INSIGHT

'Now is the time to let AI do some of the heavy lifting'

The age of AI is here. **Stuart Breyer**, CEO of Mallowstreet, foresees three key applications for this technology in the pensions sector

When people discuss artificial intelligence, opinions tend to be polarised. There are two main schools of thought: one contains people who believe that AI will destroy humanity; the other contains those who think it will be the catalyst for great advances. I'm aligned with the latter.

Looking beyond the hype to work out how AI can help to create efficiencies, I can see huge potential for its practical application in three areas of the pensions industry.

Everyone lacks time. If we have learnt one thing about AI and machine learning (ML), we know that it's not a perfect technology, but it can make us more efficient. Consider how much time and money financial services firms spend on documenting call reports and updating client relationship management systems. Here, marginal gains make an enormous difference.

AI can produce meeting summaries, minutes and call reports. If, for instance, one person can save 30 minutes after every meeting and they have 100 meetings a year, they save 3,000 minutes – more than a working week. Apply this across a team and you create hundreds of extra hours of capacity. Teams can then spend their time focusing on working strategically with clients and doing what they do best: building deep relationships.

Financial services firms struggle to ensure consistency across teams speaking to clients. They can send several people to a meeting for oversight, but again this requires more time, which we know everyone lacks. AI can help to objectively measure the content delivered in a meeting and guarantee that the right message gets delivered. Think how much stronger a team is when every member of it is communicating a consistent message.

We all need practice, from the CEO to the most recent joiner. AI and ML models can be calibrated to provide feedback on a presentation, helping the presenter to refine and improve the message they want to land. Now, when someone asks to practise a presentation with a team member, they can receive nuanced feedback that will help to take the material from good to great. The marginal gains achieved after each presentation for each team member are significant, and presentation coaches can then focus on style, confidence, tone and delivery.

Lastly, by capturing and analysing feedback and discussions, AI can objectively and transparently document whether or not the customer understands a financial product – including the risks and potential returns – and how this will help them to achieve their goals.

This has wide-ranging implications for the retail market. It is exactly what the Financial Conduct Authority states it's hoping to achieve with the consumer duty, for which implementation plans were published in January: "The duty means consumers should receive communications they can understand; products and services that meet their needs and offer fair value; and get the customer support they need when they need it."

The age of AI has already arrived, and it is starting to drive significant changes to how businesses operate, work with customers and engage with the broader market. I have picked examples of how I'm already seeing applications in our industry. But I know of several more – and I am sure that there are many that I haven't even thought of yet.

Our sector must ask some honest questions: what's consuming time and a disproportionate amount of human capital? Now is the time to take the first step and let AI start doing some of the heavy lifting. ●

Stuart Breyer
Chief executive officer, Mallowstreet

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POLICY

First quantity, now quality

Now that auto-enrolment has hugely increased the number of UK employees saving into pensions, policy-makers want to ensure that they and their employers are getting the best value for money

Bradley Gerrard

The UK's introduction of auto-enrolment in 2012 has meant that 11 million people in this country are saving into a workplace pension today, compared with 2 million 11 years ago. While this has clearly been a successful initiative, policy-makers acknowledge that the system still lacks engagement, which is problematic.

Even the Pensions Regulator believes that it is "built and driven by inertia" because so few participants bother assessing their savings and so few employers review the schemes they sponsor. Such apathy creates a moribund ecosystem that's a breeding ground for inadequacy.

That's why the consultation paper *Value for Money: a framework on metrics, standards and disclosures*, which closed to responses in March, makes a mark in the proverbial sand as the sector and its regulators seek to improve this situation. A source close to the consultation – the result of work by the government, the Pensions Regulator and the Financial Conduct Authority (FCA) shaped by discussions with the industry – has suggested that an update could be published within weeks.

