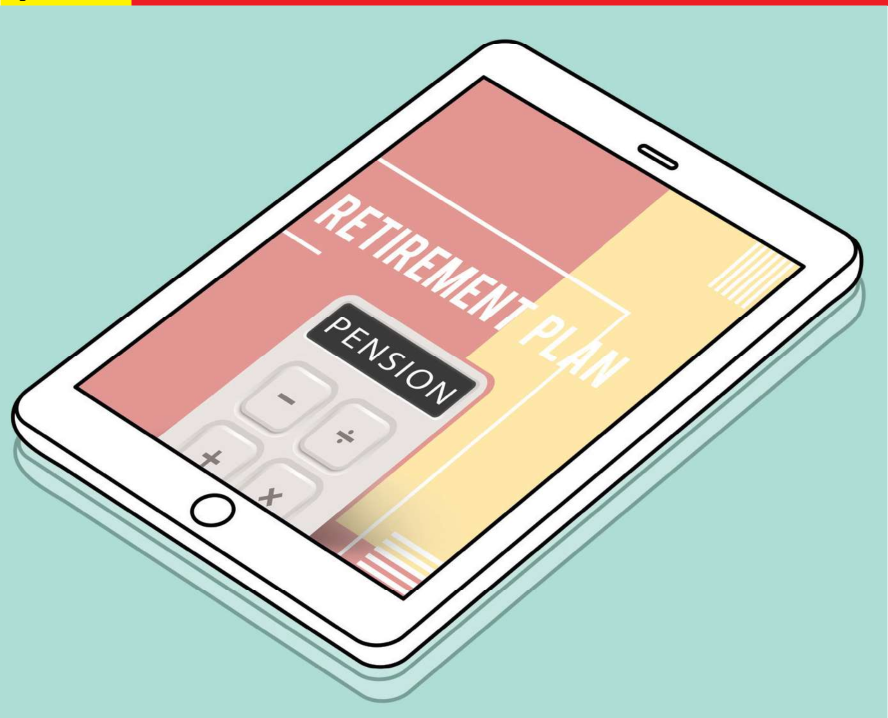

Summary
• Open finance has the potential to give savers ownership of their pension and control over their retirement planning.
• Data and accessibility issues continue to present a key issue for the pensions industry's adoption of open finance.
• Open pensions have a distinct purpose from the pensions dashboards, but preparation ahead of the dashboards could spur schemes into action.

Pensions – open for business?

Following the Financial Conduct Authority's recently closed call for input on open finance, Sophie Smith looks at whether the pensions industry is ready to open, and what a more open future could hold for members and schemes alike

Auto-enrolment (AE) is often highlighted as a huge success for the pensions industry, with an additional 10 million people now saving into workplace pensions. However, recent statistics from the Office for National Statistics found that nearly one in five (19 per cent) UK workers are unaware of AE, whilst Royal London research has shown that 19 per cent have "no idea" what happens to their pension contributions.

It is perhaps unsurprising then, that many savers feel a lack of ownership towards their pensions, as Scottish Widows retirement planning expert, Robert Cochran, explains. In particular, he notes a trend amongst savers of viewing pensions as belonging to providers, whilst money in the bank is viewed as the individual property. Adding to this, PensionBee head of corporate development, Clare Reilly, warns that there is a "huge disconnect" between the public messages from the government that savers must take responsibility for their retirement, and "a complete lack of practical tool to do so".

Giving savers ownership

"Ownership means that individuals will be able to get to know their pensions and thereby make decisions in order to prepare for or manage retirement," she continues. And whilst analysis by PensionBee estimates that 70 per cent of customers know the name of their provider, Reilly warns that replies can often take several months and require paper forms. "Consumers cannot have 'ownership', as the government asks them to, if they cannot access basic information like balances, charges, performance and investments easily online," she argues.

Considering this, Reilly highlights ownership via open pensions as a distinct, and perhaps more important, policy objective than reuniting savers with lost pensions through the dashboards. "Overall entitlements in DC pensions are closer to £1 trillion, suggesting that open pensions can create 50x more value to consumers than a pension finder service alone," she emphasises.

