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TechLife

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The conundrum of simplified advice // Tom Murray - Head of Product Strategy - Exaxe

The Financial Services Authority is still struggling to get the Simplified Advice model out into the market. It is hardly surprising, as there is a fundamental contradiction at the heart of the whole Simplified Advice model that nobody wishes to tackle.

Decades ago, or so it seems at this stage, when the Retail Distribution Review (RDR) was first proposed, industry reaction focused primarily on the fact that it would deprive large swathes of consumers from access to advice by enforcing an upfront acknowledgment of the cost. It was believed that many consumers would be put off by the idea of paying the going rate for advice, even though they are currently paying the same amount, if not more, via commission payments.

Market surveys, since then, have backed this position including the Association of British Insurers' discovery that while the average cost of giving a full financial health check to a customer was £670, customers believed it should be in the region of £0 - £50. This was despite the fact that disclosure regulation has made customers aware that they pay far more than £50 already.

Fee disclosure is an odd sales model

It is clear that, faced with a pricelist before starting the advice, many would-be customers will turn on their heels and walk straight out of the office. This is particularly true of those with smaller investments, as the benefit of the advice would not appear to be worth the money that would have to be paid up front.

Even the ability to charge the advice cost to the product, which is very similar in effect to commission, does not help the situation as customers surveyed appear to be very reluctant to sign up to the payment. This has to be down to human nature, as they are happy to ignore the commission disclosed in the documents, probably because it appears to be paid by someone else, i.e. the product provider.

And indeed, who can blame them. No other industry is forced to display the effect of its fees and charges to the customer. No one walks into a car showroom and is shown a model of a car and then pointed to the luxury model and told 'this is what you could afford if we weren't charging any money for our services, overhead or profits'.

As the provider currently pays the commission declared in the disclosure documentation, customers generally ignore it but the fee approach mandated by the RDR means that customers now have to actively acquiesce to the payment of these charges. No one can be confident that they will.

When in doubt, add complexity

Based on the industry reaction, the FSA came up with an extra two approaches – Basic Advice and Simplified Advice. Basic Advice essentially is the provision of information on the product type and on the various options available within the Stakeholder product set, without any recommendation as to the suitability of the products or even of the product type itself. This works for the confident investor who knows what they want and any resulting sales can be made on a commission basis in the post RDR world.

It's when the FSA introduced Simplified Advice that the wheel fell off the wagon. The concept was to provide a cut-price version of full advice, so that those who needed financial advice but couldn't, or wouldn't, pay the full price, could still have access to some advice in order to organise their financial affairs. This is the beast that they are still having trouble driving to the market, as every attempt seems to create more problems than it solves.

The reason for this is that the FSA is still not facing up to the fact that there is a flaw at the heart of this approach which none of its solution cannot repair You cannot keep urging higher levels of professionalism on the Financial Services sector and at the same time try to provide a cut-price version of it. It just can't work.

What do consumers want?

When people seek advice, they look to get the total benefit of the knowledge of the individual they consult, whether the advice is financial, legal, or medical. No one would go to a doctor and request an opinion that was based on a limited number of symptoms nor would they want legal advice that only covered a subset of the issues that were involved in their particular legal case.

Subsequently, when an individual goes for financial advice, they definitely do not want to get an opinion that only reflects a fraction of their overall position. Optimal management of their financial affairs requires an assessment of the totality of their assets and liabilities, a view of the future values of both of these and an evaluation of these against the customer's general financial life plan.

Irrespective of the wording of the regulations, it is hard to see how we can prevent accusations of mis-selling in the future. If bad advice is given because materials facts were not known, we cannot claim it is the responsibility of the consumer to know which facts are material – if they were that knowledgeable, they will be self-investing rather than seeking advice.

Round peg into a square hole

Despite this contradiction, the FSA are pressing on with the introduction of the Simplified Advice model, terrified of being blamed for moving financial advice beyond the reach of the majority of savers and into an elite category. So they keep plugging away at the concept, trying on the one hand to ensure any advisers providing simplified advice are fully responsible for the advice they're giving, while on the other hand trying to reduce the work involved so that the overall cost can be held at a much lower level. It is a contradiction that dooms to failure any hope of a viable model.

