An automated helping hand

Summary
• Scheme members approaching, or in, retirement are being actively encouraged to overcome any 'tech-phobia' and go online to engage with their pension.
• However, workplace pension schemes still lag behind the advised/ wealth management retail pension sector in adopting investment automation.
• The launch of the pension dashboard in 2019 should provide automation with a major boost.

Investment automation is steadily playing a greater role in the pensions industry, as providers encourage older members of workplace pension schemes to go online for advice and guidance, reports Graham Buck

Since early 2016, TV and poster adverts have invited consumers to 'Just Nutmeg It' when seeking guidance on investment, savings and pensions. Behind the campaign's animated characters lies an online investment management app, promoted as a "smart new way to invest… in an industry renowned for being complex, expensive, opaque and intimidating".

As artificial intelligence (AI) and robo-advice move from the realm of science fiction to play a major role in financial services, investment is becoming increasingly automated. Online services such as Nutmeg and Scalable Capital offer online only-switching, real time valuations, managed portfolios and cost transparency on an app. However, as sellers of SIPPs these companies are absent from the workplace and their investment management services – including advice – are provided directly to customers rather than employees.

The term 'investment automation' encompasses a range of activities across the wealth valuation chain that includes supporting the advice – or guidance – process; a straight-through processing (STP) application; transferring money between parties; and managing the investment process and trades, says digital advice specialist Altus principal consultant Simon Bussy and his colleague Jon Dean.

They note that in the retail space, to date most digital/robo-providers have focused on automating individual savings account (ISA) and general investment account (GIA) new business.

"Only a handful of providers – such as Nutmeg and PensionBee in the direct to consumer (D2C) sector and EValue as a business to business/ business to consumer (B2B2C) supplier – have managed to develop a pensions proposition," says Bussy. "However, several providers are now developing retirement propositions as part of their robo-offering.

"Some focus on the accumulation phase while others are more interested in the consolidation/at-retirement and in-retirement phases, which will provide 'scale at speed' if they get it right."

Bussy adds that workplace pension schemes still lag behind the advised/ wealth management retail pension sector in adopting automation "although take-up of systematic transfer plan (STP) investment instructions via financial messaging service SWIFT is high between employee benefit consultants (EBCs)/third party administrator (TPA) firms and fund managers".

"The regulatory environment in the UK makes it challenging for digital wealth managers to launch a workplace pension," explains Scalable Capital's founder and CEO, Adam French. "The auto-enrolment legislation wasn't exactly written in a way that made it easy for new pension providers to get involved in that market."

The comparative lack of innovation also reflects the fact that scheme trustees are tasked with satisfying the employer they are running the scheme for the best possible value. So, for DB schemes, typically saddled with serious underfunding issues, managing down administration costs and asset/liability matching take greater priority than investing in the member experience.

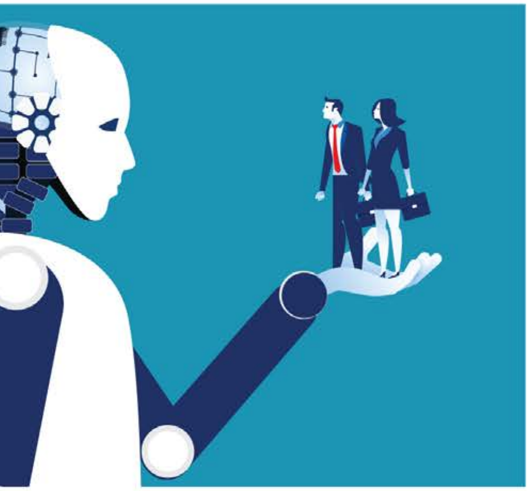
"That said, optimising the use of technology will help manage down the costs of operations and investment management," suggests Bussy. "If trustees can be convinced that an improved online experience with self-service, automated planning and guidance et al can significantly reduce headcount in the admin back office, this could be a major selling point to take to scheme sponsors.

"But with IT projects often absorbing significant budget, a disciplined approach and framework to developing or sourcing these improved services is required."