Plaid UK policy team lead, Kat Cloud, also argues that pensions currently are difficult to access, easy to lose, and hard to manage.

"For digital finance innovators, consumer-permissioned access to pension data unlocks the ability to create products and services to help people navigate retirement more easily," she stresses, "subsequently, consumers gain better tools to eliminate many of these hurdles and improve retirement preparation and management."

Indeed, Cochran argues that integration of pensions into open banking has the potential to completely change savers' relationship with their pensions, with consumers already looking at mobile banking an average of 26 times a month.

"By going to where people already go you start to be able to completely change the relationship with their pension," he states, highlighting the integration of Scottish Widows own pension services into the Lloyds Group platforms as demonstration. In July 2018 for instance, 52,642 members accessed their pension directly via Scottish Widows, compared to 331,140 on internet banking. The integration of mobile banking has also bought further increases, with members viewing their pensions alongside their Lloyds Group bank accounts 7.75 million time on mobile platforms in June 2019, 1.5 million times on internet banking, and 98,000 times directly via Scottish Widows. Furthermore, recent research from open banking platform, Bud, shows that whilst 34 per cent of people would use a feature that showed all of their investments and pensions in one place regardless of where they may be held if available on their online banking or mobile app, just 13 per cent would use such a feature on a standalone app.

Cochran highlights this integration of pensions alongside the wider financial considerations as a "clear way to deliver better engagement", emphasising that retirement savings must not be considered in silos.

However, Trafalgar House client director, Dan Taylor, warns that the industry should be mindful of the dangers of mixing short-term and long-term saving and investment decisions.

"Banking, savings and credit are all relatively short-term financial products that often benefit from active management and frequent 'best deal' swaps," he states, "the same cannot be said for pensions policies and investments". Furthermore, Taylor says that whilst many want greater member engagement, members shouldn't get into the habit of managing their pension fund in the same way as their bank account; warning that this could lure savers into a false sense of security if seeing relatively large pension saving sums.

Cochran meanwhile, argues that the digital nature of open banking allows for quicker and more accurate interventions via member communications.

"It's important and incumbent on us as providers to make sure that we're sending the right information to people at the right time," he explains, highlighting that amid the pandemic for instance, the provider has been able to react to member activity, with Scottish Widows' video on falling investment values receiving 293,000 views within the space of a few weeks. "That's one of the benefits of being able to see what people are doing online," he stresses, "intervening and giving them support that they need."

Win/win?

Taylor also clarifies that, for administrators, this could be the 'nirvana' that many have hoped for. "A simple, unified way to present data and information to members that is easily and universally accessible – it could take away some of the service strain, improve member engagement and liberate the consumer market to find more compelling ways to encourage saving," he explains.

And the potential benefits don't stop there, as Reilly argues that the Financial Conduct Authority (FCA) could open up data on costs and charges, in light of the recent news that they will not be included in simpler annual benefits statements. This in turn, she argues, would allow UK consumers to compare costs and product features for the first time ever, encouraging effective competition and widening access to advice.

Furthermore, Reilly states that there is evidence that open banking would lower the cost of advice, with many advisers estimating an average onboarding cost of over £1,500, due solely to the difficulties in obtaining data from pension providers.

However, Taylor warns that whilst open banking is meeting many of its original aims, technical hurdles are making it harder for larger providers to keep pace. "In terms of products to benefit customers, development has been complex and slow, and many practical applications are yet to be implemented," he says.

And whilst there are many potential benefits to open pensions, there are still barriers that need to be considered.

"The most commonly heard explanation for why pensions cannot be easily integrated centre around the lack of existing data standards across the industry, bad data, legacy IT systems and the sheer number of different schemes," states Reilly.

She stresses however, that none of these should be considered an insurmountable barrier, highlighting PensionBee research finding 40,000 pension schemes with varying levels of digitisation, with just 12 providers owning 80 per cent of the data in the ecosystem. The 'directed 12', Reilly explains, already hold digital records and can be compelled by the FCA, who regulates nine of them, to open up pension data to consumers via open source application programming interfaces (APIs); much like the 'CMA9' of open banking, who had a combined market share of over 90 per cent of the UK's consumer and small business bank accounts.