Cost is clearly an important factor in pensions investment. Virtually everyone linked to the industry agrees that the management charges a saver pays for their investments will affect the size of their retirement pot. But cost and value are different things – and the consultation has shifted the emphasis to the latter.

Henry Tapper is the founder and executive chairman of AgeWage, which helps people and organisations to gauge the value for money provided by their pension schemes. He notes that "employers typically see pensions in terms of something identified by their procurement teams. They focus on cost, because that's the one factor they can easily understand and measure, but they don't consider factors such as the members' experience. I am worried about a race to the bottom."

> Procurement teams focus on cost, because that's the factor they can easily measure, but they don't consider the members' experience

Tapper cites a case involving a £1bn pension mandate that was seeking a new pension provider. The lowest quote it received was 0.09%.

"That's too low," he says. "It is almost impossible to see how a firm could make good-quality investments and offer good service at that price. This creates a scary situation where price is dominating, as employers seeking pension schemes have no concept of value."

The Pensions Regulator has stated that the three key elements of the *Value for Money* framework are costs and charges, investment performance and service quality. Costs have already been dealt with to a degree, because a charge cap of 0.75% (for the provider's default portfolio) has been in place since 2015.

Some players have suggested that the overly aggressive capping of fees by the watchdog could have a negative impact on investment performance and customer service. They do have a case for arguing that high quality in these two elements is impossible to deliver on the cheap.

It's a delicate equation to balance, then, but a solution has been proposed: consolidation. As nearly all industries do, the pensions sector offers clear examples of economies of scale.

Indeed, the idea of so-called super-funds has been generating significant column inches. One particularly forthright proponent of consolidation – the Lord Mayor of the City of London, Nicholas Lyons – has suggested that smaller defined contribution schemes should pool resources in a £50bn fund that would invest in some of the nation's fastest-growing firms (see "How pensions could refuel the economy", p4). The Tony Blair Institute for Global Change has also espoused the potential of super-funds.

Some of the world's largest and most successful pension schemes invest anywhere between 20% and 35% of their funds in unlisted securities across infrastructure, real estate and private equity, including venture capital. The equivalent figure in the UK is 7%, but it's something that super-fund advocates believe could increase, benefiting investment performance in the process.

Edmund Truell, founder of the Pensions SuperFund, argues that the simplest way to reduce the cost burden of pension schemes, particularly smaller ones, is to pool resources. He explains: "The cost of running a small fund can be 5% of assets, which can be damaging. The best remedy is consolidation – and we can see that from examples in countries such as Canada, where pension fund costs are 0.4% a year."

Truell, who chaired the London Pensions Fund Authority when Boris Johnson was the city's mayor, oversaw its merger with the Lancashire County Pension Fund in 2014, encouraging mergers between other schemes since then.

Truell's belief in the benefits of consolidation is so strong that he suggests that the regulator should adopt a "comply or explain" policy on this matter. By this he means that funds should actively seek to pool resources with others or be obliged to explain why they're not doing so.

While the Pension SuperFund is aimed at defined benefit schemes, which provide a guaranteed income for retirees based on their salary and length of service, the master trust structure has emerged in recent years as a way for defined contribution schemes to benefit from pooling.

60%

The percentage of pension schemes with fewer than 100 members that met none of The Pensions Regulator's key governance requirements in 2021

The Pensions Regulator, 2021

38.6%

Consolidation in the UK defined contribution pensions market over the 10 years to Q1 2022

The Pensions Regulator, 2022

Moving on from the cost/quality equation, the general apathy among British consumers towards retirement saving may be an even tougher problem to solve, particularly in the case of workplace pensions.

Scheme members need to be made more aware of their pension choices, including knowing how much they and their employer are contributing and what their investment options are. Employers also need to be more engaged in the schemes they're providing, but few have pension expertise. As a result, they find it hard to review the quality of their offerings.

