TECHNOLOGY

Entering the arena

Nick Martindale examines the growing use of fintech within the pensions sector and the potential it has to completely overhaul the industry

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In recent years, the phrase 'fintech' has become a byword for a new type of technology set on changing established models in the financial space. Originating from the back-end systems of consumer and trade financial institutions, it has come to signify almost any new development in the sector, meaning everything and nothing at the same time.

Conduent HR Services head of DB client strategy John Breedon defines it as "financial technology, bringing the power of technology to bear to make the end-user's life easier or drive down cost". Currently, its main application in the pensions space is around the use of new tools to demonstrate expected outcomes from DC schemes, he says.

At a basic level, says UK pensions association PMI technical consultant Tim Middleton, this has seen many schemes use smartphones to communicate with members, including through text updates on fund values and performance. "Over time this will expand into apps to allow members to access information about their pension savings," he says, citing the current development of the pensions dashboard in the UK as a case in point.

Robo-advice and cyber-advice

Another example is the growing influence of both robo-advice and cyber-advice, which use of algorithms to help offer basic financial advice for a significantly lower cost than a financial adviser would be able to offer. "With retirees now having more freedom of action with their pension savings, the presence of affordable, if basic, financial advice may well be a valuable benefit," CFA Institute capital markets policy group analyst Sviatoslav Rosov says."The challenge is then for robo-advisers to ensure the suitability of their financial advice for consumers with widely variable retirement needs and goals."

This kind of offering can be given by employers to their staff, as well as directly to members through pension providers. "Technology enables a rich experience that can be delivered inclusively to a workforce," Wealth Wizards director Phil Blows states. "Many people are woefully under-saving, and have no idea what they need, let alone have a plan to get there. Robo-advice can help them understand this, giving them a personalised plan at fraction of cost and in quicker time than traditional face-to-face advice."

This is already evolving into cyber-advice, Punter Southall Aspire principal Stephen Greenstreet points out. "This is a similar concept but typically involves some form of human intervention to provide guidance or advice as part of the process," he says. "But both robo and cyber provide digital financial advice based on mathematical rules."

The use of such technology can also be used to help employers or scheme providers gauge the level of risk employees are comfortable with taking on, KPMG head of DC Richard Birkin says, as well as providing more engaging methods of interacting with members. "We've been working on games that can more effectively measure risk appetite than a list of questions, and animated videos for member engagement instead of letters or emails," he adds.

In the workplace pensions space, fintech is already starting to impact on how organisations approach the whole pensions and employee benefits space, contends Rowlands. "We're seeing clients totally transform how they design pension and benefit programmes for their people and how they then communicate to people," he says.

"The biggest single development is the ability to design pension and benefits that work for every single employee, irrespective of their life stage, gender, age or grade, and that's all being driven by technology." This could result in a greater mix between traditional pensions and financial wellbeing, he suggests, with employees able to select benefits that are most appropriate for them at different points in their working lives.

Big data and artificial intelligence

There are other ways in which fintech is influencing the pensions world too, including the use of product listing and filtering platforms to provide investors with the information they need to compare investment opportunities and identify new products. "Big data and artificial intelligence are still some of the most heavily focused on and invested in areas of technology," mallowstreet CEO Stuart Breyer comments."It is at this intersection that many of the fintech businesses are operating because of the sheer volume of data, the huge industry complexities and the impact of hyper real-time news."

The potential here is huge, he adds. "In pensions, every decision is built on data and analysis," he says. "There is an ever-increasing need to analyse, understand and predict markets and trends. There are probably not many other industries that are more primed for technological advances," Breyer explains.

Broader still, such information will also help pension funds to accurately calculate their liabilities to help define an investment profile which they could then give to asset managers and hedge funds, Misys investment management solution lead Jason Whitaker underlines. "These firms would then set out to achieve the required returns to meet the liabilities," he says. "Look-through tools help pension funds to have visibility into the investments made by their external fund managers so they can check that returns are on track and investments have been made in line with the mandate they have provided."

Issues

Yet despite the huge potential for fintech to influence different elements of the pensions space, there are a number of issues that need to be addressed before this can be fully realised.

AHC head of web consulting and development Sam Charles identifies the twin issues of legacy systems and an industry full of providers whose primary focus has not traditionally been the end-customer. "Historically employers have been the customers for pension providers," he says. "In the banking sector where the individual is the customer, there has been a much more rapid rollout and adoption of fintech solutions as they are geared towards the needs of the end-user."

Employers also have to see the need to invest in areas such as robo-advice or benefit transformation programmes. "In the case of robo-advice, this will only be adopted by millions if it is supported by large organisations," says Blows. "There is always pressure on businesses when it comes to costs but enlightened employers recognise that their people need help, and that unless something changes many won't be able to afford to retire."

It's a point echoed by Rowlands. "Organisationally, pensions and benefits need to be seen as a part of a whole, so one of the structural changes corporates need to think about is how they join up their HR and pensions strategy, which then meets the needs of both the corporate and the individual."

There are other barriers, too, which threaten the attraction of the sector to fintech providers. "Limits imposed on product charges and very high regulatory standards on recommending or supplying new products has meant that few fintech companies have been motivated by the commercial returns," Trafalgar House director Daniel Taylor points out.

Then there's the need to keep data secure, which often makes the pensions sector instinctively mistrustful of any new technology. "The greatest threat is cybercrime," says Middleton. "Common data held by pension schemes will provide all the information necessary to allow successful identity theft, which means that pension schemes would present a particularly attractive target."

A complete overhaul?

If such obstacles can be overcome, however, there is potential for fintech to overhaul the pensions sector in the way that it has in other industries. "I very much doubt that in the long term we'll be talking about pensions at all," says Birkin. "Big data and digitalisation will get us to a place where consumers have complete flexibility and control over their workplace benefits and long-term savings."

Rowlands agrees. "Within three years the personalisation of benefits and communication will completely transform how benefits are designed and communicated to employees," he predicts. "If you think about how quickly Amazon and Facebook have evolved and communicate to people, that's what fintech is going to do to financial services and pensions and benefits. It's going to completely transform how it is delivered." ■