

**INDEPENDENTLY PROMOTING DEBATE AND FRESH THINKING IN THE FINANCIAL SERVICES INDUSTRY**

## **Pensions independent governance committees: customer perceptions of value for money**

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- Independent Governance Committees (IGCs) were established by providers of workplace personal pension schemes in 2015 in order to represent the interests of the consumer and to assess the extent to which schemes deliver value for money – and to challenge the provider as appropriate.
- At the end of 2016, the opportunity arose for eleven IGCs to participate in a major market-wide study into customer perceptions of value for money in workplace personal pensions. The research is extensive (full-day workshops plus on-line survey to which over 15,000 people responded) and findings are applicable across a much wider range of retail financial services.
- “Good return on my money” comes out strongly as the top attribute. This is much more than simply good investment returns. It is a form of words used by customers to express that, at the end of the day, they have achieved a good outcome. In reality therefore it implicitly reflects a combination of contribution level, fund performance and level of charges.
- The level of charges in itself – the particular attribute was described to customers as “charges in line with the market average” – is relatively unimportant. Other research shows that consumers are not generally capable of assessing levels of charges but this finding strongly indicates that, in assessing value for money, customers place much more importance on attributes that represent the quality of the service than they do the cost.
- It might not have been expected that two of the top 4 attributes would relate to good governance and the financial strength of the provider. This is a reflection of the widespread distrust of pensions – not specifically workplace personal pensions but pension issues more generally.
- Whilst a strong correlation is observed between the findings from the workshops and the online survey in terms of many of the key attributes, a clear finding emerges that customers place much more emphasis on the value of support and engagement once they have a much better understanding of the implications and consequences of their decisions around pensions. Education therefore is highly influential.
- The findings provide valuable insights for IGCs, for product providers, and for policymakers. And perhaps now is the time to reflect on what appears to have been a singular focus on cost – in order to do right by the consumer this research illustrates that consideration of charges in isolation is incomplete without fully taking into account the quality dimension.

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Value for money is a pretty straightforward concept which most people grasp, isn't it? There are different definitions out there but most would agree it's about the optimal combination of cost and quality. This is by its nature subjective and is personal to the individual.

Given the nature of retail financial services – and, in particular, long-term savings and investment – it is both inevitable and right that there should be a strong focus on value for money for the consumer. Looked at from a distance people would be forgiven for thinking though that the sole focus of policymakers – regulators and government – was on minimising cost, through for example the introduction of price caps, to the exclusion of everything else. But this does not reflect the increasing recognition that quality is at least as important in the value for money equation.

Value for money, as noted, is personal to the individual. So research, exploring in detail what customers perceive to be value for money, provides extremely valuable insight into what really matters to consumers. This is powerful evidence in terms of informing the thinking of not only product providers and financial advisers but policymakers as well.

This article is based on an in-depth research study on customer perceptions of value for money which has recently been completed. The study was focused on workplace personal pensions – but the findings are applicable across a much wider range of retail financial services.

## Background

Independent Governance Committees (IGCs) came into being in early 2015. They have been established by all the main providers of contract-based workplace personal pension schemes. They are there to represent the interests of the consumer and to assess the extent to which the product provider's schemes deliver value for money – and to challenge the provider as appropriate. The terms of reference for IGCs are set out by the FCA in their Conduct of Business sourcebook in section COBS 19.5<sup>1</sup>.

## Research study and approach

IGCs have found the assessment of value for money to be no easy task. All IGCs, in their first year of operation, recognised the importance of better understanding what customers see as important and why. And a few IGCs carried out some form of bespoke customer research as a start to this process. However, in the autumn of 2016, the

opportunity arose for IGCs to participate in a major market-wide research study into customer perceptions of value for money in workplace pensions. Eleven IGCs, with the full support of their respective product providers, decided to participate<sup>2</sup>. NMG Consulting was asked to conduct the research study.

A two-stage approach was taken. Firstly, two all-day workshops were held with 46 customers from a range of age and wealth bands who had workplace personal pensions. These sessions allowed in-depth exploration of the various components which might comprise value for money. The output from the workshops assisted with the definition of a series of 23 attributes which, when taken together, make up value for money from the perspective of the consumer. The second stage was an online survey – sent out to over 200,000 customers and completed by more than 15,000 – which provided the opportunity for them to share their thoughts on the relative importance of the various attributes and also their views on how well their own provider was performing against them.

