PROVIDERS

A shifting relationship

The partnership between pension schemes and providers is transforming, as automation promises further change in the years ahead

WRITTEN BY GRAHAM BUCK, A FREELANCE JOURNALIST

Ten years ago the global financial crisis unfolded and subsequent weak economic growth, coupled with low returns on bonds, increased the pressure on pension scheme funding. It's also just over five years since the UK government began rolling out its auto-enrolment initiative – due to be completed by the end of 2018 – requiring employers to divert a slice of employees' salaries into a savings pension pot.

In December 2017, the UK's Department for Work and Pensions (DWP) announced plans to reduce the age at which UK employers are required to auto-enrol employees into a workplace pension scheme, thereby adding nearly one million workers – aged between 18 and 21 who earn upwards of £10,000 (€11,300) – to the nine million-plus already enrolled.

Add to this the TV adverts run in the past two years by the DWP and the UK's pensions regulator with the slogan 'Don't ignore the workplace pension', reminding both employers and employees alike that workplace pension is now a legal requirement. However, whether the campaign's personification of the workplace pension as a giant furry monster has done much to raise awareness is debateable.

A GOOD RELATIONSHIP MANAGER IS WORTH THEIR WEIGHT IN GOLD

So it's a good time to consider whether the relationship between pension schemes and providers has strengthened over recent years and to identify the skills and conversations essential for a mutually beneficial relationship.

Aon Hewitt service operations leader Jim Tindale reports that the Aon *Global Benefits Governance Studies* in 2012 and 2015, carried out with the American Benefits Council, highlighted five key elements of successful governance of pension schemes globally.

These were to clearly communicate strategy and policies, have clear roles and responsibilities for decision making and execution structure within the internal team and among providers, have access to data covering benefits, liabilities, investments and for operational compliance to be able to check progress towards alignment with strategy, be aware of opportunities to improve the design, financing and operations of the scheme, along with the ability to prioritise actions and focus on their execution, and finally, to create a structure that enables regular monitoring of changes, with periodic reviews and revisions of the strategies and structures.

"These studies also indicated a lack of satisfaction among participants with their capabilities across these five areas where they are responsible for multiple schemes across multiple countries," says Tindale.

"These elements of knowledge management and execution of strategy are therefore the areas in which providers can add greatest

value in partnering with those who manage pension schemes – data quality within pension schemes tends to be relatively weak until the point of payment; risks and opportunities regularly change; and the combination of expertise, connections and time that are necessary to support effective execution of prioritised actions are often absent in all but the largest of companies."

Encouraging engagement

Given the impact of Europe's low interest rates and ageing populations on the health of corporate retirement plans, government-backed efforts to raise awareness of pensions aren't enough, says Aegon managing director for workplace pensions Paul Bucksey. "Providers could and should be making a greater effort to engage individual savers and investors and get them to grasp the stark reality that the state isn't going to provide them with very much when they reach old age.

"It's not a great message – and risks coming across as lecturing – but it's also the hard truth. Persuading employees to take up the habit of regular savings at a young age will help their engagement. Once a worker hits 40 it's a much more difficult proposal, as their contribution level needs to be much higher."

The starting point for a robust relationship between providers and scheme centres on the quality of the provider's client relationship team, he suggests. "If the team isn't strong, then it's very hard to get the most out of the scheme.

"A good relationship manager is worth their weight in gold and we regard them as a critical component of service delivery. He or she will demonstrate a strong knowledge of regulation and investment options, have excellent communication skills and possess an empathy with the client, with the ability to put himself/herself in their shoes."

Bucksey adds that, traditionally, the relationships that have work well been tripartite, involving the employer, adviser and provider, although this has started to change in the UK over the past five years following the rise of the master-trust pension scheme as a pension product. This has resulted in a more bipartite relationship, with providers being looked to for dealing directly with the client.