Even with its best efforts, industry estimates show that simplified advice will retail at c. £200, which is still way beyond what the average customer believes they should pay to receive advice. Based on these findings, it seems unlikely that customers will feel that they will have received value for money for a simplified process that costs four times as much as they expected to pay and yet still doesn't give them the confidence that all their needs are being met.

When you're in a hole, stop digging!

Maybe it is time to stop adding further complexity in a doomed attempt to make this work and look at other providers of advice and see can we learn some lessons from them. In the legal arena, if you can't afford legal advice, you can go to the government sponsored Legal Services Commission for defence against prosecution. There are also various citizen advice bureaus for those who wish to get legal assistance to work through other legal issues themselves or do without it.

Similarly, in countries where the health service is not free at the point of provision, those who can't afford to pay for medical advice either have to do without or fall into a government provided safety net where free medical advice is given, although usually only on an emergency basis.

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Exaxe announces latest appointment as part of its continued expansion

Exaxe, the specialist IT solutions provider for the Life and Pensions industry, announces the appointment of Collette Kelly as its new Chief Operations Officer. The move comes as the company remains on course with plans to expand the business in the UK, Ireland, Australia, Canada and the Nordic regions over the next 2 years. Collette has been brought on board to continue driving this expansion by further developing the company's software development and client delivery capabilities.

Norman Carroll, Chief Executive Officer at Exaxe says: "Collette joins us having spent almost 12 years with FINEOS Corporation in a variety of management roles, including Project Manager in Product Development and Development Manager in Product Development. Since 2007, Collette has held the position of Head of Practice Management, Professional Services with responsibility for 130 staff across three regions. Prior to her time with FINEOS, Collette spent 18 years in the insurance industry with Hibernian (now Aviva) and Eagle Star (now Zurich) in a variety of IT roles across Operations and Development."

Carroll continues:
"Collette's extensive experience of Team Management, Process Design & Implementation, Product Development, Project Management and Consultancy Services will be of enormous benefit to Exaxe. Collette will assume responsibility for all product development and client delivery activities and I am confident that she will be a very positive addition to the team."

IN THIS ISSUE

If you can't meet 'em, tweet 'em // Tom Murray - Head of Product Strategy - Exaxe

Tom Murray, head of product strategy at Exaxe, explains why advisers need to embrace social media to make waves in the auto-enrolment space.

The phasing-in of auto-enrolment over the next few years will bring a dramatic change to the long-term savings landscape in the UK. A vast increase in the numbers who are engaged with the financial services sector will occur; estimates range between five million and seven million new savers.

This is a new and potentially lucrative market for advisers, given the scale of savings involved and the possibility of cross-selling to fulfil their other financial needs. However, it is difficult to see how this can be cost-effectively achieved using traditional approaches.

Treating this new group as if they are merely an extension of the existing saver base would be a grave mistake. It is their difference that has kept them out of the financial services market in the first place. So what makes these new savers so different from the current crop of pension savers?

Lifestyle differences

A key difference is that new savers have a fundamentally different approach to their finances. They have a tendency to consume 100% of their income on an annual basis and the only form of savings they indulge in are short-term for a short term goal; e.g. saving for six months for a holiday in the sun.

Most will have never used a financial adviser. They will have no understanding of the job they do and will find the whole prospect of looking at their earnings in terms of their lifetime need an alien concept. They are also younger and far more trusting of technology than the established media.

Who to trust?

The other significant difference is that this section of the population has a low understanding of financial products. The primary information they have will be from the world around them – most of their spending is based on personal recommendation and what they can see others using. Like all sections of society, it is their own personal horizons that dictate their needs. They will primarily consume products that their friends, family and colleagues use.

As the majority of their social set currently does not consume financial services, these new entrants to the financial services market will have no yardstick by which to measure their value. This is the main issue that must be overcome in developing a market for financial services within this new segment.

