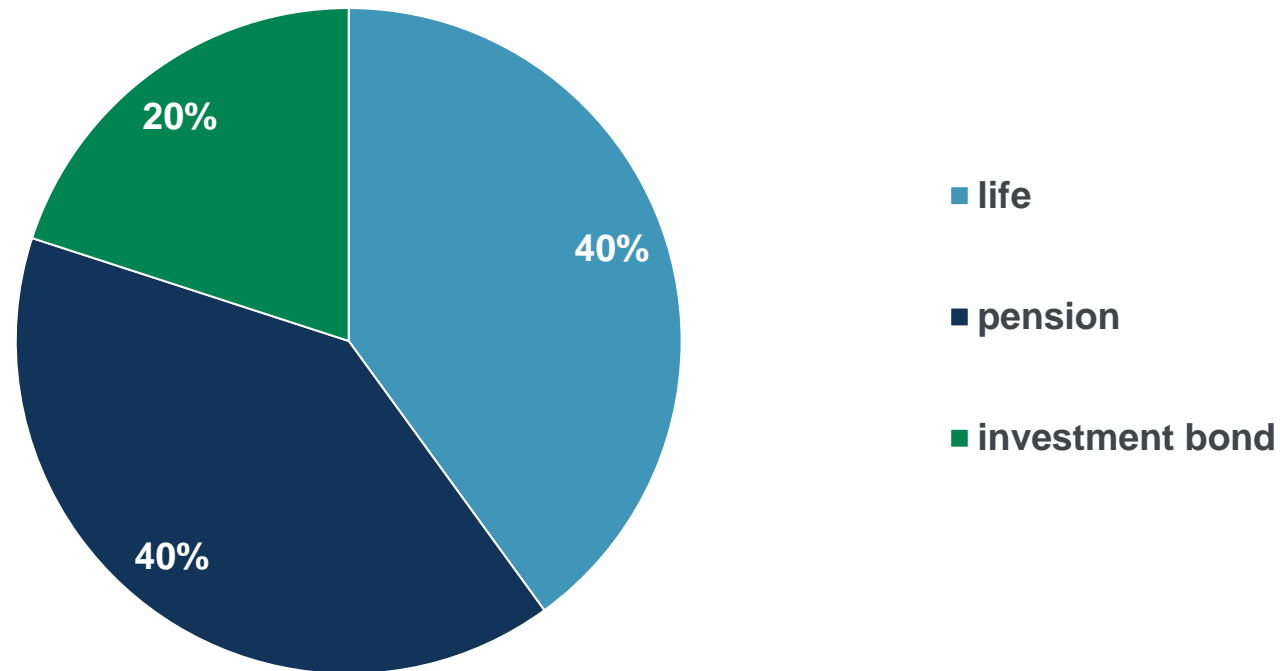
Survey – Representative sample

- Numbers of respondents:
 - Total: 4,585
 - At least one financial product: 2,851
 - **With-profits product: 473 (17%)**

Survey population

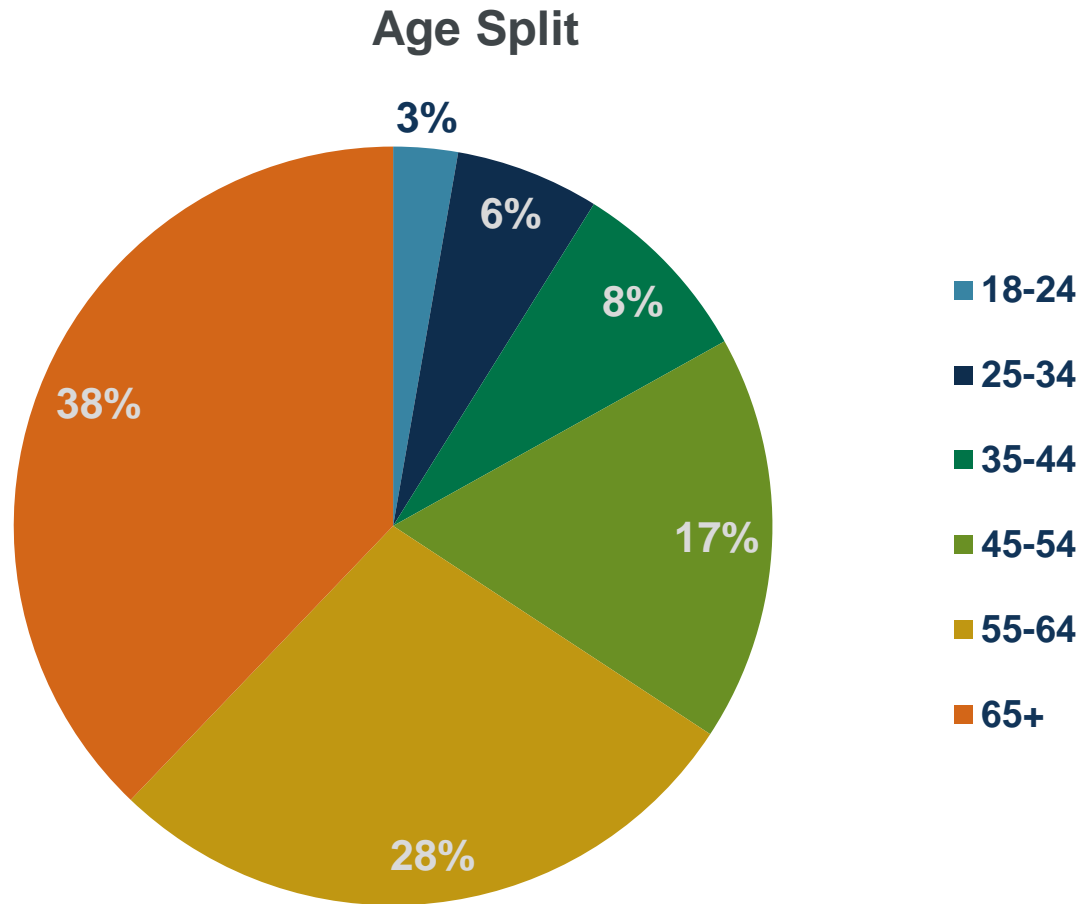
With-profits financial product (sample size 473)

