

RETIREMENT INCOME IN THE DIRECT PLATFORM MARKET



A WHITE PAPER FROM:





BEFORE WE GET GOING

This paper was commissioned by GBST. Its primary focus is to look at the current retirement income solutions in the direct-to-consumer (D2C) market and how effectively consumers are being supported in making decisions and taking income.

Having watched this sector for a while, we think there's a chronic lack of innovation. The pension freedoms caught everyone by surprise and the industry does not appear to have recovered.

This paper tests that theory by questioning what platforms currently offer and what they've got up their collective sleeves for the future. If we're right and innovation has been left by the wayside, what's to be done about it? And what barriers are currently holding platforms back?

It's a sponsored analysis which GBST paid us to write. Clearly GBST has a commercial interest in this market. It wouldn't pay for the paper otherwise. But it also has an interest in a fair and open analysis of how well the market is currently working for investors. Cue, the lang cat.

An analysis of this kind always requires ground rules. Firstly, we didn't let GBST check or challenge any data or facts, especially those relating to providers' propositions.

Second, this isn't a view from the lang cat on the relative merits of certain products or providers over others. We're interested in the market as a whole, not playing platforms off against one another. You'll see from our peer group that some are GBST clients and some are not. That has no bearing on our analysis.

Lastly, we believe that organisations hire us for work such as this because of our independence and for the honest, direct and sometimes plain awkward opinions that come with it. The views we express here are our own and GBST had no editorial control over the analysis. The paper is based on a combination of our experience in the market and research we carried out with the platforms. We're grateful to the platforms that took part for their co-operation and hope that all D2C platforms will find the results interesting, challenging and useful.





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KEY HIGHLIGHTS

- Four years on from the pension freedoms, the anticipated innovation in retirement solutions remains thin on the ground. In addition, some of the largest organisations in the D2C market are yet to offer a pension wrapper of any sort. The Financial Conduct Authority's (FCA's) Retirement Outcomes Review (ROR) may prove to be a catalyst for change in the form of investment pathways to assist and engage non-advised consumers, but true innovation is customer, and not regulator led.
- With a greater level of choice over retirement savings than ever before, we believe more needs to be done to ensure consumers make appropriate choices when drawing their benefits. Despite the current shape of household wealth in terms of ISA holdings, defined benefit (DB) pension provision and home ownership, only one of the platforms we looked at offers software to help customers consider all their assets when making decisions concerning their retirement finances.
- There remains a gap between the functionality available to investors in the accumulation phase and those entering the decumulation phase. Some platforms are still not able to offer uncrystallised fund pension lump sums (UFPLS), cash account facilities or tax-efficient withdrawal tools. Similarly, the availability of operations such as consolidated income payments is patchy across both the advised and D2C platform sectors.
- Overall, the customer experience has significant room for improvement. For example, even in today's digital age, paper applications, wet signatures and human intervention abound, and all the platforms we reviewed restrict regular income payments to certain days.
- Most of the platforms also lack access to comprehensive software and tools to help customers with their retirement planning needs, such as understanding what their monthly expenditure might be or whether other assets beside their pension should contribute to their future retirement income requirements.
- We will watch with interest to see how far the FCA extends the provider duty of care towards D2C investors in the at-retirement market. In doing so, we note parallels with the SIPP market, which is experiencing numerous challenges as to how far that duty extends.



INTRODUCTION

Every now and again a market experiences an event that leaves fundamental and far-reaching change in its wake. It doesn't happen often, but when it does it inevitably creates an opportunity for those savvy enough to see and act on it.

The pension freedoms, designed to offer savers greater flexibility around their retirement income, was most definitely one of those events. It has duly had a game-changing effect on the UK long-term savings market.

More than £23 billion has been withdrawn from pensions since the reforms took effect in April 2015, according to HM Revenue & Customs (HMRC)¹, with FCA figures showing that more than 1.8 million pension pots have been accessed for the first time over that period.²

THE NUMBERS

The pensions and retirement income sector manages more than £2.4 trillion of assets, which includes³:

- ◆ The retirement income market (£384 billion)
- ◆ Personal pensions (£403 billion)
- ◆ Contract-based workplace pensions (£168 billion)
- ◆ DB schemes (£1,341 billion)
- ◆ Defined contribution (DC) single employer trusts (£165 billion)
- ◆ Master trusts (£18 billion)

RESPONSIBILITY AND RISKS

Planning for retirement income was long a straightforward choice between annuity or income drawdown, with the latter the on-ramp to advice for most. Approximately 50% of assets in the advised platform market now sit in pension wrappers⁴, up from 28% in 2014, before the freedoms were introduced⁵. However, following the Retail Distribution Review (RDR), which gave consumers greater awareness of advice costs, direct platforms have been gaining prominence. More confident investors started to take control of their investment decision making. The pension freedoms have fuelled this trend, helping to drive asset growth on D2C platforms from £98bn in 2013 to £185bn in 2017⁶.

The pension freedoms have helped to drive asset growth on D2C platforms from £98bn in 2013 to £185bn in 2017.

1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/773230/Pensions_Flexibility_Jan_2019.pdf
2. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>
3. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>
4. the lang cat Q3 2018 quarterly update
5. <https://www.theinvestmentassociation.org/assets/files/research/2015/20150914-ams2014-2015-fullsurvey.pdf>
6. <https://www.fca.org.uk/publication/market-studies/ms17-1-2-annex-1.pdf>

1
3 Around one third of pension plans entering drawdown did so without regulated financial advice.

1
3 Only around one third of annuity purchases were advised.

2
3 Nearly two thirds of drawdown sales were PCLS only, with no income taken.

Over the 18 months to March 2018, according to the FCA, around a third of pension plans entering drawdown did so without using a regulated financial adviser, while around only a third of annuity purchases and as little as a quarter of full cash withdrawals were conducted via advised channels⁷. Nearly two thirds of drawdown sales involved simply accessing the pension commencement lump sum (PCLS) with no income taken. Retirees are arguably ignoring decisions around their future income needs and the underlying investments to support them⁸.

This lack of engagement between D2C investors and their drawdown investment featured in the FCA's wide-ranging ROR. Just as we were putting this paper together the FCA launched *Consultation Paper 19/5 – Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance*⁹. The headline in the context of this paper was the introduction of 'investment pathways' to help non-advised investors secure better outcomes through better decisions around how to invest their money.

Although retirees have the opportunity of greater choice, they also have greater responsibility for ensuring that they have an income for life – and possibly preserve some wealth for future generations. Many of these decisions are irreversible and investors face very real risks when grappling with often complex pension issues. This was underlined in FCA figures showing that in almost six in 10 of

the pots accessed in the six months to March 2018¹⁰, potentially valuable guaranteed or safeguarded benefits were not taken up.

New rules around passing on pension wealth more freely and tax efficiently on death through inherited pension pots add additional questions – and therefore complexity – around whether accessing a pension is the best choice. Should other funds (such as those in ISAs, for instance) be drawn down first?

Change on this scale demands innovation and we don't count regulator-prescribed developments under that heading. But the FCA noted in the ROR that, "product innovation has been limited to date. For example, we have not seen products emerge for the mass market that combine flexibility with an element of guaranteed income¹¹".

Direct investors are particularly disadvantaged here. For example, Canada Life's Retirement Account product (which was provided by Retirement Advantage prior to the rebranding in October 2018) offers this hybrid functionality to the advised market, with pension drawdown, guaranteed annuity and a cash account all within a single tax wrapper. However, we have yet to see anything of this ilk in the D2C market.