Furthermore, Taylor points out that the development of self-service websites and integrations with HR and payroll systems have already paved the way for wider integration opportunities. "Newer administration systems already have established APIs that can securely exchange data with external systems," he explains, "it's not a major leap to start using this to exchange and publish data into banking or other retail applications."

Data, data, data

However, Taylor warns that, aside from the technology challenges the pensions industry would need to address, there are also persistent issue of data quality, compounded by a broad lack of coherence on how pensions data is stored and managed.

"Pensions data, particularly where it is older, or more complex, is consistently holding the pensions industry back," agrees ITM director, Matt Dodds, although he acknowledges that the extent to which that is a convenient excuse, used to deflect from other shortcomings, is difficult to quantify.

In particular, Cloud highlights that most pensions and some insurance providers do not have digital data, let alone data that is machine-readable in a standardised format. "Without the data being online, there's no way for a TPP to access or build APIs to retrieve that data," she explains, "as a result, the firms will have to digitise all paper records, which is not a simple task."

However, Cochran states that the same data challenges are often highlighted in relation to dashboards, and therefore will be tackled in preparation for this. Indeed, Dodds says it would be foolish to approach the two in isolation, emphasising that a joined-up, long-term approach to data remediation and data management will help prepare for both.

Reilly also points out that pension schemes will soon be forced to clean up bad data, and ensure legacy systems are upgraded to pull important consumer data via API out in a standardised way, as these will be mandated by law ahead of the dashboards.

More broadly, she notes that open banking has shown the necessity, and impact, of using legislation, to drive change in a market low in innovation and dominated by a set of incumbents offering similar products.

A dashboard substitute?

However, considering the overlap with the pensions dashboards, and the amount of work already underway for this, is open finance truly the right answer for the pensions industry?

"Open pensions differ greatly from the government-led pensions dashboard," clarifies Cloud, emphasising that the pensions dashboards have only one use, to reunite consumers with 'lost' pensions, rather than addressing problems with pension information access.

Reilly echoes this, clarifying that whilst they are two distinctly different pieces of work, it is "imperative" that the dashboards develop in parallel with open pensions.

"Open pensions is a crucial component of open banking and opening up 'found' pension data should occur in parallel to finding 'lost' pensions via the dashboards," she explains. "These are two very different tasks that must not be allowed to occur sequentially, as the result will be that consumers wait until beyond 2030 to see basic pension data."

Dodds however, states that there is a lot of detailed consideration required to build the eco-system to enable dashboards, explaining that if done properly and with future considerations in mind, one could be the catalyst for the other.

Perhaps one of the most notable differences is in functionality, as Reilly clarifies that to have ownership over their pensions, members need to be able to know their pension and make decisions. And, according to Cochran, much of this functionality is already developing, with greater innovation, such as save the change functions which could allow savers to put the 'spare change' from transactions into their pension or other savings vehicles automatically, emerging.

"I think you start to move to a world where people can get support from robo-advice and other different bits of technology to help them manage their money in a better way, and retirement becomes part of that," he says.

Lessons learnt

Cloud adds that open banking has provided plenty of lessons learned to create a framework for open finance that "harbours innovation and improves consumer control and understanding".

Taylor notes, for instance, that big banks found that the strain of open banking and its technological pressures added to the legacy infrastructure problems they've wrestled with for years, warning that the pensions industry can look forward to the same due to wholesale change costs. He also highlights general poor performance in delivery of the required API Messaging as a major early criticism for open banking.

Open banking has continued to evolve to deal with these issues however, with the FCA now exploring how to transition to open finance, which Cloud states would guarantee consumers access to all of their financial data, including their pensions.

"Since Covid-19, the global fintech ecosystem has seen massive increases in adoption and consumers are realising the convenience and ease of money management that open banking bring," she explains, noting that many are looking to simplify the more complex areas of financial life, with pensions a prime starting point.

"If done right, digital finance will flourish under open finance," she adds. "We'll see an array of creative new use cases emerge that address nearly every corner of financial lives."

Indeed, Reilly argues that open pensions have the power to help everyone take responsibility for their retirement savings, stressing that the FCA not only has the power to enable this, but a duty to.

Written by Sophie Smith