Product Type Split



Survey population

With-profits financial product (sample size 473)





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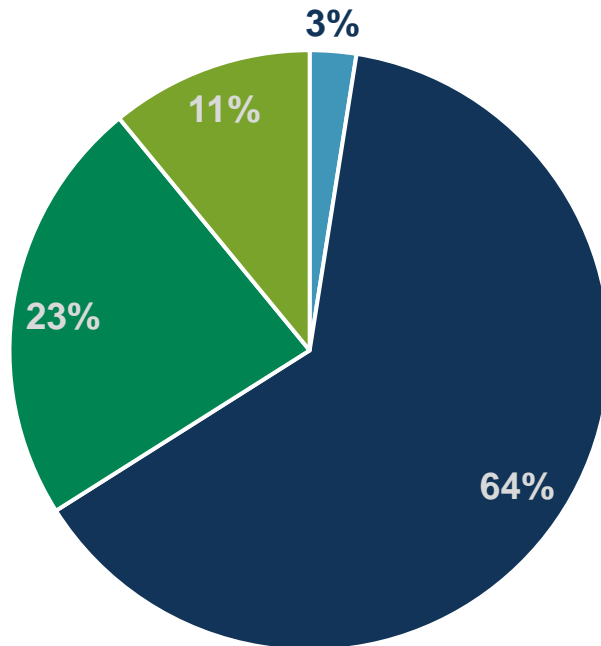
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Results Overview

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How much information do consumers want?

All policyholders



Higher or Lower

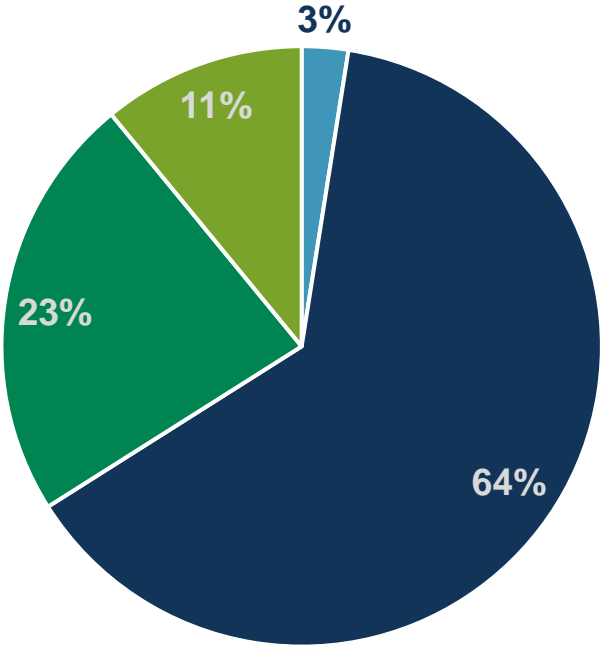
How about with-profits policyholders?

Is the proportion who think the amount of information is about right Higher or Lower than for all financial customers?

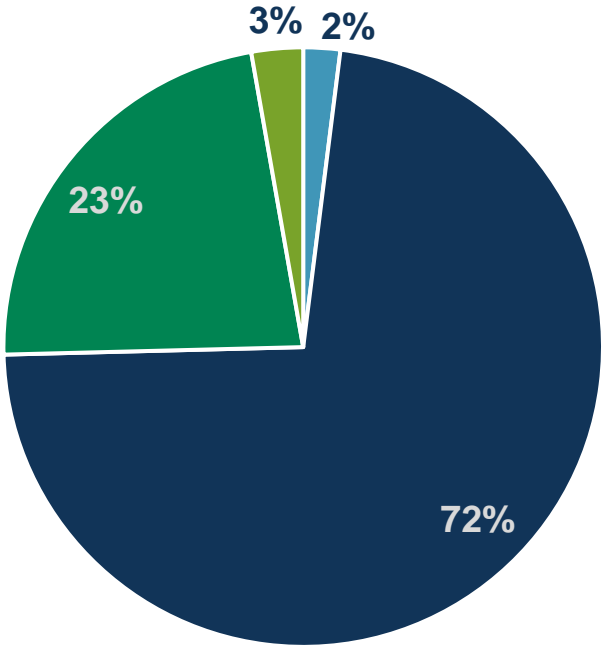
- I receive too much information
- The amount of information is about right
- I receive too little information
- Don't know

How much information do consumers want?