While the proposed investment pathways will hopefully foster greater investor engagement with the available options, they will not address the need for a more holistic approach to guidance.

7. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>

8. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>

9. <https://www.fca.org.uk/publication/consultation/cp19-05.pdf>

10. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>

11. <https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf>

THE DIRECT APPROACH

If, as the FCA states, “product innovation has been limited”, there has at least been an increase in the number of providers from which clients can choose. Smaller, independent services such as Moneyfarm, Nutmeg and Scalable Capital as well as the likes of Hargreaves Lansdown, Interactive Investor and FundsNetwork at the other end of the scale have all sought to tap into the post-freedoms market. We may see some D2C players continuing to build out their advice credentials – both Nutmeg and Scalable Capital have launched advice

offerings over the last year – although the FCA’s consultation on introducing investment pathways may mean some providers choose to, pardon the pun, go down this path, offering non-advised services in the manner proposed by the FCA, rather than full advice.

The high street banks have joined the fray too, with Royal Bank of Scotland and Santander launching digital investment services and HSBC currently pilot testing its own digital advice proposition. However, to date these have focused on ISA and investment accounts and we have seen no significant moves into the at-retirement space.

INTRODUCING INVESTMENT PATHWAYS

The pathways will meet four investor objectives:

1. No plans to touch the money in the next five years.
2. Plan to buy an annuity in the next five years.
3. Plan to start taking long-term income in the next five years.
4. Plan to take out the whole sum in the next five years.

Providers must offer only one fund per pathway, which means that the client’s attitude to risk will not be taken into account. Smaller providers (with less than 500 non-advised drawdown clients per year) do not have to offer the funds themselves. They can refer the client to another provider.

Existing funds can be used for the pathways but, whatever funds are used, they must be clearly labelled to help investors make comparisons between providers.

A client may choose a non-pathway fund (although these cannot be presented in a more prominent manner than the pathway options) or not select an objective. Where this happens they will be reminded about the options and the importance both of guidance and of shopping around.

Regular statements and reminders of both the objective and options will keep the client informed and up-to-date.

We've seen plenty of activity in the DIY investment area and additions to advised platform product ranges, but this has been more an evolution of the existing functionality than the development of anything different or new. Propositions that provide genuinely seamless routes for investors from accumulation into and beyond retirement are thin on the ground. On the whole, the focus remains more on the task of building funds for retirement than on managing them once there. The implementation of investment pathways should improve the D2C experience for less engaged or informed investors, but doesn't address everything that's currently wrong.

Consumers making their own decisions are not necessarily making them in isolation. D2C platforms provide a myriad of tools to help channel client money into suitable investments during accumulation. The introduction of investment pathways – which should happen around July 2020 – will represent a major shift, with any drawdown investor who does not take advice being directed to the pathway process. That means taking the tax-free cash, moving any or all of their fund into drawdown or transferring from an existing drawdown.

1 3

A third (32%) of adults in drawdown have never invested in the stock market before and two fifths of these are not getting advice or guidance.

We think this is a timely intervention from the regulator. With a third (32%) of adults in drawdown having never invested in the stock market before, according to Zurich research¹², and two fifths of these not getting advice or guidance, the risk of inexperienced investors making costly errors at and in retirement is high.

ADVISED OR NON-ADVISED: THAT IS THE QUESTION

Debate over the advice and guidance available to people making retirement income decisions has been fuelled by the rapid growth of the D2C market. Before the freedoms, over 90% of pension savings were used to buy annuities and only 5% of drawdown sales were made without advice. By 2018 drawdown sales were twice that of annuities¹³ and we have seen that around one third of drawdown sales do not involve regulated financial advice. It's a phenomenon that the FCA has expressed concerns about and which it tackled in its ROR.

It found, for example, that a third of non-advised drawdown consumers had their entire pension in cash and that they were far less likely to shop around for drawdown options than those who took advice. Similarly, it said drawdown charges were complex and difficult for consumers to compare across providers without specialist advice, helping explain why around half of non-advised consumers do not even consider switching from one drawdown provider to another¹⁴. The regulator is currently consulting on the introduction of mandatory objectives-based investment pathways for non-advised investors, extending the Independent Governance Committees (IGCs) regime to those pathways and making sure that where non-advised customers are fully or largely invested in cash, that this is an active decision.

Non-advised drawdown consumers were far less likely to shop around for drawdown options than those who took advice.

12. <https://www.zurich.co.uk/en/united-kingdom/about-us/media-centre/life-news/2018/third-of-retirees-relying-on-drawdown-are-first-time-investors>

13. <https://www.fca.org.uk/publication/multi-firm-reviews/non-advised-drawdown-pension-sales-review.pdf>

14. <https://www.fca.org.uk/publication/market-studies/ms16-1-3.pdf>

PLATFORMS' PENSIONS PREDICAMENT

When the reforms took effect, both advised and direct platforms were expected to play a key role in helping investors with the new-found income flexibility. Yet the perception remains that even as demand has increased and needs have evolved, platforms are still playing catch-up.

This perhaps isn't surprising – platforms, like everyone else, were caught off-guard when the pension freedoms were announced. Up to that point the needs of their customers were relatively simple. People wanted to buy something, hold onto it for a while, monitor its performance, and eventually take a simple one-off withdrawal.

With the introduction of the pension freedoms, the choices for people approaching retirement suddenly became much more complicated. Whilst for many people there is still an inflection point where they move out of full-time employment into retirement, a growing number take a more phased approach. An at-retirement investor could conceivably want to take withdrawals and income from their investments in any number of ways at different points, and the ability to do so is increasingly a core need to address.

At the same time, the shape of people's income in retirement is changing:

- ◆ DB pension wealth continues to make up a significant proportion of total pension wealth, according to the Pensions Policy Institute (PPI) – with more than 9 in 10 of today's retirees reaching retirement with at least some DB entitlement.
- ◆ However, the PPI predicts that by 2060, the number of people reaching retirement with only DC savings could be as high as 50%¹⁵.

- ◆ The Office of National Statistics (ONS) Wealth and Assets Survey found that three quarters of adults between 45 and 54 years old have wealth in a pension: for those with a DB pension, the median value stands at £162,900, while the median value of a DC pension for that age group is £10,000¹⁶. This finding highlights the importance of automatic enrolment in boosting DC pension savings.
- ◆ State Pension is less and less something to be relied upon for retirement income. State Pension age for both men and women will increase to 66 by October 2020, with further increases to follow. With over 18% of the UK population now 65 or above and that figure predicted to increase to 24% by 2037¹⁷, the shifting balance between the retired and the working populations raises questions over the long-term sustainability of State Pension provision.
- ◆ Meanwhile, Bloomberg Economics data show that the proportion of people owning their own home dropped from 73% in 2007 to 63% in 2016¹⁸.
- ◆ The ONS Wealth and Assets Survey tells us that in most of the UK, private pension wealth now makes up the largest component of household wealth (London, where property wealth dominates, is the exception)¹⁹.

In short, there's a widespread reduction in DB pension provision and fewer people can rely on equity release as a back-up plan, while State Pension is payable later and may face a real sustainability challenge in the not-so-distant future. The importance of individuals making their own retirement provision – and ensuring that it's sustainable for their lifetime – has never been more pertinent. For those not taking advice, this is an even greater challenge.

By 2060, the number of people reaching retirement with only DC pension savings could be as high as 50%.

Of those aged 45-54 with pension savings, the median DB pension value is £162,900, compared to a median DC pension value of £10,000.