Social interaction

To date, given the granular nature of social groupings in general, the primary way to target this market was the use of celebrity endorsement via old media platforms such as television. This will not work for financial services as they will fail the 'cool' test and will not therefore benefit from the endorsement.

However, the advent of internet-based social networks and the scale of the penetration of the population by these networks has opened up a whole new way for those who produce and retail financial products and services to interact with these social groups.

Enter friends and family

Technology, such as tablets and smartphones, has changed the way people interact and has made it easier for people to incorporate social networks into their lives. Research from the Association of British Insurers has shown that the first place that the average member of the population has gone to for financial advice or information in the last year is to friends and family and after that, the internet.

This is primarily because of the trust level they have in friends and family's advice, which they feel is independent, and in the internet, where they are doing the searching themselves and, therefore, feel in control.

Social media combines both of these elements and is therefore a potent force in reaching this new market segment. Recommendations can spread exponentially across different groups within the network as all the networks are interconnected in some way.

For example, the recent death of singer Whitney Houston was put out on Twitter 30 minutes before any official statement and was the subject of two and a half million tweets in the first hour.
Therefore, on the flipside, a positive experience by an individual within one social network can also cause ripples, which spread right across the network. When users in related social circles use the service and recommend it, succeeding waves of recommendations can then cause a positive view of one's products to spread far beyond the initial consumer.

This is a relatively low-cost way of reaching vast numbers of people who would be resistant to a more direct approach, as the recommendations they are getting via social media are at once personal and independent.

Outside the circle

Advisers who ignore the reality that is social media and consider it as merely a distractive toy are going to find it difficult to interact with this new market. Without a social network strategy, they are keeping themselves outside of the circles that form this new market and are therefore irrelevant to it.

Those who succeed in the auto-enrolment world will be those who establish themselves as a trusted part of the community in which these savers live. This will give them the ability to cost-effectively reach out and sell further services beyond the limitation of the auto-enrolment pensions.

Full white paper is available for download at http://exaxe.com/white-papers

The conundrum of simplified advice // Tom Murray - Head of Product Strategy - Exaxe

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The financial services sector is constantly being exhorted to raise its professional standards. A part of that process surely is to value our own knowledge in the same way that other professions value theirs and face the fact that large numbers of the population cannot or will not pay the requisite amount for that service, in which case they will have to do without it. If this is seen as an unacceptable exclusion of the lower and middle earners from access to financial advice, as I believe it is, then the government needs to seek remedies as it did for other professions.

Radical solution required

In the same way that the government provides access to medical and legal advice at times of need, there could be government provision for access to financial advice when it is needed most. The two most obvious times for this are at the start and end of one's working life – i.e. at the beginning of the accumulation process and at the beginning of the decumulation process.

The start of working life moment could easily be handled by the provision of basic financial advice as part of the normal school curriculum. This should be aimed at ensuring everyone is fully aware of the need to save for their own future and the basics of how to do so.

The other key financial moment for a person is at the crystallisation of their pension; a time in all workers' lives when they need good advice. It is essential for everyone to have access to expertise in order to get a holistic view of his or her financial situation, before they take any irreversible decisions. This is an ideal point for the government to step in.

Waste not, want not

Although the idea of a government sponsored full advice centre has merits, I believe that it would be better to leverage the existing network of professional advisors by introducing a voucher system, which would entitle the retiree to a full financial health-check and optimal advice in making that once in a lifetime decision about what they should do with their pension savings.

This approach has a number of advantages. Firstly it would allow the adviser to give the time to the customer to ensure that the best advice was given. Secondly it would maintain a free market in advice and avoid the distortions of a two-level system. Thirdly, it would prevent retirees from making an incorrect decision that could literally damage the rest of their lives.

While there would be a cost associated with this, it would not come close to what it will cost the taxpayer to have increasing numbers of pensioners reliant on state support. Better-off pensioners will weigh far lighter on state expenditure than poorer ones, both in terms of the provision of basic needs and in terms of healthcare requirements.