All policyholders



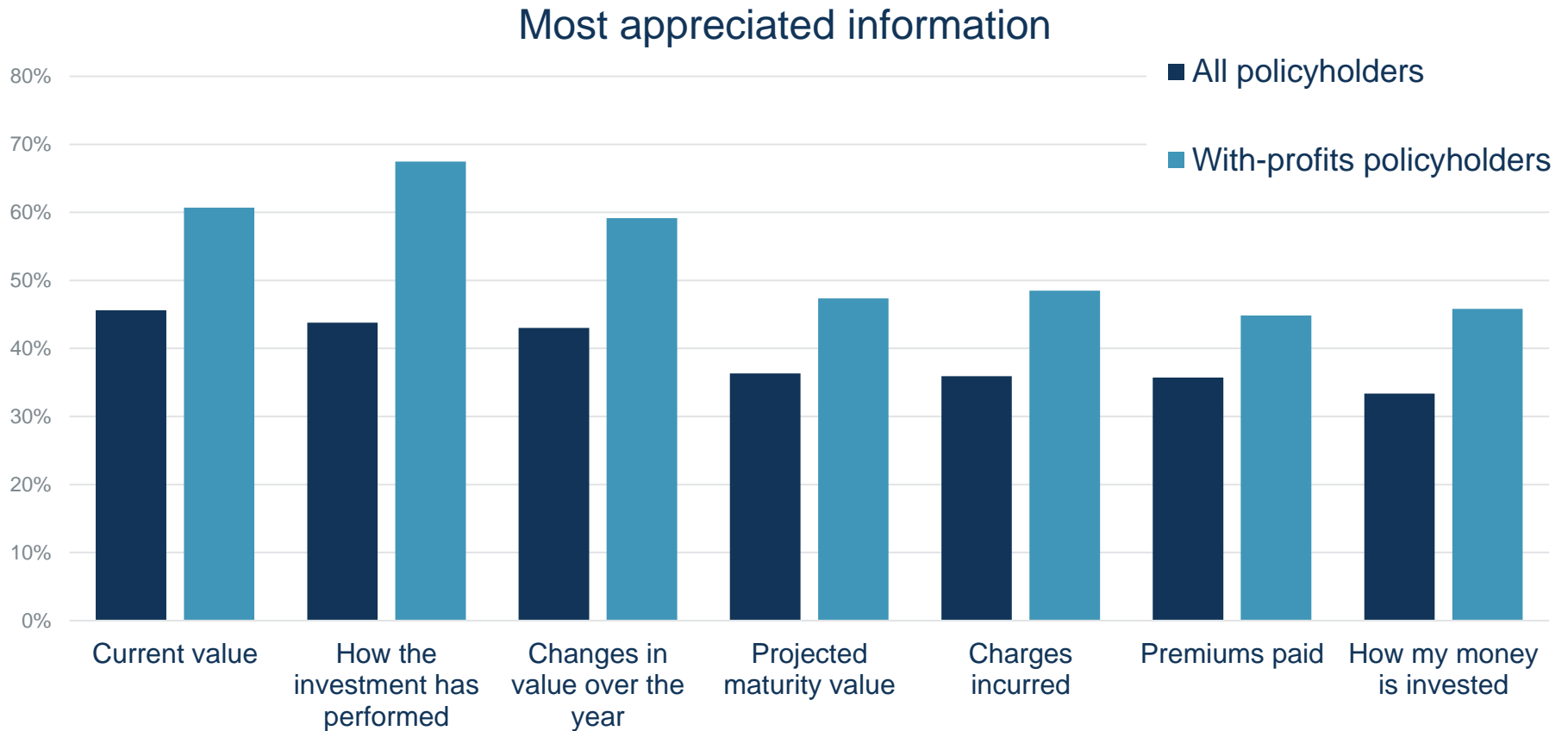
With-profits policyholders



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

Higher !

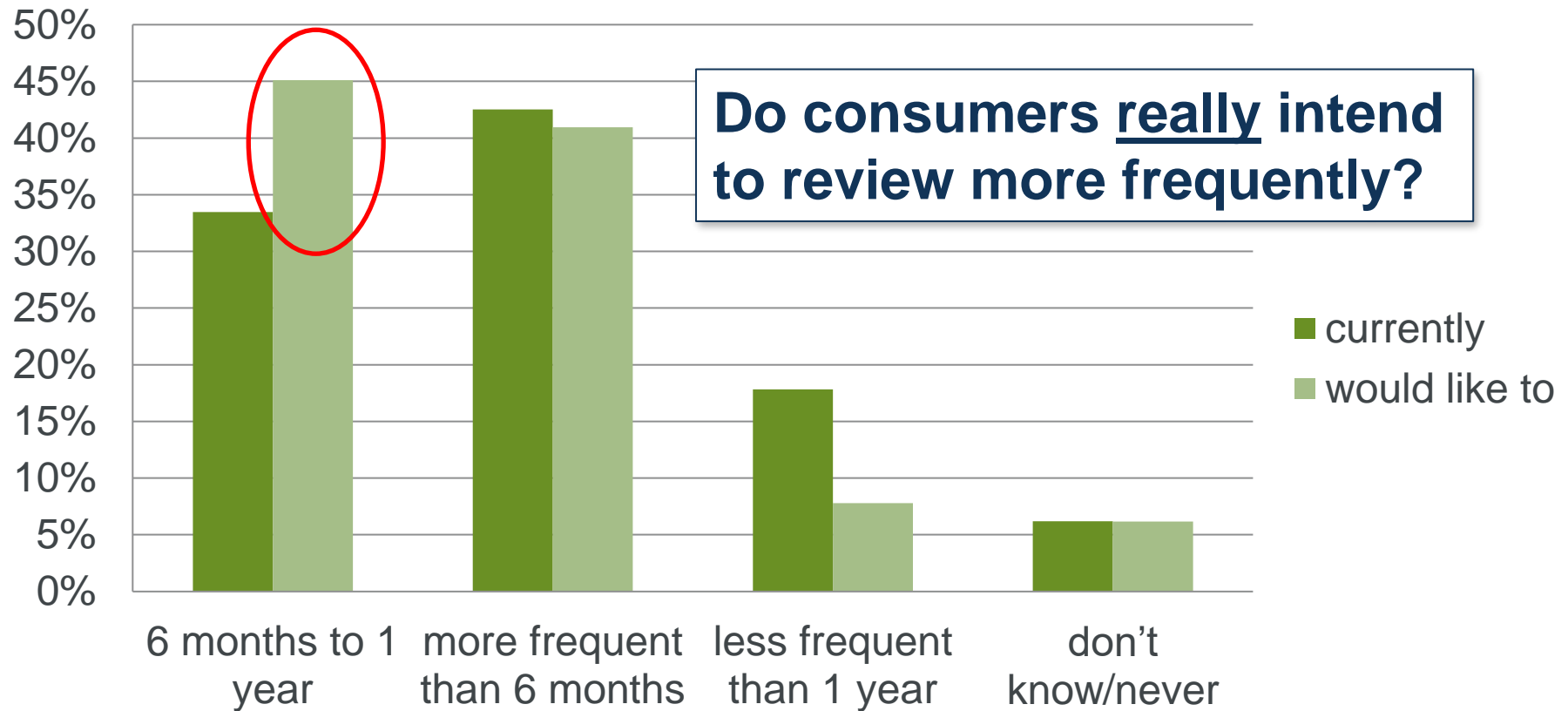
What information do consumers want?



