



 IGNITION

United Kingdom Insights  
**Better workplace  
pension provision**

# About Ignition

Ignition is a leading global advice technology specialist for financial institutions seeking to help more customers access financial advice in a fast and scalable way.

We help our clients combine the power of digital intelligence with a human touch to enable smarter, more flexible and more secure advice delivery.

We partner with banks, insurers and wealth managers worldwide. Our SaaS platform integrates seamlessly into existing systems enabling our clients to deliver a frictionless, customer-centric experience that brings a customer and adviser together into a single advice workflow.

For more details on how we can help you build your advice vision and enable more customers to make better financial decisions, visit [discoverignition.com](https://discoverignition.com)

# Better workplace pension provision starts with bringing advice journeys to life



How can we help more UK adults overcome their financial fears and improve their retirement outcomes? These questions have preoccupied the financial services sector for decades but have now reached critical levels.

The reality is that 39 million adults in the UK currently receive no professional advice or guidance on how to best manage their finances. Within the UK population there are 7.1 million people who identify as 'disengaged' when it comes to managing their money, and a further 14.2 million who admit to being anxious about their financial affairs.<sup>1</sup> Arguably, in the context of demographic trends and the increased expectation of more self-reliance in terms of long term savings arrangements, the more immediately troubling statistic is that 22 million people in the UK say they simply don't know enough to adequately plan for their retirement.<sup>2</sup> And over a third of those aged 55-64 with defined contribution (DC) pensions have no plans on how to turn their pots into income.<sup>3</sup>

## Wasn't auto-enrolment supposed to solve this problem?

Over the last decade, auto-enrolment has helped millions of people to start saving into a pension. Workplace Pension participation amongst eligible UK adults has risen from 10.7m people in 2012 to 19.2million at the end of 2019. Within this overall growth in DC membership there has been strong growth in MasterTrust schemes, which it is estimated are receiving 80% of enrolling employees. Collectively, workplace savings providers (life insurers and those offering both DC pension savings vehicles and shorter-term savings products) manage DC assets of more than £367 billion.

However, while auto-enrolment may have fulfilled its primary objective of encouraging increased pension participation, when it comes to encouraging more people to engage with financial advice and gain the confidence to take control of their finances, there's clearly still some way to go.

<sup>1</sup> Exploring the UK Advice Gap Report, Royal London (2021)

<sup>2</sup> Money & Pensions Service (2020)

<sup>3</sup> Pensions Policy Institute, Supporting Later Life (2019)





**Pension decisions are some of the most complex that a person will face in their lifetime. Experts on behaviour and the psychology of pensions have ranked decisions about accessing DC savings as “the most difficult of both working life and retirement financial decisions”, because of the variables of investment risk, expenditure needs and longevity.**

Contributions to DC schemes have been stuck at minimum levels since auto-enrolment’s inception, and for too many employees, it is just another payroll deduction. This feels like a missed opportunity.

The Financial Conduct Authority (FCA) has expressed its own concerns that too many people are following the “path of least resistance” when planning for retirement, and that a limited understanding of risk in respect of their own individual circumstances had led many to rely on a default investment solution, absent any guidance or advice informed by their personal circumstances.<sup>4</sup>

Certainly, the benefits of obtaining financial advice to achieve better retirement outcomes are well known. Indeed, one of the key findings from a 2019 research paper published by the International Longevity Centre (supported by Royal London) noted that the impact of receiving financial advice is material for all, when compared to those who do not and is proportionately greater for those on smaller incomes. For the ‘affluent’ group identified in the research, the advice uplift delivered an additional 24% in total financial wealth compared with an uplift of 35% for the non-affluent group. On pension wealth, the uplift was 11% for the affluent group, compared with 24% for the non-affluent.<sup>5</sup>

## **The long-term costs of financial insecurity**

Financial insecurity continues to be one of the biggest causes of stress and anxiety. Employers understand the toll it takes on staff’s mental, physical and emotional wellbeing. Whatever form the reaction takes, it has negative implications on workplace productivity and increases employee absenteeism. The immediate and longer-term consequences on households arising from the recent pandemic will only exacerbate this situation – with financial concerns expected to become more of a problem across multiple segments of the working population in the months and years ahead.

## **For workplace advice to succeed employee engagement is essential**

There is little doubt that most employers want to tackle this lack of engagement among employees. Their concern reflects both the desire to demonstrate their corporate responsibility to care for the welfare of staff, and the need to actively safeguard the commercial health of their business.

