Summary
- Pensions dashboards are the obvious example of an open finance approach to pensions, however there are plenty of benefits and uses for them beyond that.
- Trustees could benefit from open finance by offering members affordable financial advice.
- Open finance could be used to boost member engagement by making pensions more accessible and visible.
- Open finance does not mean the pension sector does not need to worry about educating members and consumers.

Opening up

Open finance has garnered interest from the FCA and it could pave the way for far-reaching industry changes which, experts believe, would reap rewards for consumers

Open finance describes the sharing of consumer data from across the financial services sector, including pensions, insurance and mortgages, to third parties, which in turn could unlock further innovations that have the potential to deliver transformative benefits to consumers.

In terms of regulation, open finance is something the Financial Conduct Authority (FCA) has talked about in the past, but there are currently no obligations on financial services firms to create any kind of specialist technology or dataset to fit in with an industry-wide open financial initiative.

The regulator, however, seems excited by the concept. In a March 2021 feedback statement on open finance, the FCA said such a move could allow third-party providers to use data from consumers and businesses to develop "innovative products and services that meet consumers' current and future needs."

To implement open banking, which formally came into force in the UK in January 2018, a set of standards for the open banking ecosystem, the Open Banking Implementation Entity, was set up. Currently, no similar set of standards exists for open finance, but Cushon founder and CEO, Ben Pollard, believes one may be necessary to successfully launch open finance in the UK.

"The incoming pensions dashboards are a prime example of an open finance approach, consolidating a wide range of financial information in one, accessible place," says the Pollard. "However, this approach can only be successful if all providers share high-quality data consistently and in a useable format, so other providers can access it.

"In open banking, this was achieved through the creation of the Open Banking Implementation Entity, so it's likely something similar will be needed for open finance."

Affordability and competitive products

As Pollard highlights, the pensions dashboard is the obvious application for open finance in the pensions sector. However, there are plenty of uses for it beyond that.

Open finance could, for example, offer trustees the chance to provide their members with affordable financial advice.

Financial Technology Research Centre director and founder, Ian McKenna, says new financial advice systems like Destination Retirement from Hub Financial Solutions – an automated service providing regulated retirement advice – and M&G's hybrid advice service MAP – short for 'Map your financial future with M&G Wealth' – "will make regulated advice accessible and economic for millions of consumers who currently find it a luxury they are unable to afford".

These hybrid advice options, which are often fronted by humans with the advice calculated by technology in the background, will have a transformational effect on the workplace pension market, McKenna says, and as a result benefit consultants who "should now be looking for their advice automation system providers".

For PensionBee chief engagement officer, Clare Reilly, one of the draws of open finance is it will effectively force industry giants to create better products, which will lead to better outcomes for customers.

"The consumer demand for apps and tools that use open finance technology has enabled competition to flourish in the *[financial services]* sector," she says. "The renewed pressure on incumbent providers to offer modern, competitively priced pension products that reflect the needs of 21st century consumers can only help drive better retirement outcomes for consumers."

Boosting member engagement

One of the greatest challenges facing the pensions sector is member engagement. More than two-thirds (67 per cent) of UK adults did not log-in to their pension portal between March 2020 and 2021, according to Canada Life, and over half (56 per cent) of respondents have not read any of their pension statements.

Elsewhere, research commissioned by the Association of British Insurers found an estimated 1.6 million pension pots worth £19.4 billion were unclaimed, which is in part because people forget to tell their pension provider when they move house. Just one in 25 people think about telling their pension provider when they move to a new home, which risks misplacing, and ultimately forgetting about, their pension pot.

Experts believe open finance could substantially boost member engagement. Pollard says in the context of pensions, open finance is primarily about visibility, which could play a huge part in getting people to better connect with their later life savings.

Pollard says in a time of high job mobility, particularly among young people, consumers tend to focus on the pot they are currently paying into, even potentially disregarding former pots they have accumulated.

"While a pot may look 'small fry' viewed in isolation and 'not worth engaging with', once it is consolidated within a single total, it becomes worth engaging with," he explains.

In addition, Pollard says, engagement could be boosted by implementing a tech approach and modernising the pension industry, much in the same way apps have engaged consumers with their personal finances and non-pension investments.

"Providing insight into future financial stability can also encourage people to alter their financial behaviour, for example, encouraging them to save more if they are not on track for their retirement goals, and also help people stay on top of multiple different pensions," he adds.

Accessibility brought about by open finance could prove to be another major driver of engagement, according to Penfold co-founder, Chris Eastwood.

"Open banking and open finance can enable providers to help people automate their pension savings. Customers won't have to exit their pension portal to make changes. Instead, they can view and access their savings in one place, the same as they could use mobile banking to see their savings."

"It's this accessibility point that will be key to driving engagement with pensions, particularly among younger savers who have come to expect a high level of accessibility due to the likes of Monzo and Starling," says Eastwood.

The self-employed could also be encouraged to save into a pension via open finance. Eastwood says through open banking technology, savers can connect their bank account to Penfold and select a percentage of their excess income to save. Penfold could then analyse their finances, and, in scenarios like an increase in income, trigger a nudge that encourages them to increase their pension contribution.

Not a 'job-done' scenario

While open finance has many potential benefits, it could run into problems if it is not delivered thoughtfully and technically well.

Chief among these concerns is the idea that open finance offers a 'job-done' solution to existing issues within the pensions industry.

"While more automation will help to enrich the pension experience, it should not be allowed to replace engagement – it is important for providers to still prioritise educating their customers on the benefits of pensions and how to get the most out of them, alongside greater tech," says Eastwood.

Then, there is the danger the technology itself may simply not be very good – an outcome that could wipe out any engagement benefits.

"There are always potential drawbacks to any technology solution, be that data quality and poor functional design," says Punter Southall Governance Services client director, Gerald Wellesley. "Guidance and support on how to use the more holistic data an individual presented with will still be needed – having information in front of you doesn't necessarily mean you understand and know what to do with it."

In addition, protections must be put in place for consumers to ensure they avoid any unfavourable outcomes that could result from having better access to their money, according to Tisa Digital CEO, Harry Weber-Brown.

"Protections need to be put in place to prevent mis-selling, scams and poor decisions being made," he adds.

Written by Hannah Godfrey, a freelance journalist