With-profits policyholders want the **‘difficult to provide’** information

How often do/would consumers review their financial product? (with-profits policyholders)

Review Frequency





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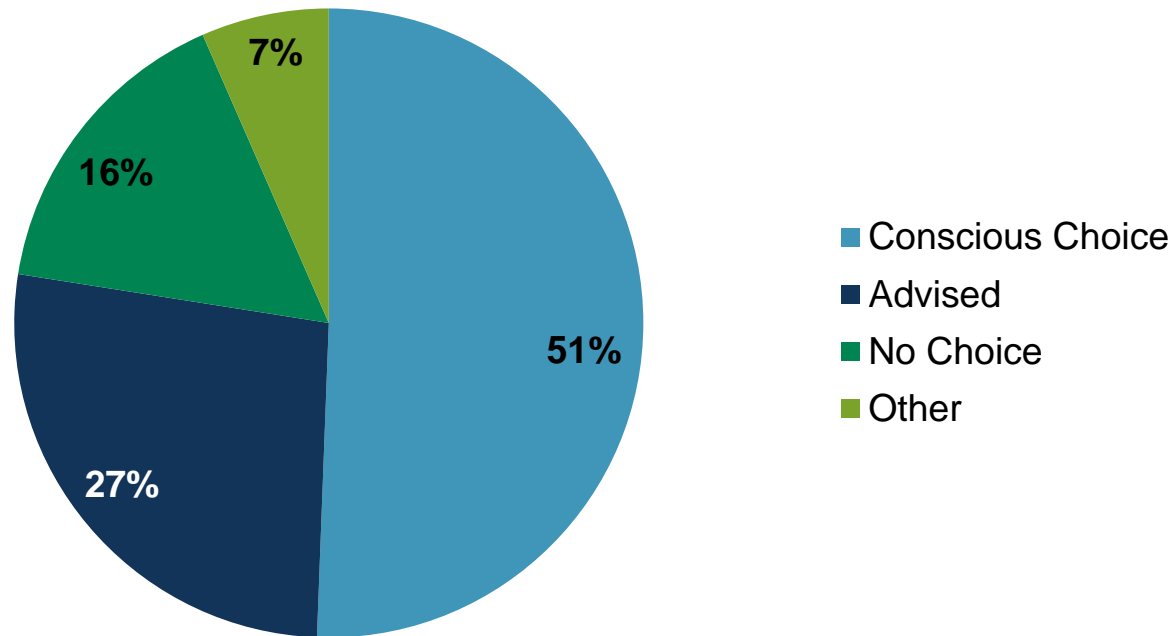
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Customer Engagement

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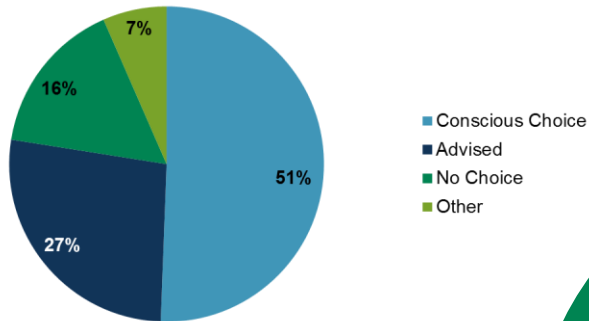
Why with-profits?