<sup>4</sup> FCA Retirement Outcomes Review (2017)

<sup>5</sup> ILC, What it’s worth – Revisiting the value of Financial Advice (2019)

The desire to find breakthrough solutions to engagement is an equally pertinent challenge for the Trustee Boards and Independent Governance Committees.

As DC savings and master trust schemes continue to grow, the number of savers whose financial futures are dependent on how well they perform is rising significantly. The responsibility for the success of these arrangements, covering millions of savers is a very significant one. The challenge facing these oversight and governance bodies is how to define and deliver success when looked at from the perspective of their members. Currently, attention is primarily focused on the quality of customer services, comparative fund performance and overall value for money at a macro level. While these factors are undeniably important, there is arguably much more to be gained by becoming more responsive to the personal circumstances of individual members within the scheme, finding ways of taking greater account of individual retirement aspirations and critically of helping determine whether their individual needs are best being served by the arrangements in place.

## The desire to innovate is clear

While there have been some creative and constructive initiatives to encourage more broad based and generic engagement with long term savings concepts, the fundamental challenge remains how to 'reach' individuals with differing personal circumstances and perspectives on critically important topics such as risk, which naturally arise from varying levels of financial literacy or comprehension. Making more information broadly available is prospectively helpful but will inevitably prompt more questions from those individuals looking to understand and interpret the implications for themselves. Dashboards and simple tools can only go so far – it is inevitable that more support will be sought.

Moreover, despite some reservations about data privacy, employees generally regard their employers as a trusted access point for such guidance or advice.



**In 2017, the Financial Advice Working Group, established by HM Treasury and the FCA, found that 57% of workers would welcome financial advice being available in the workplace, and one-third would be willing to pay for an in-house financial adviser provided by their employer.<sup>6</sup>**

This all suggests a direction of travel and underpins the rationale for the greater provision of workplace guidance and advice. So, what are the hurdles that must be overcome?

## Workplace advice must be affordable for consumers and cost-effective for providers

Historically, one of the biggest challenges has been how to make quality financial advice affordable for the majority of workplace savers. Deloitte research suggests 68% of active DC pension members would pay for advice, but it would need to be at a very significant reduction to "traditional face to face rates".

From the 'provider' perspective, the perceived cost of building and maintaining the operating model and infrastructure capable of sustaining an appropriate workplace advice offering has been prohibitive – doing so at a lower revenue point only exacerbates the commercial challenge and has made the business case for advice via the workplace channel a historically difficult one.

Additionally, there remains the perennial question of whether the institution administering the workplace scheme provides financial advice directly or through strategic partnerships, the form such the advice should take and

<sup>6</sup> Financial Well-being in the Workplace: A Way Forward (2017)

whether the capacity to provide such advice existed. As illustration of this point, in 2019, LCP and Towers suggested that only around ten UK advice firms had the scale, capacity and preparedness to consider offering workplace advice services.

The conundrum has been this: How can firms break the capacity constraint of a limited number of advisers, and build an advice proposition that engages and is affordable for the customer, while still proving cost-effective for the employer and the provider? The good news is that advances in technology now offer the prospect of credible breakthrough solutions.

## Today's digital solutions can deliver the breakthrough

The arrival of 'hybrid' guidance and regulated advice solutions now make it viable to deliver cost-efficient financial advice at scale and represents a turnkey opportunity for workplace pension providers to effectively build out their offering. Those vendors that have ensured their technology features the highest possible levels of cybersecurity and compliance and risk controls – as well as obtaining the stringent regulatory approvals required to work with tier-one financial institutions – are leading the way.

It is now possible to leverage artificial intelligence (AI), machine learning and predictive analytics in combination with low code/no code platforms and application programming interfaces. Such technologies are already available and capable of delivering highly personalised, differentiated advice and guidance experiences at scale. However, building capacity is just the beginning. To overcome longstanding reservations over the economic viability of advice in the workplace, deployment must change so that the positive commercial impact is felt much sooner.

## Making the economic case

When it comes to creating technology capable of delivering financial advice at scale, institutions must incorporate a customer-first approach. This starts with using clear and welcoming language and an intuitive system design, including the introduction of appropriate support and means of making proactive intervention

when required – particularly when consumers face a potentially impactful life decision. Assurance that all advice and guidance is delivered in accord with regulatory standards, further enhanced by institutional risk requirements is of course a non negotiable. So too are independently verified security and assurance protocols that meet the highest industry standards.