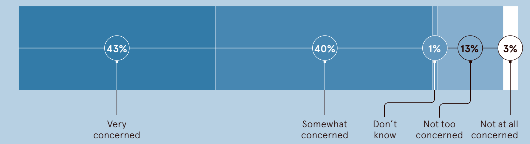
Tapper established the Pension Playpen service in 2013, while auto-enrolment was still at an early stage. This helped 7,000 organisations to choose a workplace pension in the so-called staging period that lasted until 2018, by which time all employers had to have set up their schemes.

"When we launched the Pension Playpen, we were probably the biggest value-for-money people out there," he says. "But it could still be difficult to engage people – you can lead them to water, but you can't make them drink."

Key barriers to engagement cited by financial advisers include limited access to information, coupled with a lack of transparency from pension providers. Some in the sector hope that the regulators will review the gap between pensions advice (specific product recommendations) and guidance (more general suggestions), potentially loosening restrictions on the latter to enhance the availability of information.

With the government right behind them, the Pensions Regulator and the FCA will no doubt be hoping that they can construct a *Value for Money* framework that will lower these barriers and make clear information about pension providers' fees, performance and service accessible to employers and employees. The availability of easily comparable data should, in theory, improve customer engagement, shake the world of workplace pension provision out of its torpor and add some much-needed dynamism to the market. ●

Commercial feature



Are rising costs affecting pension savings?

Employees are being forced to rethink their retirement plans due to the cost-of-living crisis

As financial pressures on UK employees continue to grow, new research by Wealth at Work has found that many people are having to rethink their retirement plans.

It found that eight in 10 employees (83%) are concerned that the cost-of-living crisis means they will have to work longer before retiring to make up for a shortfall in their savings. Worryingly, one in three (33%) believe that they won't ever be able to afford to retire due to the cost-of-living increases.

Some have even reduced or stopped their pension contributions altogether because of rising costs (13%), while almost three in 10 (29%) admit that they may consider stopping payments in the future, and one third (30%) may think about reducing future payments. This will be of particular concern especially when lower fixed-rate mortgage deals come to an end and if inflation doesn't come down as quickly as initially thought.

> It's alarming that these latest figures suggest that so many people are thinking about stopping or reducing their pension contributions to help alleviate current financial pressures

Further to this, one in 10 (10%) of those eligible to access their pension (i.e. those aged 55 or over) say they have withdrawn savings earlier than intended to supplement their income, with a further 31% intending to do so or considering it at some point in the future.

When it comes to getting support with their pension, 56% say they speak to unqualified sources such as their partner, family, friends or colleagues, or no one at all. Very few speak to their pension provider (15%), employer (13%), a regulated financial adviser (8%) or specialist bodies such as Pension Wise (4%) or MoneyHelper (3%).

Whilst more than one in three people (37%) don't feel supported by their workplace to understand their finances, separate research from the Reward and Employee Benefits Association suggests that more employers are now starting to offer this support.

"It's alarming that these latest figures suggest that so many people are thinking about stopping or reducing their pension contributions to help alleviate current financial pressures," says Jonathan Watts-Lay, director at Wealth at Work. "While this is understandable, it really should be a last resort and only if you are facing serious financial difficulties."

"Those who do go ahead with it should make sure they plan for how long it is going to be for, and restart as soon as they possibly can. While it may result in relatively small savings each month, the impact on retirement savings to be used in later life will be dramatic due to lost employer contributions and tax relief."

Given the widespread concern over having enough money to retire, it's more important than ever, particularly for those approaching retirement, to have a financial plan for their future in place. That means looking at the pensions, savings and investments they already have and deciding if these will be enough to retire on comfortably.

A good starting point as a source of guidance is official government bodies such as Pension Wise and Money Helper. Those with more complex situations should consider taking regulated financial advice. The good news is that many employers are now offering financial wellbeing support in the workplace, including financial education, guidance and regulated financial advice for employees, so it's always worth finding out what's on offer.

For more information please visit wealthatwork.co.uk

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