15. <http://www.pensionspolicyinstitute.org.uk/publications/reports/the-evolving-retirement-landscape>

16. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016>

17. <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/november2018>

18. <https://www.bloomberg.com/news/articles/2018-08-21/u-k-experiences-largest-fall-in-home-ownership-in-the-eu-chart>

19. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016>

PRIORITIES FOR CHANGE

Both advised and D2C platforms should (in theory) be at the forefront of delivering the flexibilities required by advisers and investors. In reality, there remains a gap between the functionality available to investors in accumulation and those entering the decumulation phase. Some platforms are still not able to offer capabilities such as UFPLS, cash account facilities or tax-efficient withdrawal tools. Similarly, the availability of operations such as consolidated income payments is also patchy across the advised and D2C platform sectors.

An AKG survey (sponsored by Prudential and Standard Life) found that “digital/online capability and functionality” and “platform income solutions/retirement planning tools” were among the highest priority development areas for advisers, with the vast majority expecting demand for digital advice to further grow over the next 12 months²⁰. There is a clear convergence of perceived needs across the direct and advised platform markets.

It's worth noting in this context that the pension freedoms took effect at a time when markets were relatively calm. Indeed, very few online investment services have been through any serious downturn. Market volatility can have a profound impact on retirement funds and so the sustainability of income, reinforcing

the need for ways of supporting direct investors as they navigate a further complication in what can already be a complex process.

As we have seen in overseas markets such as Australia, the US and Switzerland, initial ‘freedoms’ have been scaled back in favour of ensuring an element of guaranteed income is supplied as a base. We expect a similar pattern to occur in the UK e.g. utilising both immediate annuities, where new post-freedom features such as capital return and 30-year guarantee options have toned down ‘poor value’ arguments, and deferred annuities, where the delay to buying the guaranteed income reduces the cost.

This then is the state of play: rapid change in regulation and the shape of household wealth creating a new retirement income landscape for investors that the industry could do more to help them navigate, not least ensuring they can make appropriate choices. This is not only around the right decisions over how to draw down a pension, but also whether to access a pension pot is the best thing to do in the first place: how far can and should platforms go to guard customers against poor decision-making?

Over the coming pages we'll look in more detail at what D2C services offer at-retirement investors, where the gaps are and how they might be filled over the next few years.

Rapid change in regulation and the shape of household wealth are creating a new retirement income landscape for investors that the industry could do more to help them navigate.

20. <https://www.standardlifeadviser.co.uk/sites/adviser/assets/AKGRResearchCoSponsoredByStandardLife.pdf>



WHAT'S ON OFFER?

Technology plays a vital role in enabling the industry to meet the needs of investors taking an income in retirement. This is widely acknowledged. Without tech-led innovation, providers and platforms will struggle to live up to the challenge presented by the rapid overhaul of the retirement income landscape in recent years.

That innovation has to be customer-focused. There can be a temptation to get carried away by the sheer technological possibilities, to enthuse about innovation and digital solutions. There is an appetite in the industry for new and enhanced functionality and tools, and a tendency at times to see technology as a panacea.

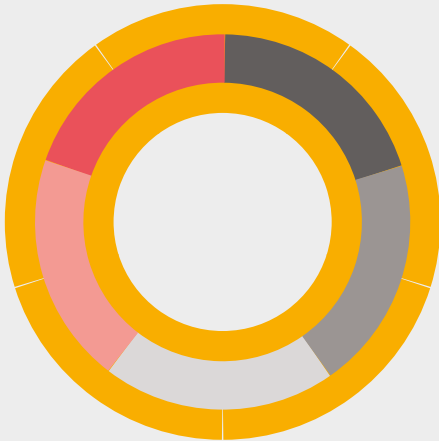
But without a clear sense of what it means for those whose retirement outcomes and investment experiences can be shaped by that innovation, there is a risk of losing sight of why it is needed. Investors do not care about technology and functionality – they care about having enough money to live on and being able to access it as required. How that actually happens doesn't matter to them.

What does matter to investors is the broader experience, from interactions to outcomes. Can I take withdrawals when I want to? Can I take income from my cash account? What are the pros and cons of drawing income from different tax wrappers? Can I vary my income levels over time? Can I continue to make contributions when I'm in drawdown? How can I work out if I'm taking a sustainable level of income? Will I be told if it looks like I might be taking too much income? You get the idea.

This is what investors are concerned about – not the tech that will (ideally) answer those questions and help them sleep at night. Retirement income is often seen as a different landscape entirely to accumulation. But it isn't, particularly for those who prefer to remain in some form of employment past their State Pension age. Their needs will be affected by circumstances, market conditions and the vagaries of everyday life. Not unreasonably, they will expect to be able to engage with their platform and make the changes they want or need to make.

Investors do not care about technology and functionality – they care about having enough money to live on and being able to access it as required.

With that in mind, we're looking at the various retirement income needs through the prism of the investor. This will not be a process, more of a pick and mix. The main areas include:



1. THE BASICS

- ◆ SIPP structure
- ◆ Mobile access
- ◆ Drawdown options



2. PLANNING AND INVESTING

- ◆ Financial planning
- ◆ Investment planning
- ◆ Investing



3. TAKING INCOME

- ◆ Planning for withdrawal(s)
- ◆ Taking one or more lump sums
- ◆ Taking regular income



4. INFORMATION AND SUPPORT

- ◆ Consumer-facing materials
- ◆ Robo-advice
- ◆ 'Vulnerable' clients



5. INNOVATION

- ◆ Planned functionality
- ◆ What needs to change to support innovation

THE PEER GROUP

The D2C platform market consists of a mixed bag of providers. We have the huge (Hargreaves Lansdown), the tiny (most of the rest) and those in between. We have execution-only specialists, those that offer the option of advice and those that are all about investment or technology. Some are old hands and others are very new. They all offer a pension wrapper of some sort (more on that later), so they have an active interest in the at-retirement market.



Now, this is a sponsored paper and you'll no doubt have spotted that some of our platforms use GBST tech. Equally, some don't. It makes no difference to our analysis and we've assessed them all on the same basis regardless.

Before we dive in, one brief health warning:

A provider not having the functionality shown isn't necessarily a bad thing. We'll come back to this point but, suffice it to say, not every platform has to offer every available function. Propositions are targeted and designed accordingly with conscious decisions made to not offer, say, certain tools or access.

And just to be clear, we carried out our research before the FCA launched CP19/5.

THE D2C RETIREMENT INCOME LANDSCAPE

THE BASICS



First up we look at the basics. How the SIPP is structured, the drawdown options available and how accessible the platform is, particularly through mobile channels.

	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
SIPP OFFERING								
Proprietary SIPP?	Y	N	Y ²	Y	Y	N	N	Y
If not, who is the provider?	NA	EBS Pensions Ltd	NA	NA	NA	BW SIPP LLP	Hornbuckle	NA
MOBILE ACCESS								
Is there a mobile app for customer accounts?	Y	Y	Y	Y	Y	Y	Y	Y
Is the platform fully optimised for mobile access?	Y	N	Y	Y	Y	Y	Y	Y
CAPPED DRAWDOWN								
Can existing capped be converted to flexi-access?	Y	Y	N	Y	Y	Y	N	Y
Can capped that has been transferred in be converted to flexi-access?	Y	Y	N	Y	Y	Y	N	Y
Can transferred in capped be retained as capped?	Y	Y	N	Y	Y	Y	N	N

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

2. With Gaudi providing the underlying administration technology at launch in 2019.

Two thirds of the platforms we surveyed offer a proprietary SIPP, with only Charles Stanley, Interactive Investor and Nutmeg using a third-party provider. Using a third party can make a lot of sense if the platform doesn't have the required skill set in-house and/or wants a quick route to market. From the customer's point of view this *should* make very little difference, providing the hand-offs between the provider and third party are seamless. Providers that have moved from using a third party to in-house provision cite clunky customer experience and a lack of control over the process as the main drivers. You pays your money, you takes your choice.