To date, such solutions, if available at all, have come with major challenges around elapsed time and cost to develop, build then deploy. Fortunately, the protracted periods of analysis and drawn-out build phases that have inflated the time and costs of getting to market are being consigned to history. The days of it taking 18 months to get a single regulated advice journey live – or 12 months to get proof-of-concept projects up-and-running are no more. It is now possible to set much more accelerated development timescales requiring significantly less capital investment than in the past.

Equally important in terms of commercial viability, the ongoing development and maintenance costs of the new digital or hybrid advice platforms are now of a different order to those experienced with the earlier incarnation of outsourcing solutions. These platforms offer cost-efficient flexibility and an unprecedented agility in developing continuously evolving propositions for institutional clients. They deliver multiple advice and guidance journey capabilities "out of the box" that clients can configure and deploy as they determine. These new generation models are continually being optimised and extended by the platform vendor, breaking the cost and time constraints imposed by rigidly fixed in-house development cycles.

## Digital advice that maximises value propositions

Technological advancements mean that hybrid advice models are already delivering significant increases in productivity and in cost-efficiencies, through enabling financial advice to be delivered at scale, while reducing operational overheads of doing so. Evidence is also beginning to emerge that shows similar dramatic improvements in terms of customer journey completion and in transaction levels. In summary, the new platform capabilities becoming available offer the prospect of lower elapsed time and costs for development combined with increased levels of engagement and transaction. Of course, it's important to emphasise that no single piece of technology by itself is a 'silver bullet'.



**Those businesses that have taken the lead in pursuing advice provision at scale are adopting a "Lego build" mindset and partnering their advice platform with other selected best of breed providers that are developing technologies or providing essential capabilities.**

Critically, these businesses are working within a clearly-defined operating model, and to a common set of business outcomes, in which all have a direct commercial interest. As with any strategic partnership, success can only be achieved collectively, and the rewards only accrue as that success is attained.

## Collective willpower can help bring advice journeys to life

The financial services industry has an unparalleled capacity to collect, collate and analyse information. These disciplines are, of course, essential to delivering value to clients, whether through comprehensive needs analysis, and developing innovative solutions that offer the surest prospect of achieving desired customer outcomes. We're an industry of problem solvers and solution providers.

The introduction of pension freedoms and the broader range of choices, in combination with the broader shift to greater self-determination, has brought its own set of problems, and requires a level of financial literacy that many can't cope with unaided. This inevitably means individuals have a greater

challenge to identify their problems and find the guidance they need to make informed decisions.

Advice, therefore, remains the key to maximising investment outcomes and retirement savings levels. But the challenge remains how to move beyond the generic provision of information to a world where institutions help individuals make decisions based on the best actions for their circumstances. We are early in the journey, with much still to do if the advice gap is to be narrowed, and its destructive consequences limited. However, the level of collective interest in bridging that gap, and helping more people build better retirement outcomes is clear, and the means of achieving it already exist. Stakeholders are aligned on the merits of delivering personalised advice – the next step is ensuring it can be delivered at scale, securely and in a cost-effective manner that benefits everyone.

We are  
**Enabling secure  
financial futures.**  
Ignition.

### The advice gap is widening

Category	Number of Adults (Million)
UK adults getting no professional advice or guidance on managing their finances	39
are "anxious" about their financial affairs	14.2
people admit to being disengaged with their finances	7

Source: Exploring the UK Advice Gap Report, Royal London, 2021

### Advice is the key to financial security

Research by the International Longevity Centre in 2019 found that people who **receive financial advice** boost their investment outcomes **significantly**.

People "just getting by" increased their pension wealth by **24%** and their overall financial wealth by **35%** after obtaining financial advice

Source: ILC, What it's worth – Revisiting the value of Financial Advice, 2019

### Workers would welcome workplace financial advice

**57%** of workers would welcome financial advice in the workplace

**33%** of workers would pay for financial advice provided by their employer

Source: Financial Advice Working Group, 2017

### Product providers could do more

**78%** of pension investors said they wanted some sort of help from their provider to make their decisions

Source: ABI, 2021



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human touch to enable smarter, more flexible and more  
secure advice delivery for everyone.

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