Promoting online

Investment automation is already revolutionising what was once the complex task of forecasting, as a typical worker has held 11 different jobs by the time retirement arrives. By using a series of algorithms a suitable asset allocation plan can be created for the individual.

"With individuals rarely working for the same company for their whole career, it is increasingly common to have pension pots with several workplace pension



schemes," says IG Smart Portfolios portfolio manager Oliver Smith. "Online operators offering SIPPs as well as retail investment products such as ISAs and the newer LISAs stand to gain market share as individuals look to consolidate their investments.

"Robo-advisers take into account an investor's goals and risk tolerance in a way that workplace DC schemes do not."

Aegon's head of pensions, Kate Smith, agrees: "Automation is now very much the name of the game, in encouraging more people to go online or onto an app and check how their savings are performing, how much they can expect to receive based on current projections, decide whether they wish to increase their contributions and perform other tasks."

Aegon's own Retireready is a precursor of the pensions dashboard that is due to be launched in 2019. It enables users to check on performance and contributions, with a retirement readiness score and income projections to aid their planning.

However, both Aegon and other providers have to address the fact that older workers approaching or in retirement may be more tech-averse than their younger colleagues.

"We try to encourage as many people as possible to go online and make things as simple as possible to help the process," says Smith. "However, we recognise that convincing them to do so is a challenge and there are still many unengaged individuals, so we actively promote the service in the workplace and get employers to do likewise."

LV= director of advice David Stevens agrees: "With workplace pension-saving increasingly being the mainstream environment for the long term, it's important people are encouraged to take control of their pension savings and get the best value from their pot when it comes to retirement. So it's vital that consumers engage with their pensions throughout both the accumulation and decumulation phases of retirement."

LV= launched its Retirement Wizard robo-advice service in 2015. This and other sophisticated advice solutions represent "the start of a financial intelligence and technology innovation that will empower consumers with better decision-making power and in doing so reduce risk to them as well as giving them confidence in their long-term savings decisions," adds Stevens.

Hymans Robertson head of workplace savings Paul Waters reports that employers and scheme trustees are starting to adopt robo-solutions. The firm's own DC pensions solution, Guided Outcomes, uses robo technology to guide members to a specific pension target, adjusting their contribution rate and retirement age as necessary, while LV='s Pension Compass range of tools is used by trustees to help DB members understand their options with regard to retirement flexibilities and links through to full advice where a member needs it.

Knowledge and nudging

Fintech companies focused on workplace pensions include Wealth Wizards, which has successfully carved out a distinct space for itself by providing more complex digital advice on a B2B basis. Abaka, an AI-powered mobile app, aims to assist employers with employee wellbeing by improving their financial knowledge and providing timely financial guidance.

"Trustees of DC schemes bear an added responsibility in ensuring that its members are able to maximise their retirement income and should do all they can to facilitate education," says Abaka's founder and CEO Fahd Rachidy. "With the demise of DB schemes, there is also recognition by employers of their social responsibility for ensuring their employees are well prepared for retirement.

"AI gives individuals the ability to create something that is personalised and engages them. However, the pensions industry is still too fragmented and creates technology barriers, which need to be removed so it's possible for them to connect with multiple platforms." Rachidy welcomes the upcoming launch of the pension dashboard initiative and would like participation to become compulsory for all pension providers.

"Greater pension freedom and choice has made the individual responsible for making choices on when and how much they want to receive, so access to affordable advice is vital," he adds. "People typically have received little in the way of financial education and sources of advice, beyond the money advice service, have been limited. Financial education should really become part of the basic school curriculum."

Added to improved financial knowledge, increasingly-sophisticated fintech can help those approaching retirement in calculating just how much money they need and will become even more refined in the years ahead, suggests Altus' sales and marketing director Howard Finnegan.

"To give one example, robo advisers ask individuals a series of questions, but their response might differ from one day to another, depending on factors such as the mood they're in at any particular moment," he says. "However, interesting new technology has been devised, which makes it possible to derive a much more precise reading for Millennials from their activity on Facebook and other social media."

Written by Graham Buck, a freelance journalist