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

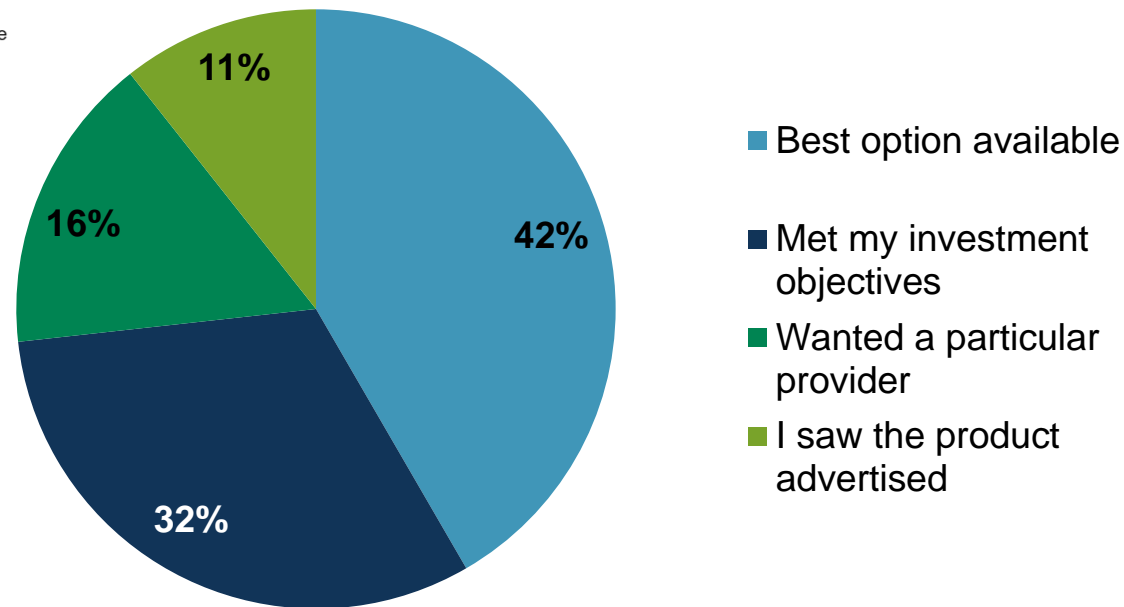


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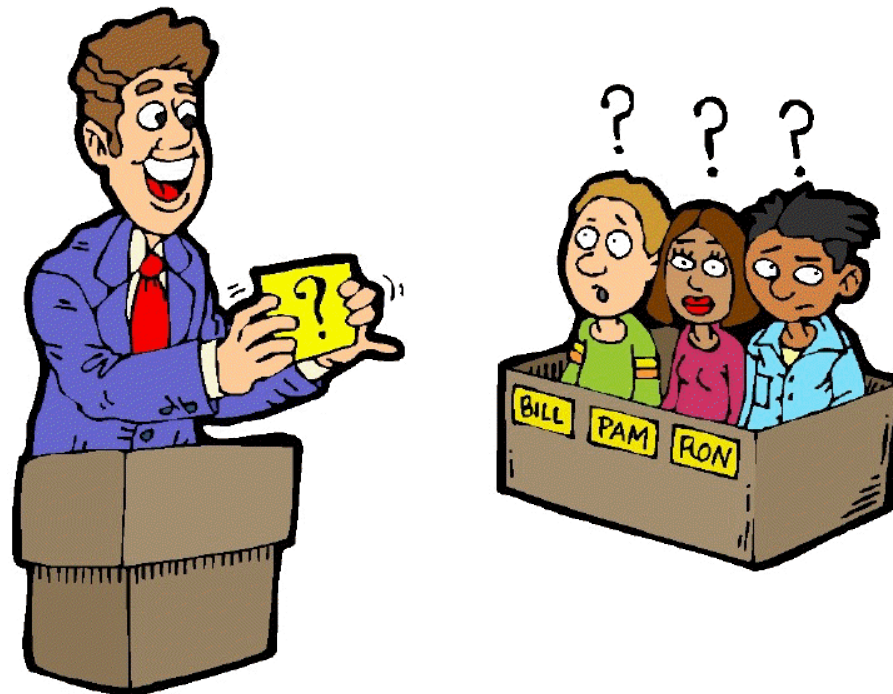
Conscious Choice responses in more detail:



Customers appear to have been engaged with the product originally!

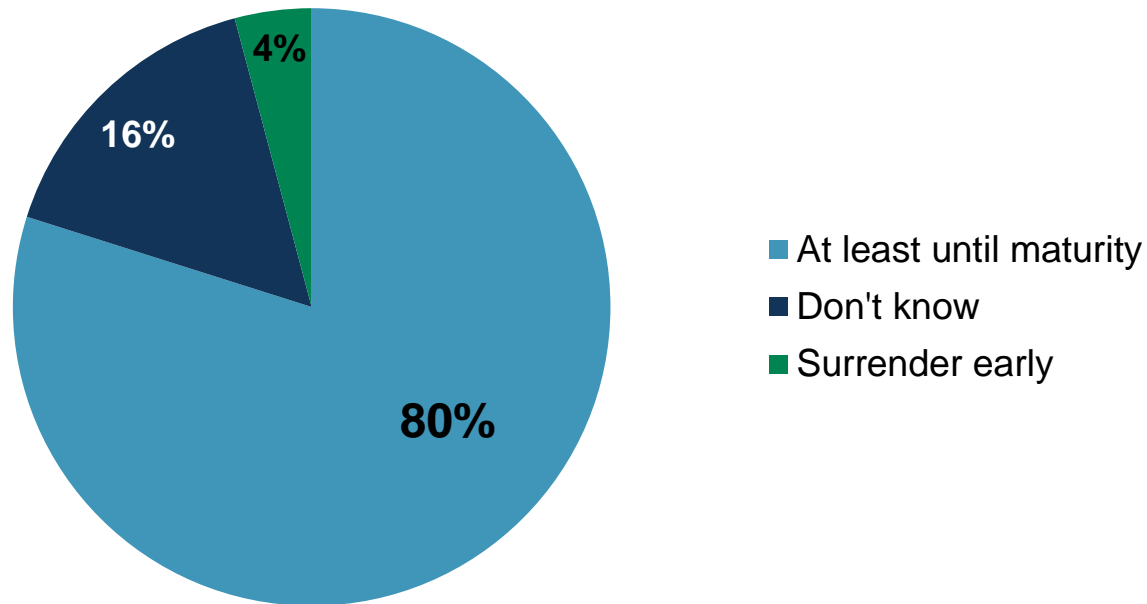
Customer loyalty / apathy?