### *Qualitative research – workshops*

The principal output from the workshops was a long list of attributes which the customers perceived to comprise Value for Money. These attributes covered a number of areas including: the reputation and financial strength of the provider; the controls and safeguards in place; the choice of funds; the levels of charges; the return achieved on the money; tax relief; employer contributions; the quality and range of communication and support; and customer service. These were distilled down to a comprehensive list of 23 attributes.

As might be expected, early on in the day, participants at the workshops had a relatively poor understanding of their workplace pensions given it was not an area they were particularly engaged with. However, as they began to develop their understanding during the day, their ability to articulate what comprised for them good value became much clearer. Importantly, once they had developed a fuller appreciation, some aspects came much more to the fore in terms of their value – in particular support from their provider which helped them actively engage with their pension decisions. Another important finding was that quality is more influential than price and that many participants were prepared to pay a higher price for a better quality experience.

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<sup>1</sup> <https://www.handbook.fca.org.uk/handbook/COBS/19/5.html>

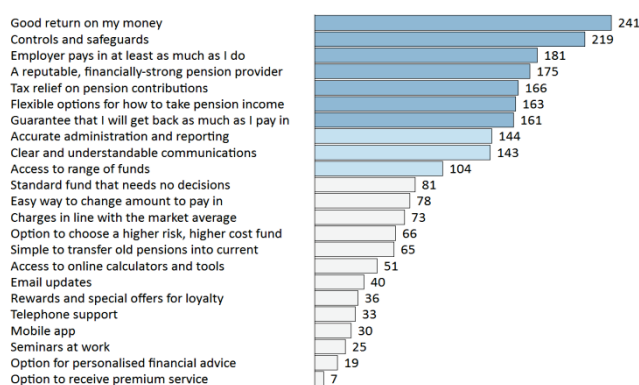
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<sup>2</sup> The 11 participants were Aegon, Aviva, Fidelity International, Legal & General, Old Mutual Wealth, Prudential, Royal London, Scottish Widows, Standard Life, Virgin Money, and Zurich

## Quantitative research – online survey

The questions to be incorporated in the online survey were designed by NMG Consulting with input from the 11 IGCs and providers that participated. The survey was designed to take 15-20 minutes to complete and the research technique used, MaxDiff<sup>3</sup>, enabled the relative importance of the various attributes to be clearly established. The survey also explored customers' awareness and usage of the various attributes. And, finally, customers were asked to score their own provider on how well they thought they were performing in terms of overall value for money and satisfaction. The survey was conducted during November and December 2016. Whilst there were some subtle variations by segment (for example age, wealth, etc.) the overall messages from customers across all the product providers were very clear:

Customer assessment of attribute importance in workplace personal pensions  
(base: 13,742 respondents)



Scores and shading show degree of relative importance.  
Scores over 150 are highly important; 100-150 important; and below 100 less important.

In then exploring awareness and usage of the various attributes, as might be expected there tended to be relatively low customer awareness across some of the attributes – and usage for these was low as well. Awareness and usage were particularly low amongst customers who were no longer contributing to the particular workplace pension.

Rating of the provider's performance by the customer was done on an "out of 10" basis. The results showed a wide variability in scoring so it wasn't necessarily the case of customers just choosing scores in the middle of the range. Overall scores were 6.4 for value for money, and 6.2 for satisfaction.

<sup>3</sup> MaxDiff (also known as "best-worst") is a long-established approach used for obtaining importance scores for multiple attributes. Respondents to the survey are presented with a limited number of attributes and asked to choose the most and the least important factor – and this process is then repeated on multiple occasions with different sets of attributes.

## Four key takeaways

### "Good returns"

It is perhaps unsurprising that "good return on my money" comes out so strongly as the top attribute. It is important to note however that this was not defined in detail and care should be taken in interpreting too precisely what it might mean. It is certainly much more than simply good investment returns. It was a form of words used by many of the customers who attended the workshops to express that, at the end of the day, they wanted to feel they had achieved a good outcome. In reality therefore the attribute implicitly reflects a combination of contribution level, fund performance, and level of charges.

### Level of charges

It is interesting to note that the level of charges in itself – the particular attribute was described to customers as "charges in line with the market average" – is relatively unimportant. It ranked only 13<sup>th</sup> out of the 23 attributes.