Radical changes require radical thinking

There may be other approaches that will provide better ways to ensure that financial advice does not become the sole preserve of the wealthy. Whatever system is ultimately chosen, we need to get away from the idea that some halfway house between full advice and no advice is achievable. Until we face up to that, we are wasting time and money trying to hammer a square peg into a round hole.

Customers only want full advice, as partial advice is a ridiculous concept, particularly when the customer is not knowledgeable enough to know why they only need partial advice. The FSA stubbornly sticking to the original formula is doing no one any good, least of all the unfortunate clients who will ultimately be the victims of this approach.

The FSA need to face up to the fact that raising the standards also raises the price. That's the problem they have to deal with and trying to ignore that fact is doomed to failure.

Is the insurance industry losing faith in its actuaries? // Fergal O'Doherty - Business Development Manager - Exaxe

While there has been a general decline in faith-based worship in the western world, one would have thought that life companies' faith in the core tenets of their business remained intact.

So what are we to make of the news that Aegon is hiving off risk, not to a re-insurer but to a bank? Aegon's announcement that they have agreed a life expectancy swap deal with Deutsche Bank, covering €12 billion of its reserves, can only be seen as a lack of confidence in the ability of the actuarial body to accurately forecast life expectancy. It does make you wonder where exactly the actuarial expertise now is seen to rest.

It also makes you wonder what levels of risk Deutsche Bank is prepared to take on. Its expertise in longevity is surely less than Aegon's, so someone is going to take a bath on this one. However, Michael Amori, Deutsche's co-head of the bank's longevity group, was open about its lack of actuarial expertise. "This is not about the bank telling anyone what the right life expectancy is. It is about finding a way to help a client transfer risk to others willing to take on the risk in exchange for a return".

Deutsche Bank will ultimately package these as risk products and sell them on to other investors after taking a cut for its trouble. Those who buy from Deutsche may retain them or may repackage again and sell on, bringing back frightening memories of the triple A-rated Collateralized Debt Obligations (CDOs) that lay at the heart of the Lehman Brothers collapse.

Aside from the dangers to the economic system, if longevity risk ultimately starts getting rated and sold by non-experts in the area, each layer in this process will need to make a margin in order to justify the approach. And, at the base of this inverted pyramid it is the customer who is propping up the whole thing, from whose contributions all of the 'margins' required by those businesses ultimately have to come.

So, what seems like a prudent move by Aegon in order to protect its future earnings, could just be the start of a chain that actually destabilises everyone in it. In the end, only the customer will pay.

Of course, this whole process was inevitable from the moment Solvency II raised its head. Faced with the restrictions imposed by the need to increase its reserves to meet the new regulations arising from Solvency II, it was inevitable that insurers would begin to look beyond traditional re-insurers, in order to reduce their reserve requirements and allow better use of their capital for growth.

While a single deal, even of this size, is not worrying, Deutsche Bank is forecasting a big increase in the use of capital markets to hedge against longevity risk. This is a development that regulators will need to monitor closely.

If more and more life companies are losing faith in their own actuarial body, are we to be left placing our trust in the sagacity of the banks and market investors to get it right regarding the liabilities of the life and pensions sector?

Somehow we have to make sure that actuarial assessment remains to the forefront of risk management in the life business. Otherwise we may all end up with nothing to believe in.

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Exaxe Client, MGM Advantage, reaches for the skies to attempt world record in aid of Alzheimer's Society

MGM Advantage, the retirement income specialist, is looking to enter the official Guinness World Records by attempting the most sky dive tandem jumps in one day, in aid of Alzheimer's Society. The current world record is 130 tandem jumps in one day and the company is looking to beat that and get 180 people to jump.

The challenge has already signed up 120 people who have each pledged to raise at least £300 each through fund raising. Once 180 people have signed up via the online process, registration will automatically close.

The attempt is being held at Brackley Airfield, near Oxford, on 5th July 2012. MGM has secured the exclusive use of the airfield for the day. MGM Advantage is covering the actual cost of each jump and all donations will go to the Alzheimer's Society.