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?

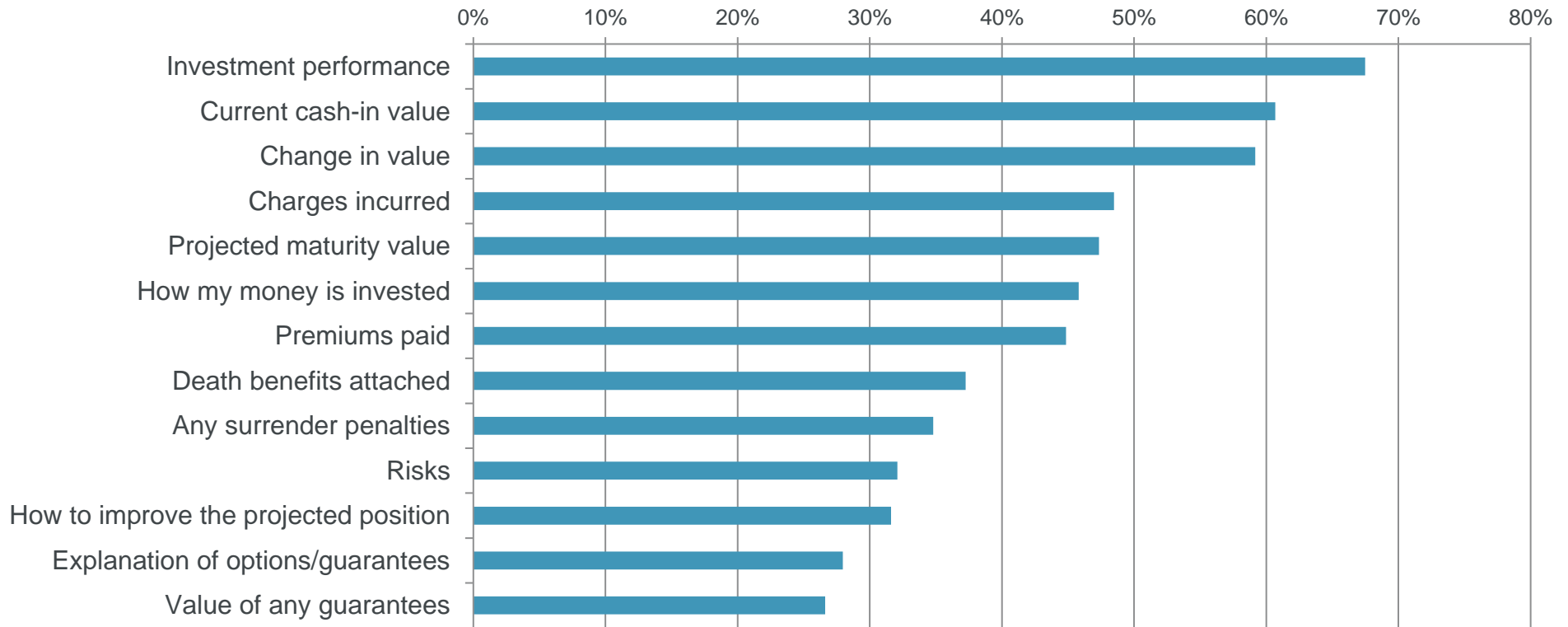
Customers were asked how long they were likely to hold on to their with-profits product ... Any guesses how many would stay until/after maturity?



Is this customer loyalty or apathy?