We know from other research that consumers have very little grasp of charges and are not generally capable of assessing whether the level of charges is reasonable or not. So this is not to suggest that consumers do not need to be protected from potential detriment. But it does indicate very strongly that, in assessing value for money, consumers place much more importance on attributes that represent the quality of the service than they do the cost.

### Good governance and financial strength

Intuitively perhaps it might not have been expected that two of the top 4 attributes in the online survey would relate to "controls and safeguards" (described as ensuring the pension scheme was safe and secure and working as it should be) and "a reputable financially-strong pension provider".

These aspects came out very strongly at the workshops too. Pension issues related to the likes of BHS, and even still Maxwell, are firmly in the minds of customers who aren't able to differentiate between these issues with final salary schemes and the workplace personal pensions that they're in. There appears to be a fairly widespread misconception, for example, that employers could potentially raid the monies in workplace personal pensions.

### Differences in findings between the workshops and the online survey

A strong correlation is observed between the findings from the workshops and the online survey in terms of many of the key attributes.

However, some aspects only become important once customers fully understand the implications and consequences of their decisions. This, in itself, takes time and appropriate education. Two particular findings from the workshops – namely, that consumers would value support from their provider which helped them more actively engage with their pension decisions and that many would be prepared to pay more for a higher quality experience – were not borne out by the online survey.

Whilst customers are generally not engaged, the online survey did reveal really how important their workplace pensions are for their income in retirement. The message from the research is clear – education is highly influential in helping customers understand how a good outcome at retirement can be achieved and, once this is understood by customers, they place much more emphasis on support and engagement.

### **So what does this all mean for the industry and for policymakers?**

There is alignment on the overall objective that consumers achieve a good outcome from saving in a pension. Few would disagree that the decisions they make – on levels of contribution; in choice of investments; on what to do at retirement – are key elements of achieving such an outcome. And value for money is a key component too in ensuring that the charges are proportionate to the services delivered. It also seems indisputable that value for money is a combination of cost and quality.

### ***IGCs***

IGCs exist of course in order that the interests of consumers can be more fully represented. Value for money is subjective and, naturally, different Committees will take different approaches to their assessments – not least because product providers will have their own differentiated propositions in the market. However all Committees will want to understand what matters most to their customers. To this extent this research study provides powerful insights which will influence the assessments that IGCs carry out. This is already evident in the published annual reports of a number of IGCs.

### ***Product providers***

It is not new news that positive engagement – both of consumers and of employers – is the single most important factor in ensuring that good outcomes are achieved. Not only does this research study reinforce this aspect but, importantly, it highlights the very real challenge in getting consumers to the place where they recognise the implications of their decisions and indeed the consequences of their inaction. That it took the best part of a day's workshop to get customers to this point is an important learning not only for providers but also for policymakers too.

It may be that strong governance and the financial strength of providers are somewhat taken for granted by the industry. It seems clear however that these messages have not yet landed with customers – who, in seeing issues in the wider pension space, find themselves tarring workplace personal pensions with the same brush.

Whilst the satisfaction scores are not disappointing as such they do appear to sit in the category of “could do better”. And so improvement in this area will doubtless continue to be a focus for product providers.

### ***Policymakers***

As noted above the real benefits of positive engagement and the need to reinforce the strong governance of workplace personal pensions are important aspects for policymakers to take into account too.

It is understandable why the focus of policymakers has to date been on cost. The arguments around lack of transparency and information asymmetry have been well rehearsed, and the protection of consumers becomes paramount. But, in order to do right by the consumer, this research illustrates that consideration of charges in isolation is incomplete without fully taking into account the quality dimension. Perhaps the singular focus on cost has meant that policymakers have unwittingly failed to consider the voice of the consumer in the round. The findings from this research study certainly provide plenty of food for thought in this respect.

Ian Costain is an independent consultant with a focus on the long-term savings and investment sector with a particular interest in pension policy. Over the last 6 years he has completed consulting and advisory assignments for the likes of commercial organisations, regulators, and trade bodies. Ian is an actuary by profession.

Ian is an independent member of the Old Mutual Wealth IGC. He also worked, on an associate basis, with NMG Consulting on this research project. The views expressed in this article represent Ian's own personal thoughts as an independent consultant.