Chris Evans, Chief Executive, MGM Advantage said: "This is an ambitious attempt to raise a significant amount of money for a very worthwhile charity. Alzheimer's Society supports people with dementia which many, if not most of us have been affected by through relatives or friends living with the condition. The attempt also marks MGMs' 160th anniversary as the longest registered company in the UK.

"We have a proud heritage and I am hoping as many people as possible will get on board with this attempt and support us through donations, being involved in the jump or providing encouragement to those individuals brave enough to throw themselves out of a plane."

Jeremy Hughes, chief executive of Alzheimer's Society, said: "It is fantastic news that MGM Advantage is helping to raise money for Alzheimer's Society. One in three people over 65 will die with dementia, and it is a condition that can affect anyone.

"As a charity, we rely on the generosity of companies and individuals to help us continue our vital work for people and families affected. Even if you don't have the stomach to jump out of a plane, you can support MGM Advantage's effort at beating the current world record for the largest number of sky dives in one day. All money raised will help Alzheimer's Society continue to lead the fight against dementia."

If you would like to register for the jump please go to www.doitforcharity.com/mgmadvantage and if you would like to make a donation please go to **www.virginmoneygiving.com/team/mgmadvantage**

Whitbread can't organise a p%$@£€ in a brewery // Kathryn Desmond - Business Development Manager - Exaxe

Before anyone gets on their high horse and starts sending emails to the editor of this website (hold your virtual pen, disgusted of Tunbridge Wells), I would like to point out that the missing word in the headline above is "pension".

No doubt, actual expletives were used down in the Department of Work and Pensions (DWP) when they heard that hotelier and former brewer Whitbread has decided that they will not be actively encouraging their 35,000-strong workforce to save via the auto-enrolment process. Whitbread will merely provide the scheme and leave it to the individuals themselves to decide whether to remain in the scheme or to invoke their opt-out clause.

It's not because of the complexity that Whitbread are remaining neutral on the auto-enrolment process. Whitbread have a large workforce working in the hotel and restaurant business and is well used to handling complex payrolls where shifts vary on a weekly basis. Indeed, so non-standard is their staff that 23,500 do not have to be auto-enrolled anyway because they are either under 22, over the state pension age, or have a salary below the earnings threshold. It is clear that, unlike many smaller businesses, Whitbread would have no difficulty handling the administration side of the pension scheme.

No, what is making Whitbread stay its hand is the result of surveys its undertook, which showed that its employees were actually turned off saving by the involvement of their employer and found the whole idea of pensions frightening. The focus groups found that the employees switched off at attempts to communicate, not getting past page seven of a booklet written for a reading age of eleven, according to group pensions director at Whitbread, Lesley Williams.

The reaction must have been bad, because Whitbread has now decided it will provide as little information as possible and, in its words it will 'keep it as simple as we dare'. Of course, Whitbread is just one company. However, it is one that has a long history of providing employee benefits and it has put in work to try to bring its employees on board. And, like any sensible business, it has accepted the result of its focus groups and has decided to stop trying on the auto-enrolled pension's front.

This just shows the extent of the problems facing the DWP in its efforts to nudge the nation into saving. If an employer the size of Whitbread is facing a reaction so bad that they are distancing itself from the whole process, then there is obviously a major problem with the whole concept.

Without strong employer backing, it is likely that the opt-out rate is going to be much higher than the DWP originally anticipated. This would undermine the whole basis of the project and will mean that in future, those who have saved will move themselves out of the means-tested benefit range, while those who opt-out of taking care of themselves will still remain dependent upon the state.

We have to accept the reality that pensions are complex products and that most people do not like to plan that far into the future. If we really want to shift the burden of providing future incomes from the taxpayer and onto individuals, then the only fair way is to make everyone shoulder that risk by abolishing the opt-out and making pension saving compulsory. This is precisely what we will end up doing if more companies end up following Whitbread's lead.

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Pooled Registered Pension Plans are a no-brainer // Tom Murray - Head of Product Strategy - Exaxe

The debate across Canada around Pooled Registered Pension Plans is a tad surprising. It seems that many industry insiders are determined to resist change even though the current pension system is not ideal. However, criticism of the PRPP initiative continues to be featured heavily in the press and it is not helping people to feel confident about the approach.