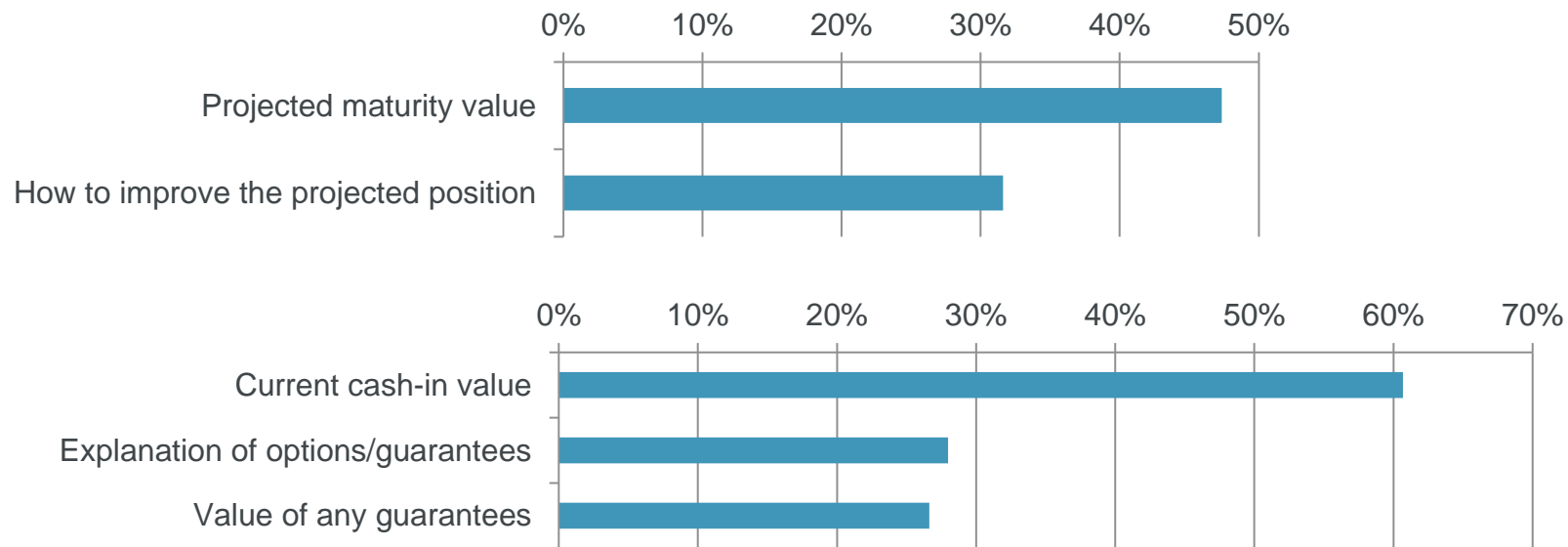
Are customers engaged?

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



Are customers engaged?

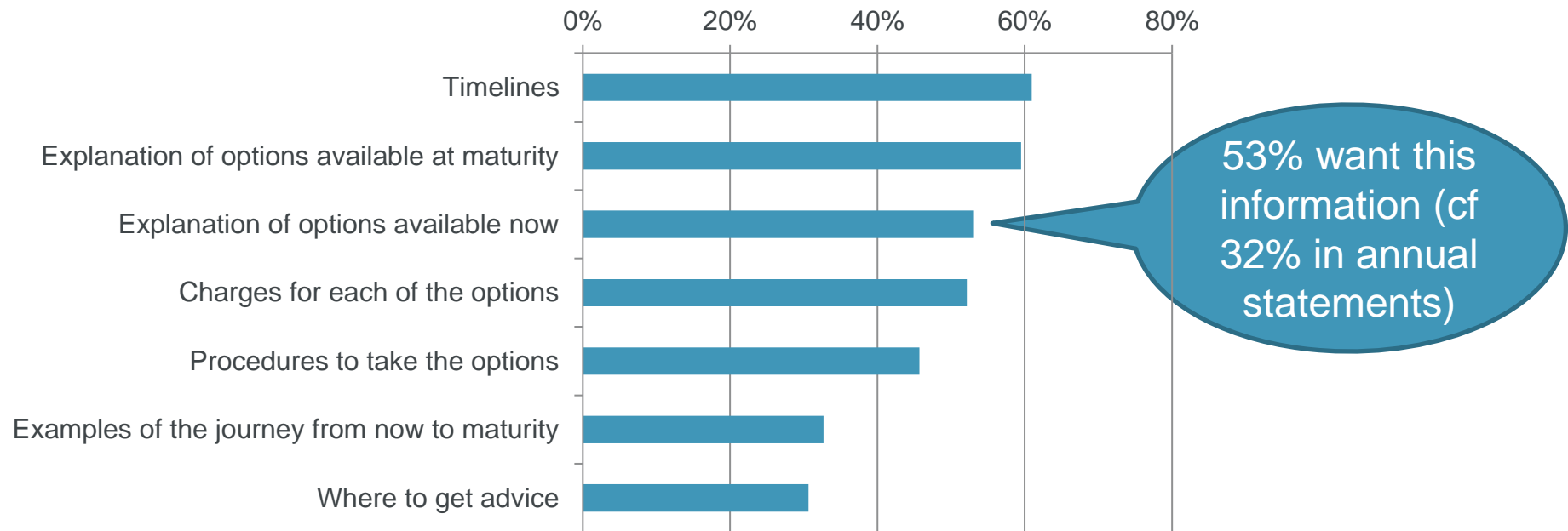
Customers were asked what info they would like to receive **in annual statements**



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?