In terms of drawdown choices, everyone, with the exception of evestor and Nutmeg, offers a range of capped drawdown options. As we just said, a provider not having any particular functionality isn't necessarily a bad thing; evestor takes a broad approach,

rather than targeting by experience or wealth, so the simple pension solution sits comfortably within this overall proposition.

As you might expect, everyone we spoke to has a mobile app for customer accounts and all but Charles Stanley Direct are fully optimised for mobile access. According to research by Deloitte²¹, smartphones are by far the most used digital device (compared to desktops, laptops and tablets), with 91% of the 41 million 16-75-year-old UK smartphone owners using their device each day. With UK adults using smartphones to access and control all aspects of their daily life, it's reasonable that this trend should also apply to managing investments, and Hargreaves Lansdown reports that over 65% of logins are via its mobile app²². Smartphone adoption is predicted to keep on increasing, driven primarily by growth in older age groups²³, so optimising for mobile should be a priority for those who don't currently offer it.

21. <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-digital-predictions-2018.pdf>

22. https://www.hl.co.uk/_data/assets/pdf_file/0004/12938980/2018-Preliminary-Results-Analyst-Presentation.pdf

23. Ibid, cited in The Deloitte Consumer Review 2018.

Ref <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-digital-predictions-2018.pdf>

PLANNING AND INVESTING



Here we look at what tools are available to help customers make sense of what they've got now and, more importantly, what it might all mean in the future and then how customers go about investing their hard-earned.

	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
SOFTWARE AVAILABLE FOR CUSTOMERS TO:								
Compare the likelihood of meeting investment goals with different portfolios?	N	N	Y	Y	Y	N	Y	Y
Understand how much money they will need in retirement?	N	N	Y	Y	Y	N	Y	Y
Grasp how likely it is that they will be able to meet their income goals (factoring in projected pot size)?	N	N	Y	Y	Y	Y	Y	Y
Make a decision which takes into consideration all assets (i.e. not just pension)?	N	N	Y	N	N	N	N	N
Work out what their monthly expenditure might be?	N	N	Y	Y	Y	N	N	Not at this stage, though retirement planning tools are on the roadmap for 2019.
Can the customer interact with the software themselves e.g. change goals and timeframes?	N	N	N	N	Y	Y	Y	Y
THE INVESTMENT PROCESS								
Can investment instructions be given independently for pre/post retirement?	N	Y	Y	Y	Y for crystallised and uncrystallised pots. N for automatic investment switch upon crystallisation.	Under customer control as we are an execution only (XO) dealing platform.	ND	Y
Do you offer any in-house investment portfolios that are specifically designed for customers in withdrawal?	N	N	Y	N	We offer investment ideas, but not portfolios.	NA	ND	N
Can more than one monthly contribution payment be made on different dates?	N	N	Y	Y	Y	Y	ND	Y

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.



	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
Is phased investment within the drawdown pot supported?	N	Y	Y	N	Y	Regular investment is available in both accumulation and drawdown phases. Regular sales to facilitate re-investment is not supported in either phase.	ND	N
Can contributions continue to an account in drawdown?	Y	Y	Y	Y	Y	Y	N	Y
Do you accept non-advised defined benefit/safeguarded rights transfers of < £30k?	Y	Y – if client advised to do so by FCA registered firm.	N	Only GARs	Y	Y	N	Y – with explicit client confirmation.
What are your service standards for processing both transfers and re-registrations in?	ND	Cash: 3-6 weeks. Origo can be a week.	3-6 months	We will action any information/update within 5 working days throughout the transfer process.	We are in the process of adopting the new industry standard Star transfers framework.	Transfer in and re-registration timescales are reliant on the ceding provider and also related to the investment type. Some providers are very poor at prioritising transfers out. Industry efforts to agree standards have floundered but fresh impetus should bear fruit. There is no reason that transferring a pension should take any longer than transferring an ISA.	ND	Origo: 12 working days with all the info.
What are the average turnaround times over the past six months for processing each of these transactions (from being keyed to money in funds)?	ND	Origo: 3 weeks. Manual: 4-5 weeks.	NA	10 calendar days if other provider uses Origo, 25 calendar days if not.	ND	ND	ND	20 calendar days.

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

When it comes to investing, our peer group offers a good range of functionality, with all but Nutmeg allowing contributions to continue in drawdown and all, except AJ Bell Youinvest and Nutmeg, offering the ability to give independent investment instructions pre- and post-retirement. However, evestor is currently the only platform to offer in-house investment portfolios designed specifically for customers in withdrawal.

There is, however, less access to software and tools that help customers with their retirement planning needs, such as understanding how much money they are likely to need in retirement or whether other assets beside their pension could contribute to future income requirements.

Should platforms be offering this functionality? Again, it depends on the target market. AJ Bell Youinvest and Charles Stanley Direct, for example, are clear that they offer an execution-only service to those customers who are comfortable making their own investment decisions. Hargreaves Lansdown, although also

running an execution-only proposition, arguably serves a broader customer base than many of its competitors, a good proportion of whom are less experienced in investing and so benefit from the wider range of tools on offer.

However, we can't help but raise the question of platforms' duty of care at this point. Is it sustainable over the long term for providers to step back from any direct involvement in helping investors to make suitable decisions on the basis that the service is execution only?

This is a subject due to be on the receiving end of greater attention in near future. The FCA launched a discussion paper last year looking at the pros and cons of introducing a duty of care across the industry and what that might entail²⁴. The discussion period is now closed, and we look forward to seeing the outcome later in the year.

24. <https://www.fca.org.uk/publication/discussion/dp-18-05.pdf>

TAKING INCOME



Here's where things get serious. The good news is that the pension freedoms created new options for taking retirement income. The bad news is that this means lots of complexity for customers to wade through. Here we look at who offers what and the support available to customers throughout the process.

	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
SOFTWARE FOR INCOME PLANNING								
Establish sustainable income levels?	N	N	Y	N	Y	Y	N	N
Help the customer identify the most tax-efficient withdrawal strategies, taking other pension options and wrappers into account?	N	N	Y	N	N	N	N	Y – videos
Help the customer understand the impact of changing their income? For example, if increasing income is likely to impact regular income sustainability.	Y – illustration	N	Y	N	Y	Y	N	N
THE PROCESS FOR TAKING INCOME								
Does the customer need to submit a paper application?	N	Y	Depends on the solution. If it includes an annuity then, yes.	Y	N	Y	ND	N
Is a wet customer signature required?	N	Y	Depends on the solution. If it includes an annuity then, yes.	Y	Only if a paper application is submitted (rather than online or phone).	Y	ND	N
If the process is online, is it 'straight through' or does it go into a work queue for a human to do something?	STP	NA	There will be human interaction for the first phase.	NA	Yes – process payment and update record.	NA	ND	Some human involvement.
Are benefit values based on NAV at request date or settlement date?	Request date	Request date	Request date	Settlement date	Settlement date	NAV or quoted price at benefit confirmation date.	ND	Request date
Does the platform show what income is being paid if it's from more than one wrapper?	N	Y	Y	N	Y	N	ND	NA
Does it show a 'total' income that is easy for the customer to work out?	NA	Y	Y	NA	Y	NA	ND	Y
Is flexi-access drawdown supported?	Y	Y	Y	Y	Y	Y	Y ²	Y
GUARANTEED INCOME								
Do you offer guaranteed income products (annuities)?	N	N	Y	N	Y	We facilitate transfer of funds for the purchase of whole-of-market annuities.	N	N
Can guaranteed income be combined with drawdown?	N	N	Y	N	N	NA. This is a DC scheme.	N	N