Research by Manulife shows that small and medium sized businesses are reluctant to implement any type of pension scheme for their employees, primarily based on the fact that pension schemes were difficult to organise and administer. Some of this resistance is undoubtedly coming from the range of conflicting comments about PRPPs in the press. Those who should know better continue to carp about PRPPs and are creating doubts in the minds of those employers and employees whom are the primary target of the plans.

Harper's government should be given the credit for realising these problems and designing a system, under which the majority of the complexity can be off-loaded to the pension providers, thereby easing the burden on Canadian businesses. But unless we can get this message across, too many businesses will steer clear of entangling with what they believe is a complicated distraction from their core business.

If that happens, the Government will be left with only two options: make provision of a pension plan compulsory for all employers or, abandon the project and just hope that enough people will start saving for retirement of their own accord.

Obviously, giving up isn't an option, considering the well-rehearsed problems that will come about due to the ageing workforce. And, for some reason, the government feels unable or unwilling to go down the more obvious compulsion route.

Therefore the only option for the government is to make the introduction of PRPPs a success. In order to do so, they need to undertake a major sales drive to ensure that the product is fully understood by the target audience and to remember that the audience is not just the employees but the employers as well.

Employers need to be persuaded that the use of a PRPP will benefit their business by providing for the needs of their employees. It will also benefit the overall economy in the long run by reducing the drain on the country's coffers that will come from the ever-expanding retired section of the population. And, most importantly, employers need to get the message that they will be able to outsource the majority of the work involved to the pension provider, so it won't get in the way of their real work.

PRPPs are not a perfect or indeed a total solution to the pensions' issue, but they have many good features and can make a good contribution to the overall solution.

Confidence in the pensions' industry is fragile enough. Industry analysts need to be very careful that they are not sowing more distrust in the system just for their own enjoyment of the verbal joust.

UK Budget 2012 – Good for pensions in the long run // Stewart Reeder - Senior Client Account Manager - Exaxe

The howl of outrage that has greeted the budget from the pensioners needs to be heard with an amount of scepticism. There is no real argument for treating pensioners more generously, in terms of tax allowances, than those in the productive sector of the economy. The allowances also cause a huge amount of extra work for the Inland Revenue, processing unnecessary forms, which all costs money. And, as usual, those who are poorest are either below the tax net altogether or are least likely to manage to claim their extra allowances, so the benefits primarily flow to the better off pensioners.

Yet, to listen to commentators representing the elderly, you would think the government had decided to put everyone over 65 on the breadline as the primary means of getting the deficit under control.

Let's look at what Osborne actually did. Firstly, he committed the government to a basic pension of £140 per week with the aim of giving those saving for a pension a clear view of what they will get in the future. This level is set above the means test level and will underpin the auto-enrolment process, allowing people to save even small amounts with the confidence that they will benefit from the process.

Secondly, Osborne has given a substantial lift to the current basic weekly pension amount of £5.30, the largest cash amount ever given. And finally, he has frozen the extra tax-free allowances related to age, which will eventually disappear.

Aside from being ageist, these tax-free allowances are making the whole system far more complicated than it needs to be. The allowances also fail the fundamental test of any taxation system – fairness.

Credit should also be given to the Chancellor for resisting the pressure to go for the easy option of hitting the higher rate tax allowance for pensions. He is to be admired for holding to his course and steering for a simpler, fairer system that can be understood by all.

The government are making big strides towards simplifying the whole pension system and increasing the numbers saving for retirement. It's not possible to make an omelette without breaking eggs and the gentle phasing out of the age-related tax free allowances is a small price to pay for the UK to have a robust, straightforward pension system, where means-testing, with all its distorting effects, becomes a thing of the past.

We're all in this together and there is a big budget deficit that needs to be addressed. Pensioners should forego the moaning and see the bigger picture.

Step into the 21st Century with an Exaxe Solution

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Spreadsheets are for monkeys!