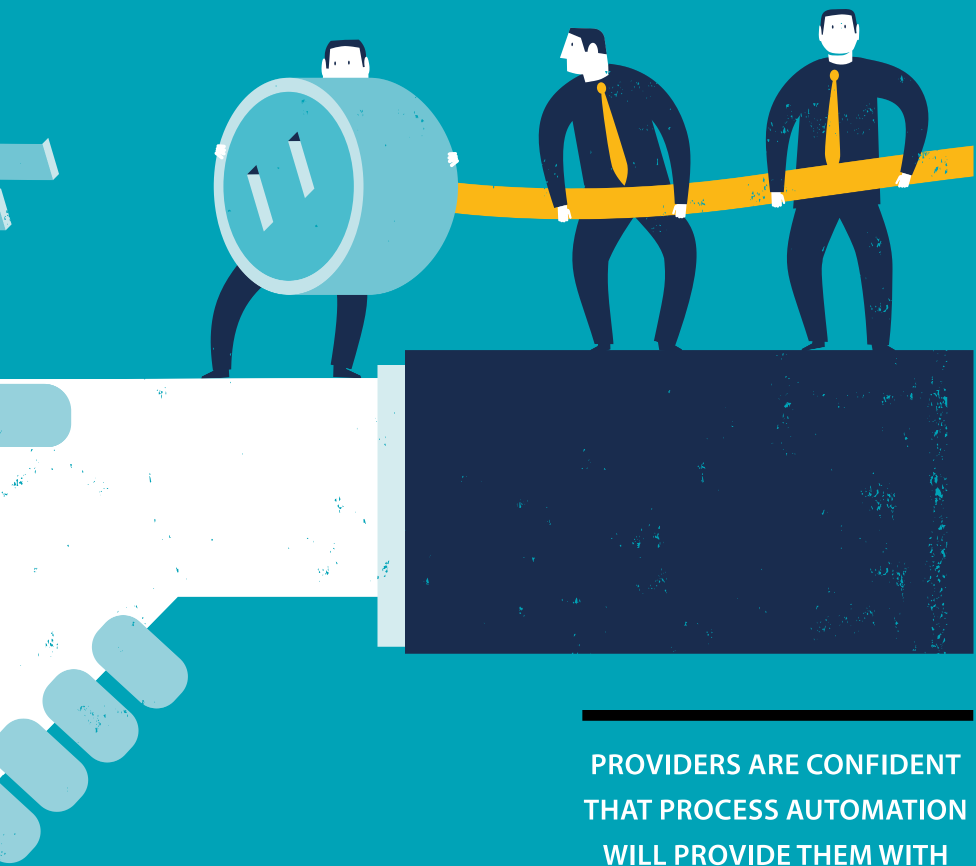
While the phrase 'master trust' is something of a UK characteristic, pension schemes in several other countries operate similarly but omit the word 'trust'. Master 'trusts' are a common form of pension provision for Switzerland's smaller employers (called Collective Foundations), and most Dutch pensions are provided through industry-wide plans that essentially provide the same role as a master trust.

Beyond basics?

Another essential in achieving a mutually beneficial relationship between scheme and provider is establishing clearly at the outset what it is the employer wishes to achieve. Are they simply seeking to achieve minimum compliance with regulations, or do they want something more extensive?

"The biggest potential hazard is if either employer or provider is unclear on what exactly they want to achieve and what the responsibilities of each party are," notes Bucksey. "Lack of clarity means things don't get done; so a good relationship manager will be ready and unafraid to ask difficult questions."

For many UK employers,



auto-enrolment required them to offer a pension scheme for their workers for the first time. Their knowledge of the options available will be limited, as will the amount of time they are ready to devote in both developing and overseeing a scheme.

"While a number of clients still just want the bare minimum and aren't looking to engage, the bar has been raised since the UK's introduction of auto-enrolment," says JLT Employee Benefits head of applications Matt Baker. The launch of auto-enrolment was accompanied by a recommendation from the (since closed) Office of Fair Trading (OFT) that 'built in' adviser commissions should be excluded from auto-enrolment schemes.

"Now that employers have to spend money, more of them are reviewing pensions as part of the overall employee reward package," adds Baker. "The jobs market is still a very competitive one, so the pension scheme becomes a differentiator." Indeed, a growing skill shortage in many sectors across Europe is forcing firms to offer an improved employee proposition, which includes an attractive pension and savings plan.

PROVIDERS ARE CONFIDENT THAT PROCESS AUTOMATION WILL PROVIDE THEM WITH BETTER UNDERSTANDING OF CUSTOMERS' BEHAVIOUR

Aviva head of savings and retirement Alistair McQueen says that employers seeking to attract the best talent have to provide a pension that goes beyond the bare minimum. "For example, ambitious employees will be keen to understand the level of contribution offered by the employer; the charges they'll be paying; the flexibilities provided; the range of investment options available; and – especially for younger employees – the ability to manage their pension online.

"When an ambitious employer engages with their pension provider an opening question should be 'how will my pension stand out from the crowd?' A good provider should be able to give a convincing answer."

Conveying the message

The issue of communications with pension scheme members comes under the spotlight this year, when the General Data Protection Regulation (GDPR) comes into effect across European Union member states from May. The GDPR could present challenges for all of the financial services industry, including pension provision.

As the focus is on getting people to opt-in to saving, and saving more, the jury is out on whether the new regulations will prove helpful or detrimental. Younger scheme members take little or no notice of traditional communications via letter, being more accustomed to text messaging and e-mails, but GDPR establishes various guidelines and restrictions on such communications. "People can be 'nudged', but this has to be done subtly," notes Bucksey.

A little further down the line is automatic intelligence (AI) and robotics; still in the early stages of development, but which promise to further transform scheme-provider relationships. AI can identify savings and investment opportunities, while robotics will accelerate the speed of execution.

Providers are confident that process automation will provide them with better understanding of customers' behaviour, become more proactive in offering information better tailored to the individual customer and improve increased customer loyalty. ■