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

2. Nutmeg does not currently accept transfers where the pension is already in drawdown.



	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
If guaranteed and non-guaranteed income can be combined, how is this packaged to clients (i.e. a new product or a repackaging of annuity and drawdown components)?	NA	NA	Repackaging	NA	NA	NA	NA	NA
TAKING ONE OR MORE LUMP SUMS								
Are UFPLS payments supported?	Y	Y	N	Y	Y	Y	N	Y
Frequency of lump sum withdrawals payment run?	Ad-hoc	Four times per month.	Monthly	Daily	Monthly	Daily	ND	Weekly
If the lump sum is likely to impact regular income sustainability, is this flagged to the customer?	N	N	Y	N	N	N	ND	N/A
TAKING REGULAR INCOME								
Frequency of regular withdrawals payment run?	Monthly	Start of each month.	Monthly	Monthly/ quarterly/ semi-annually/ annually (client's choice).	Monthly	Monthly, quarterly, half-yearly, annual.	ND	As per regular.
Any day of the month or only certain days?	Only certain days.	Start of each month.	Only certain days.	10th and 25th only.	Certain days.	Two specified dates per month.	ND	NA
USE OF ASSETS								
Are there autoalerts if there is not enough cash to pay income?	N	Y	Y	N	Y	Y for PCLS, N for regular income.	ND	NA
Can the order of assets for regular sell-down be selected?	NA	N	N	N	NA	Under customer control as is an XO dealing platform.	ND	N
Can specific assets be protected from being automatically sold?	NA	NA	N	N	NA	Under customer control as is an XO dealing platform.	ND	N
CUSTOMER INVOLVEMENT/ALERTS								
Can the customer check on all key aspects of withdrawals as often as they like using a mobile device?	Y	N	Y	N	N	Y	ND	Y
Do you send paper, electronic (or both) payslips to clients?	Paper	Y	Electronic	Both or electronic only (client's choice).	Both	Electronic	ND	Electronic
Are historic payslips held in an online document store?	N	N	Y	Y	Nothing stored but can be regenerated through internal records.	Y	ND	Y
If projected income availability is deviating from the plan, do you have software that proactively alerts the customer?	N	N	Y	N	N	N	N	N

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

The availability of tools for income planning in the direct market is split across similar lines to those in the previous section, with evestor, Hargreaves Lansdown and Interactive Investor offering more functionality than others in the peer group. There is a particular dearth of support around tax efficient withdrawals. We've noted that providers have a duty of care to help customers make sensible decisions, but just how far does this extend? And can it truly be fulfilled using tools, videos or education?

The process for taking income is a very mixed bag, with half the group needing a paper application and wet signature in at least some situations. Almost all report a need for human involvement at some stage of the process. There is also varied flexibility in the frequency of lump sum withdrawal payment runs, with Fidelity Personal Investing and Interactive Investor offering daily, PensionBee weekly and Hargreaves Lansdown and evestor monthly. Regular withdrawals seem to be more rigid, with all providers making payments only on certain dates.

Electronic payments are increasingly the norm and can be made almost instantly (for example, from your current account *to* your provider). In that environment it's disappointing that providers are still tied to making payments, whether regular or lump-sums, only on certain days of the month.

Valuation at the settlement date (as opposed to the request date) adds a layer of risk and doesn't feel like a good customer experience. A lot can happen between those two points and, without an adviser to intervene on their behalf, direct investors can

be left feeling short-changed – in every sense. It's certainly a long way from the (admittedly flawed) perception of a pension being like a bank account.

Hargreaves Lansdown and evestor are the only providers to offer guaranteed income products, with evestor alone in being able to combine guaranteed income with drawdown. However, this is in fact two products repackaged as one rather than a single guaranteed/drawdown product. Given that we're practically four years on from the pension freedoms, we find this lack of innovation surprising and find ourselves questioning what lies beneath. The functionality to provide combined products exists and some advised platforms do offer the option. Direct customers arguably have less capacity to shop around for multiple products, highlighting the need for similar innovation in this sector.

Evestor is also the only provider to alert the customer where a lump sum withdrawal is likely to impact regular income sustainability and/or projected income availability is deviating from the plan. However, it is also one of only two providers unable to support UFPLS payments.

Moving on to the use of assets to fund income and only half the peer group provide autoalerts if there is insufficient cash to pay income. None of the platforms we spoke to offer the facility to select the order of assets for regular sell-down or protect specific assets from being automatically sold. Interactive Investor, however, did make the distinction that as an execution-only platform these points are under the control of the investor.

INFORMATION AND SUPPORT



There's more to all this than simply taking income, and this section looks at the wider support on offer.

	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
Do you support customer understanding of retirement (by producing consumer-facing materials, etc.)?	Y	Y	Y	Y	Y	Y	Y	Y
Do you currently offer, or have any plans to offer "robo-advice"?	N	N	NA	Planned for 2019.	ND	We are currently developing ways we can harness technology to help guide customers, but we would not define this as 'robo'. A start of this process has been the launch of our 'Super 60' select funds and four portfolio models.	ND	N

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

Each of the platforms we spoke to produce guides, newsletters and other material to support customer understanding of their retirement options. This includes signposting customers to seek qualified financial advice if required. Only Fidelity Personal Investing said that it planned to offer robo-advice in the future – it has already launched a robo offering in Germany that focuses purely on asset allocation (not wrapper selection).

Within our research on the support and guidance offered by direct platforms, we were also interested to see how providers deal with vulnerable clients, which the FCA defines as: "someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care".



	AJ Bell Youinvest	Charles Stanley Direct	evestor ¹	Fidelity Personal Investing	Hargreaves Lansdown	Interactive Investor	Nutmeg	PensionBee
How do you identify/deal with 'vulnerable' clients and what, if any, additional support can you give to such clients?	We operate a vulnerable customers process, which provides additional support to these customers.	We can refer clients to the Charles Stanley financial planning service in the case a client is at all unsure.	This is a work in progress. The current process will have at least one meeting with an adviser which will look out for vulnerability. We also outrightly ask the question within the portal.	This is picked up through the lifetime of the relationship with a customer. Some may identify themselves as vulnerable at the start or during their relationship. Others we identify through our interactions with customers.	Helpdesk get training on this and can raise awareness to managers; separately we have a comprehensive vulnerable customers policy.	ND	ND	Our customer service team will flag someone they believe is a vulnerable customer based on a range of indicators, e.g. mental or physical impairment, pressure to draw down quickly or before the legislated permissible age. These customers are added to a register and whilst it doesn't always impact how we provide our service to them, we are conscious of how further interactions should take place. We also sign-post customers to other industry bodies such as the Money Advice Service or Pensions Advisory Service where we feel it could help them.

NA – not applicable.
ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

With the exception of Interactive Investor and Nutmeg, neither of which disclosed their approach, our peer group all offer some degree of support to vulnerable customers. As well as customers gaining additional assistance when they identify themselves as vulnerable, most of the providers also have procedures in place to identify customers who may need extra help or support such as signposting them to a guidance service or qualified financial adviser.

Supporting vulnerable customers is an important topic and one that's currently another focus of the FCA²⁵. A consultation on guidance for firms on the identification and treatment of vulnerable consumers is due to get underway early this year. It aims to increase clarity around FCA expectations of firms and so ensure good outcomes for all consumers, but particularly those who could be described as vulnerable. We'd expect improvements in the services and support on offer to follow on from this work.