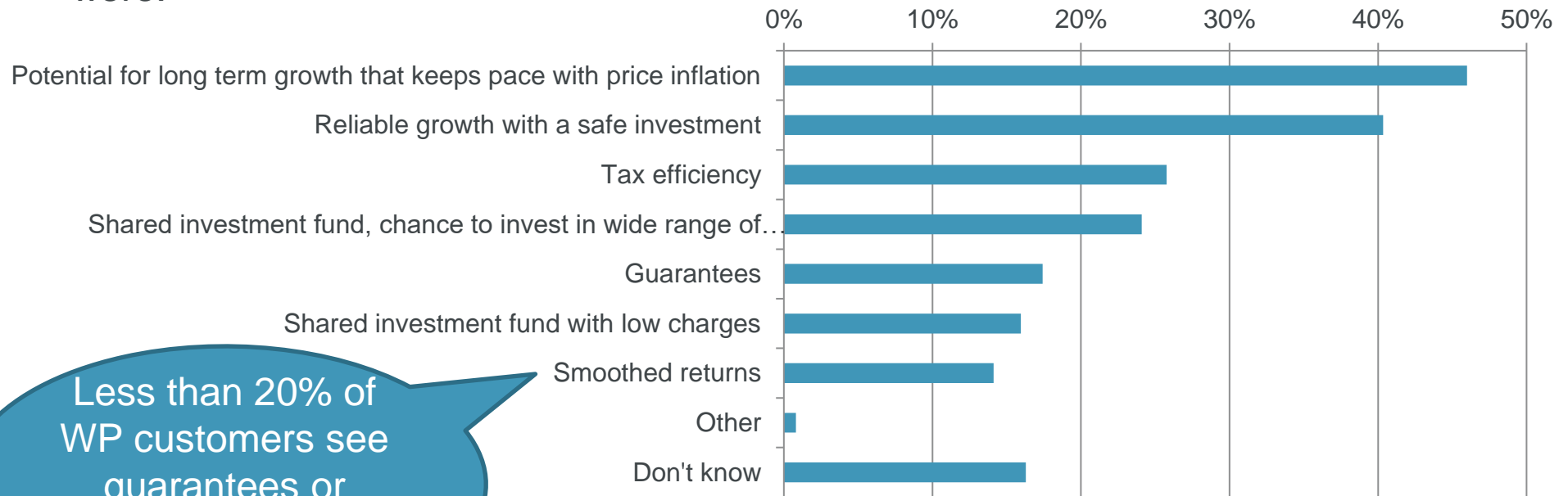
Customers were then asked what info they would like to receive **when approaching maturity**:



Suddenly customers become interested in what they can do about it
But it could be too late.

Customer understanding - Benefits

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

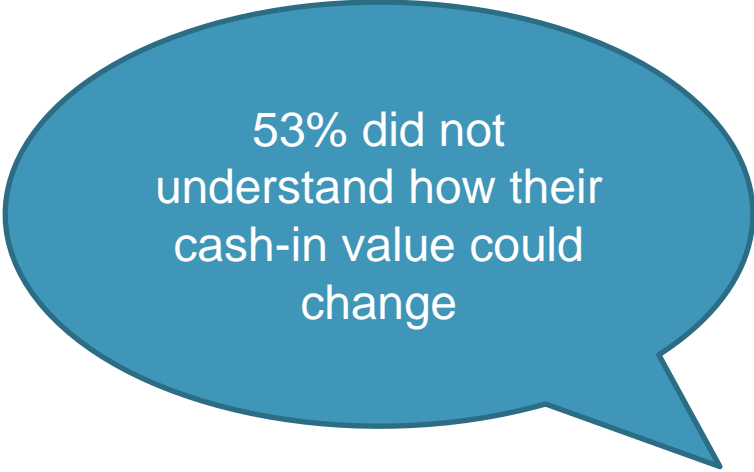


Less than 20% of WP customers see guarantees or smoothing as a benefit!

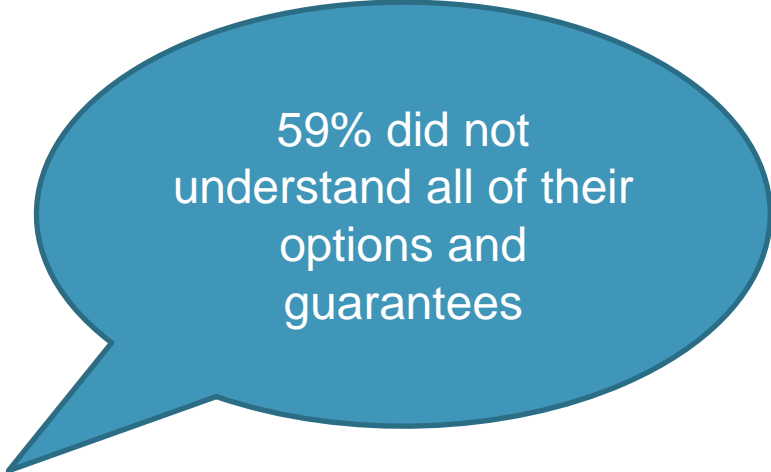
Guarantees and smoothing are two of the main benefits of with-profits over other investment types. Are we so out of line with customers' thinking?

Customer understanding – Value and Options

Customers were asked if they understood how the cash-in value of their with-profits 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?

Understanding of the options available doesn't increase with age

What do customers value about with-profits?

- Conscious purchase to hold till maturity
- Limited understanding of smoothing and guarantees
- Short term focus

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



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Tool to look at customer sentiment

- Survey included freeform text responses *'What do you like or dislike about your annual statement?'*
- Neural network used to measure sentiment
- Able to group responses into themes

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

(-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

Customer sentiment in survey responses

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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'

Key themes important to customer

Clarity

Easy to understand

Keeps me informed

Value

Available online

No particular view



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Conclusion and next steps

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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 – increasingly as they near maturity
- Consumers **believe** 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 many will not **actively manage** their policy
- Clearer **communication** is key, but only one part of the solution.

Next steps

- Second survey to gain deeper understanding of with-profits customers
 - Using sentiment analysis
- Inviting companies to participate
 - To help inform best practice

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.

Discussion Points

- **What level of understanding do consumers need?**
- **Is providing more information helpful to consumers or does it simply add to the confusion?**
- **Is it the provider's role to educate?**
- **Is greater tailoring of individual communications the way forward ? (is it achievable?)**
- **Is it important that a customer understands how a closed fund operates?**

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>

Contributors

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

- 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