25. <https://www.fca.org.uk/publications/corporate-documents/approach-consumers>

INNOVATION



Finally, we invited our peer group to share their wish lists as we look at what the future might hold. What functionality do they plan to introduce? What needs to change to encourage more innovation across the market?

	Are you planning to introduce additional at-retirement functionality in the next two years?
AJ Bell Youinvest	Y
Charles Stanley Direct	Y
evestor¹	We will always look to develop more functionality where we can see a benefit to the customer, and this feels like improved planning tools beyond what we already provide.
Fidelity Personal Investing	Following our launch in Germany we continue to monitor the UK market.
Hargreaves Lansdown	ND
Interactive Investor	Y
Nutmeg	ND
Pension Bee	<ol style="list-style-type: none"> 1. Additional plans (Cash and Actively Managed) that cater toward specific use cases, e.g. customers who want certainty in the fund value available to them at the point of drawdown. 2. Enhanced planning tools, e.g. calculator to indicate how many years a particular pot value will last based on age and income expectations. 3. Regular drawdown.

	What do you think needs to change to encourage further innovation in the D2C at-retirement space?
AJ Bell Youinvest	Technical innovation to make it easier for customers.
Charles Stanley Direct	Prohibit transfer out charges.
evestor¹	Removal of non-advice as an option. Why innovate when you can take the customer asset without risk and competition?
Fidelity Personal Investing	Clarity on the ROR in order to have certainty on roadmap.
Hargreaves Lansdown	Simpler tax treatment, reform FCA regulation regarding guidance and personal recommendations.
Interactive Investor	Better, employer-delivered/sponsored education on financial planning and retirement planning in particular, with support from the pensions/financial services industry to drive customer engagement with, and understanding of, their pensions and financial planning needs. This will in turn lead to a better partnership between providers and consumers, creating a clearer understanding of changing needs and solutions to meet them.
Nutmeg	ND
Pension Bee	There seems to be an unwillingness within some legacy pension/life companies to adapt to a digital world and allow customers to have a real oversight of their own pension product, and then being allowed to make decisions on what to do with the funds they have invested in those products, i.e. moving them to a more competitive or easier to use option.

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.



	What single rule/regulation do you believe should be amended to help clients enjoy a better retirement?
AJ Bell Youinvest	Increase lifetime allowance.
Charles Stanley Direct	Scrap/raise the lifetime allowance.
evestor¹	Introduction of mandatory advice on drawing benefits, regardless of size.
Fidelity Personal Investing	The distinction and boundaries between guidance and advice needs to be clear for providers, employers, fintech etc. Many people would benefit from taking advice but are put off by the cost. Good guidance could help many fill the gap and, more importantly, help people understand the value of advice.
Hargreaves Lansdown	Guidance.
Interactive Investor	The lifetime allowance is a limiting factor which, despite inflation linking, is driven more by taxation policy than the need to provide for future income/care costs. Allied to this is the fact that access to retirement planning advice is a vital component of being properly prepared. The pension advice allowance needs to be higher and less complex, and it should be mandatory for providers to facilitate it.
Nutmeg	ND
Pension Bee	We believe in a 12-day pension switch guarantee, as this would encourage customers to shop around.

	Do you have any views on how retirement income and long-term care funding could be more closely aligned?
AJ Bell Youinvest	Pension withdrawals should be tax free if they are being used to fund long-term care.
Charles Stanley Direct	Would suggest that long-term care funding has to be primarily an insurance-based product, but that if this can be combined with tax relief enjoyed by pension then could be more attractive.
evestor¹	It is difficult to see how you can provide advice on one without the other being taken into account; our thoughts on mandatory advice above will therefore deal with it.
Fidelity Personal Investing	NA
Hargreaves Lansdown	Pension investors should be incentivised towards self-provision of care costs.
Interactive Investor	Currently, they are two sides of the same coin. Care costs are likely to be paid out of retirement income but will typically be higher than pre-care costs. This results in the pension pot running out sooner. A separate 'care' pot however adds complexity and, like adequate pension provision, risks only being funded by higher earners and those engaged from an earlier age with providing financially for their future needs.
Nutmeg	ND
Pension Bee	Much as there is a general lack of appreciation in the general public of the importance of retirement savings to enable people to live a happy retirement, there is little doubt that there is even less appreciation of the possible need to fund ones own care in old age. Whilst it's uncomfortable for most people to consider their own mortality or ability to look after themselves when they grow older, there certainly needs to be more effort made to make people aware of this inevitability. The challenge once accepted, will then be to structure pension products to potentially include a locked portion set aside specifically for self funding care. Ways to unlock the funds could be things such as spending on specific care requirements, or by meeting an assessment to deem that perhaps elderly care is not needed by the individual.

NA – not applicable.

ND – not disclosed.

1. Answers based on new at-retirement functionality due to launch in 2019.

Our peer group clearly sees potential value in the at-retirement sector as they all, where intentions were disclosed, plan to introduce additional functionality over the next two years. Most felt that the regulator could do more to encourage innovation, although there was little consensus on how this could be done, with views ranging from prohibiting transfer charges and simplifying tax treatment to removing non-advice options entirely.

There was slightly more agreement over what single rule should be amended to improve retirement options, with AJ Bell

Youinvest, Charles Stanley Direct and Interactive Investor all focusing on the lifetime allowance and evestor, Fidelity Personal Investing and Hargreaves Lansdown suggesting changes to advice/guidance.

We also asked whether retirement income and long-term care funding should be more closely aligned. There was general agreement on the attractions of incentivising pension savers towards self-provision of care costs, potentially through tax relief.



WHAT'S THE PROBLEM, THEN?

While platforms are increasingly good at the basics, and in most cases offer reasonable flexibility around payment options, user experience appears to be very mixed and generally clunky. More importantly, a dearth of planning tools to help direct investors work out what they should be doing could lead to people making sub-optimal investment and income decisions. Does this matter? And if it does, what is stopping providers from doing more for at-retirement customers?

WHOSE PROBLEM IS IT ANYWAY?

Before we get too existential, it's worth challenging ourselves as to whether this is a problem that D2C platforms could or should be solving. There's no getting away from the fact that at-retirement planning is complicated stuff. One position is that platforms should just take orders, leaving the client to seek advice and/or guidance elsewhere.

We don't wholly subscribe to this view and neither, it seems, does the regulator. This was evident in the High Court judgement in the case of *The Financial Ombudsman Service versus Berkeley Burke* and the subsequent Dear CEO letter²⁶, with the proposals in CP19/5 leaving little room for doubt. Providers, like it or not, have (or soon will have) a duty of care to ensure their customers are investing in funds that are not only suitable for retail investors, but are also suitable for how they plan to use their fund over the next five years, as well as helping investors to make sensible decisions.

As with many things in life, there is a balance to be struck. We noted in the tables that most direct platforms lack access to comprehensive software and tools to help customers with their retirement planning needs, such as understanding how much money they might need each month or whether other assets beside their pension could contribute to future income requirements. Should platforms be offering this full-fat functionality? As we said previously, it depends on the target market, but investors should be able to access appropriately pitched support to help them make those important decisions.

As part of the research for this paper we spoke with an execution-only platform which has taken the strategic decision not to provide its customers with anything other than simple guidance and support to help them make informed decisions. If investors want planning tools and/or advice, this particular provider is not for them. Its argument is not only a proposition choice, but also a reflection of the nature of the planning that is required.

Where we do see planning tools on offer, they are almost exclusively focused solely on pension assets. Proper at-retirement planning must consider other wrappers (for example taking income from an ISA to protect the IHT status of pension assets), cash, property and so forth for the totality of the client's retirement funding to be properly understood. Platforms may be best suited to administration functions rather than planning, but remember that duty of care we mentioned?

Providers, like it or not, have (or soon will have) a duty of care to ensure their customers are investing in funds that are not only suitable for retail investors, but are also suitable for how they plan to use their fund over the next five years, as well as helping investors to make sensible decisions.

26. <https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-due-diligence-requirements-for-self-invested-pension-plan-sipp-investments.pdf>

Even with a relatively limited (in number, if not market share) peer group of providers it's clear how challenging it is for consumers to shop around, compare their options and select a provider for their retirement investing and income. As part of its ROR the FCA is working with various industry bodies, including the Association of British Insurers (ABI), to develop a drawdown comparison tool. However, this is proving challenging to deliver.

FCA data show that 53% of all (advised and non-advised) drawdown plans established between October 2017 and March 2018 were set up with the existing provider²⁷. The FCA noted in the interim report of its ROR in July 2017 that, according to ABI data, 94% of non-advised drawdown sales were to existing customers²⁸. A lot of these customers could, perhaps, be better served by at least shopping around. It certainly wouldn't do any harm.

Chile is home to a success story here, proving that innovation is possible. Its Sistema de Consultas y Ofertas de Montos de Pension (SCOMP) is an online bidding system that allows members to see annuity and drawdown offers from all providers in one place²⁹. Using standardised information, it gives individuals a single whole-of-market view of their retirement options, driving competition and reducing the risk of people staying with their current providers through inertia – a kind of turbo-charged open market option, if you like.

The FCA is no doubt optimistic that the new investment pathways will help with these issues and it will be interesting to see how the current proposals evolve through consultation. While it may not be their intended aim, the pathways may also enable a 'mix and match' approach, for example combining annuity and drawdown. However these rules pan out, platforms and technology providers will need to react accordingly.

EVOLUTION BUT NO REVOLUTION

Yet, despite some decent innovation, or at least evolution of pension income options, the market still isn't meeting the needs of its potential customers. In some cases this is down to the lack of tools we have previously mentioned, but in other cases there is a wholesale lack of SIPP functionality on offer. Some of the largest organisations in the D2C market are yet to offer any sort of SIPP wrapper. Vanguard and Barclays top this list, and with the former stating³⁰ that "it's taken a little longer than we'd hoped [to develop a SIPP]", it is clear that the challenge of simplifying the inherent complexity of direct investing for retirement income is not faced only by investors – it's of equal concern to providers too.

Throughout this paper we've made the point that there is more to retirement income than pensions. Clearly this is a message still to penetrate much of the D2C market. Income functionality seems to get stuck at pensions and we found little of the integration needed to enable investors to take a holistic view of their retirement assets. Currently just one of our peer group offers software to help customers consider all their assets when making decisions concerning their retirement finances. The providers tell us that more functionality is coming down the line, so it will be interesting to see if this need is addressed as part of those plans.

Helping customers to access their money as income of whatever sort is surely a key part of a platform's job, but when it comes to paying a regular income, all of the providers restrict withdrawals to certain days. This problem is not limited to the direct market as it's common with advised platforms too. Flexibility over regular payments should not be too much to ask; the industry would do well to remember that it's the customer's money after all.

94% The FCA noted in the interim report of its ROR that, according to ABI data, 94% of non-advised drawdown sales were to existing customers.

It is clear that the challenge of simplifying the inherent complexity of direct investing for retirement income is not faced only by investors – it's of equal concern to providers too.

27. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>

28. <https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf>

29. https://read.oecd-ilibrary.org/finance-and-investment/oecd-pensions-outlook-2018/improving-retirement-incomes-considering-behavioural-biases-and-limited-financial-knowledge_pens_outlook-2018-8-en

30. <https://www.vanguardinvestor.co.uk/articles/latest-thoughts/markets-economy/update-vanguard-personal-pension?cmpgn=ET1218UKCESIP0001>



CONCLUSIONS: LOOKING TO THE FUTURE

The pension freedoms are, in the absence of some major change to be announced in a future Budget³¹, here to stay. It is almost certainly a cliché to say that the freedoms have transformed the market, but, in terms of what it means for every individual in the UK, it's probably understating the impact.

THE STATE OF PLAY

Retirement is no longer about receiving a nice gold clock from your employer together with a guaranteed income for the rest of your life. Potentially very complex decisions need to be made around investment and income, and the burden of making the right decision is increasingly falling to the individual.

When it comes to the functionality, income and investment options investors might want or need during their investing life, most D2C platforms tick most of the boxes. However, with pension freedoms come great responsibility, and people need to know what they are doing. Supporting them in this is where the D2C platform market

is falling down. We're not far off four years since the freedoms came into effect but investing in retirement, including taking and managing income, still feels like a minority sport rather than something that is suitable for all.

It's very early days for the investment pathways and it will be some time before their impact on both the market and the consumer experience becomes clear. However, a potential differentiator for providers may lie in how the different objectives are presented. For example, the quantitative research carried out for CP19/5³² tested the effect of presenting the options to investors with an increasing level of detail. It found that giving a more detailed description of the objectives significantly increased comprehension and helped people to identify the appropriate pathway for them. The key to success lies in two elements: firstly, how the information is presented and secondly, the amount of information that is provided. Case studies and the use of alternative options such as experiential learning were also seen as helpful for investor understanding of the options.

We're not far off four years since the freedoms came into effect but investing in retirement, including taking and managing income, still feels like a minority sport rather than something that is suitable for all.

31. Insert your view on the current state of politics here.

32. <https://www.fca.org.uk/publication/research/increasing-comprehension-of-investment-pathways-for-retirement.pdf>

WHAT NEEDS TO CHANGE

Some providers we spoke with are comfortable in their current skin, targeting clients outside of the at-retirement market. This is perfectly acceptable – no-one is saying platforms *have* to serve these clients – and we see many successful businesses that specialise in meeting different needs. However, if the at-retirement market is one providers *want* to serve, we think they need to do more to ensure their clients are getting the support they need and, some would argue, are entitled to expect. This is how we think it can be done.



1. Embrace the opportunity

With an estimated £2.4 trillion of assets³³ the market opportunity is huge. Furthermore, pension freedoms make it reasonable to assume that people could stay invested for 50 years. These figures make the business case for addressing this market very attractive. However, as propositions and consumer expectations evolve, we expect potential customers to become more and more discerning. The rewards for providers who lead this market will be great, but as we have (hopefully) demonstrated, the breadth of functionality and support required is extensive. We don't think it's impossible for a provider to meet all of these needs, but it will require commitment.



2. Put technology at the core

It's difficult to see how this opportunity can be addressed without technology doing most of the heavy lifting. Customers increasingly expect nothing less and, from the providers' point of view, integrating transaction and planning tools with the operational side is the only way to achieve the controls and oversight required to ensure customers are making appropriate decisions. The ability to offer a seamless customer journey through retirement, where consumers can both instruct *and* execute transactions online, will be key to ensuring retirement providers remain at the forefront of the market.



3. Think holistically

There's no getting away from the fact that this is a complicated subject. Consumers are faced with an array of choices, and they need more help than is currently available. Crucially, platform tools must account for their full financial life and not just pension assets. The FCA is starting to recognise this with the investment pathways which, should they successfully survive the consultation stage, will help consumers better understand and engage with the options available to them. However, we still think a more holistic view is needed. Qualitative research into how to increase consumer understanding of the investment pathways found that 25% of respondents identified more than one need for their retirement income. Needs included cash to spend quickly, guaranteed income, leaving money invested and leaving some for family³⁴. Providers should be ensuring the customer journey and associated guidance highlights the ability to mix and match income types for maximum flexibility.



4. Integrate

Building on the previous point, platform providers need to accept that they are almost certainly not going to be the central point for their customers' financial life. People will have other investments elsewhere, not to mention their bank accounts. Integration with these services is key, but also with other non-provider services of equal importance to the investor. Top of this list are workplace and employer services such as Wealth Wizards, which have the potential to become increasingly popular as employees look to provide their staff with access to more than just a wrapper. Which leads us nicely onto...

33. <https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf>

34. <https://www.fca.org.uk/publication/research/increasing-comprehension-of-investment-pathways-for-retirement.pdf>



5. Advice

For some providers the answer to this complexity will be to provide access to advice, either in-house or signposted elsewhere. As it stands the cost and availability of advice is prohibitive for many, leaving people to make do as best they can on their own. The Pensions Advice Allowance might help this situation over time, although £500 won't buy much time with a 'traditional' financial adviser. Some providers, such as Aviva, are already turning this challenge into an opportunity by offering advice services for clients who want and/or need them, and we expect others to follow suit.



7. Consider the dashboard

Finally, we have the Pensions Dashboard. When this launches it could represent a further opportunity for platforms able to integrate with, or even provide, dashboard services. It could, however, be a threat to others. Chile's SCOMP gives us some food for thought on what is possible: if the dashboard becomes the default for retirement planning, then any platform that hasn't sorted out its technology to enable integration will quickly become invisible to a large proportion of the mass market.



6. Specialise

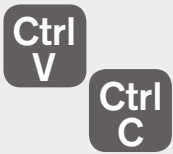
If we look to the wider direct investing market we do see considerable innovation. An ever-increasing number of robo services are launching, most of which are, sadly, doing the same thing as one another. The majority are focused on accumulation clients with simple needs, which is all well and good. What we are *not* seeing is many providers launching services specifically targeting the at-retirement market. We think this is an opportunity missed, either for a start-up or a traditional provider.

HOW TO GO ABOUT IT

Platforms in the process of launching or enhancing an at-retirement proposition can choose from a number of routes to market, each with its merits and its challenges.



In-house build: the DIY version where the platform builds its own proposition from scratch using its own technology and providing everything – from trusteeship to administration – itself. The upside is total control. The downside is a year-long build, not to mention the blood, sweat and tears involved in securing both FCA permissions and HMRC approved status where applicable. And that's assuming it all goes to plan.



White label: fairly straightforward this one, effectively putting the platform's brand on an existing offering. A swift and efficient route to market but with nothing of the platform in question about it and an identical proposition to one or more of its peers. And then there's the extra layer of cost nibbling away at the margin.



Software partnership: this is a more collaborative approach, with elements of the technology provided by a third party and integrated into the existing proposition. The platform has a greater degree of control and is also responsible for trusteeship and administration. The key is in how well it all fits together.



Business process outsourcing (BPO): the most 'hands off' approach, this outsources both technology and administration. The platform would probably act as the SIPP operator but may appoint the BPO as scheme practitioner, passing on responsibility for much of the regulatory reporting.

The ever-increasing focus on customer journey and experience points towards platforms favouring a SIPP proposition under their own brand and fully integrated into existing technology. Vanguard is following this trend as it develops its offering.

If you're tempted to tread this path, there are a few things you'll want to look for in a tech partner:

1. Ability to facilitate straight through processing of instructions from the web to the back office.
2. Full online support for all at-retirement income options.
3. Effective integration with your existing investment management set-up.
4. Regulatory change included within the licence fee.
5. Illustration engine and tools all from the one source for ease of integration.
6. Digital consulting support to enhance the customer journey.
7. Training for back-office staff in the operating model.
8. Supporting holistic guidance options, and so investor decision making.

One key decision for platforms in the D2C at-retirement space is how far their duty of care extends into the retirement decision making process. We'll be watching with interest any action the FCA may take in this space.

A VIEW FROM THE TOUCHLINE

The focus of this paper is the D2C market and how effectively providers are providing at- and in-retirement support to consumers.

But we think there are also lessons to be learned from those providers that, while not on the D2C playing field, are on the touchline – supporting consumers in other ways.

One of these is Wealth Wizards. As part of its service it offers digital advice that consumers can access through their workplace, as well as white-label services for providers.

One of Wealth Wizards' main beliefs around how the market needs to develop echoes our own concerns over the industry's duty of care towards investors and where that should come into play.

Wealth Wizards takes a different, and challenging, perspective by stating that the very real potential for inadvertent self-harm among D2C investors should mean a greater emphasis being placed on distinguishing those customers genuinely willing and able to go it alone and those who are not.

Expanding on this theme, Wealth Wizards believes innovation is needed across three areas:

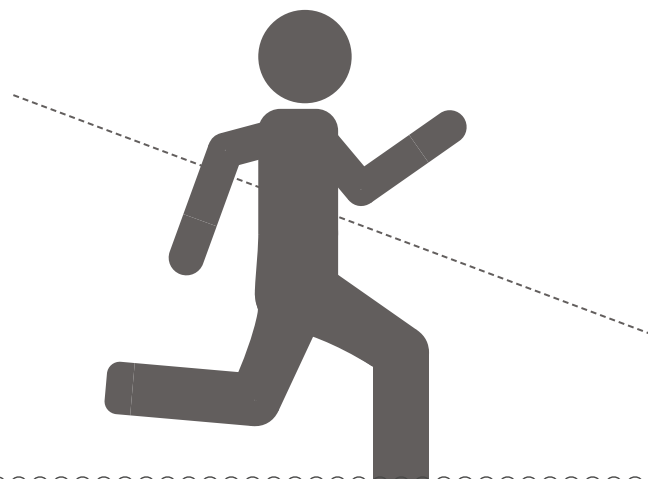
1. Understanding the investor, their needs and goals – this could be through a gating or triage service.
2. Applying lessons learned on the accumulation side – this could include default asset allocations/ risk-managed funds and withdrawal strategies with annual reviews.
3. Raising the digital experience to that of other markets – with personalised guidance and advice, creating a 24/7 efficient, integrated and responsive experience.

FINAL THOUGHTS

The challenges of delivering at-retirement services outlined in this paper are not going to go away. If anything, they are probably going to increase as more people stay invested post-retirement. Almost four years since the pension freedoms were implemented, this still feels like a market where customers are underserved. There is a lot of inherent complexity, which does mean investors have more flexibility to manage their pension income than ever before. However, we can't help but feel that the industry is collectively failing to give people the support they need to make informed decisions.

Whilst this paper has focused on retirement income, the solution is more likely to be found by engaging with people earlier on in their lives and getting them to think about their retirement funding in their 40s and 50s. Changes introduced by the FCA's ROR may go some way towards meeting this need when they come into effect in November. Retirement wake-up packs will be issued on a five-yearly basis from age 50, instead of 55, until the investor has fully accessed their pension pot. They will also include a one page summary (or 'pension passport') to make the key information easier to digest.

These changes will hopefully encourage consumers to engage with their pension options sooner, helping to ensure a more orderly transition to retirement and the options available at that time. The more engaged that people are with how much they've got, what they're going to do with it, and who they want to do it for them, the more likely they are to have the sort of retirement everyone hopes to achieve. And that can only be good news for the providers involved.



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