British Actuarial Journal, Vol. 18, part 3, pp. 604–623.
doi:10.1017/S1357321713000081
First published online 5 April 2013

Transforming consumer information

Abstract of the London discussion

[Institute and Faculty of Actuaries, 23 April 2012]

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This abstract relates to the following paper: Ritchie, A., Corrigan, J., Graham, S., Hague, A., Higham, A., Holt, J., Mowbray, P. and Robinson, H. Transforming consumer information. *British Actuarial Journal*, doi:10.1017/S135732171300007X

The Chair (Mr R. S. Bowie, F.F.A.): We are very pleased to welcome for this event a number of guests, representing DWP, the Financial Reporting Council, and others who are interested in the education of the public in financial matters, including Mr Porkess, who is the author of the joint paper that we and the Royal Statistical Society commissioned earlier this year.

As actuaries will know, although the work that we do has a huge impact on members of the public, it is usually one step removed. They do not know that it is an actuary that has set their motor insurance premium or has been setting the price of their annuity or, in the pension scheme world, that the actuary has been helping to safeguard the security of their pensions.

What we are talking about is the direct impact. It is one of the personal championships of Mrs Curtis that actuaries should do more to influence beneficially the understanding of the public. She is particularly delighted that the joint paper with the Royal Statistical Society was done on her watch.

Actuaries do not lack ambition so a paper which sets out to transform the effectiveness of consumer education is an ambitious paper and we know that any contribution we can make can only be in conjunction with lots of other stakeholders.

Mr A. J. Ritchie, F.F.A. (introducing the paper): Do we have a problem? Is it a problem worth fixing? What will you do to help? These are the three questions that I invite you to consider as we discuss consumer information in financial services.

The authors strongly believe that actuaries are uniquely placed to help in this area. Actuaries are all about financial risk. Actuaries are all about thinking long term. There is even a communications exam as part of the actuarial qualifications, so we think that this is an area where the Actuarial Profession can put up their hands and take a lead.

I will give a couple of examples to illustrate why the authors believe we have a problem. There are others in our paper. The ABI did a review of yearly statements in July 2006. Remember for a moment that the yearly statement is the key form of communication that providers have with their pensions customers each year. The ABI concluded that they were "a long way from ideal". They were "unappealing" and we "appeared to overlook the customer". That sounds pretty bad.

Five years later, the ABI did a very similar piece of research and they concluded that the documentation "proved a significant barrier to engagement and comprehension". It "desensitises the customer and makes it difficult to navigate and find information they need". So we do not appear to have moved very far in that five-year period.

My all-time favourite quote on this subject comes from The Times in January 2011, which goes a bit further than that and said that "this is not just about actuaries colliding with the messy real world, but it is more sinister. Complexity and jargon have sometimes been deliberately introduced to bamboozle and overcharge people".

The second question: is this a problem worth fixing? This is much more of a personal choice. I cannot tell you definitely that it is. I can tell you that I believe passionately that it is. I invite you to draw your own conclusions.

Imagine for a moment a world where consumers were as engaged in their financial savings and what they were trying to achieve for their future as they were in watching "X Factor" or "Strictly Come Dancing".

Imagine a world where consumers understood the potential outcomes from their savings as well as they understood the potential outcomes from betting on the Grand National at Aintree.

Imagine a world where consumers looked forward to the information that they received from providers and understood how their savings progress fits with their life goals.

I put it to you that in such a world the consumers would be much more likely to achieve their financial objectives. I put it to you that in such a world the savings gap in the UK would be a small fraction of what it is today and, perhaps importantly, I put it to you that in such a world the finance industry would be absolutely booming with all the new investments through consumer savings.

Now imagine that it was the actuaries in particular who took the lead and started to make that change a reality. Would we not then be "taking a greater presence in public affairs, speaking out on issues where we can contribute, raising awareness of the value we add to society and helping to shape policy?"

That is a direct quote from our strategy paper from the profession less than a year ago.

That is my vision of the future. As I say, "Is this a problem worth fixing?" is very much an individual call.

What are the practical things that we might embark on next, especially given that we are all aware that providers of information have lots of other priorities? They have tight budgets. So what things can we do in the short term that are a step along the road to a consumer information transformation?

The first thing we looked at in our paper was around the current state of information. As you can probably gather, our view was not overly positive. The consumer has many different touch points, whether that is friends or family, the press, product providers, etc. Under 2% of consumers said that they would go to a financial adviser for advice. So, if you believe that, even if advisers are delivering

https://doi.org/10.1017/S1357321713000081 Published online by Cambridge University Press

brilliant quality consumer information and engagement, 98% of consumers are not getting that. So the rest of us need to step up to the plate as well.

In terms of regulators, there are many of them, whether they are official regulators or pseudo-regulators. Lots of people have an interest in this consumer information. So no wonder it is so hard to provide something that is concise and engaging. Equally, as providers of information we do not do ourselves any favours. We provide one size fits all communications, even though we know that customers have different needs.

All these things lead to one big problem, which is the big savings gap in the UK.

As our working party explored consumer information issues further, there were a lot of things in there that we felt "if only we apply that in practice it could make a real difference".

Just touching on a couple; information overload and complexity. We know that "less is more" in many respects. We know that if we provide consumers with 20 or 30 page documents that land through their door once a year, with lots of booklets and lots of caveats and jargon, they are not going to read it. We know at best they are going to get the first page, perhaps not even open it. If you are lucky, they will file it in a drawer.

Yet that is a fairly accurate description of the annual statements we provide and the quotes we provide, despite providers' best efforts of today.

I will pick another one as well regarding consumption versus saving. Consumers find it easier to put a value on something that is consumed today rather than something that happens many years from now. So it is hard for consumers in general to understand what the value is of saving for the future. Again, we do not make it easy for ourselves. We do not make it easy for them. We focus entirely on a number or a series of numbers. We focus on the amount of money you have saved in your pension or your ISA and perhaps a projected amount that it might reach in future.

Most people can't judge "Is £17,821 enough for what I need to achieve? Or would £18,271 be better?" So we need to do better at making things tangible for consumers to work with their known capability to understand and act.

The numbers point is interesting as well from a risk perspective. Because of our focus on "the number", the natural risk that you zoom in on is the chance of that number going up or down in the next day or the next week. So a lot of our information around risk is focused on short term fund volatility. If you ask an adviser what is the main risk, quite often they would say "the documentation talks about a scale of 1 to 5 or 1 to 10 and that tells me which fund I should put the customer in". This is based on short-term volatility.

Arguably, if you were thinking much more about the consumer's long-term goals, what they were trying to achieve, whether the fund goes up or down today or tomorrow is less important than whether the long-term growth rate is going to be what they need, or whether the price of what they are saving to buy is going to go up or down at the point they are going to buy it.

So our working party felt that there was a lot more that we could do in the industry around how to communicate with consumers and how to communicate risk, which again is an area in which actuaries are very strong.

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When it goes wrong, it goes spectacularly wrong. We all know about endowments as one example where the industry could have done better in the way it communicated the risks to consumers.

Our working party would love to see the industry be better at engaging with consumers to the point where we avoid the big mis-selling scandals that can happen.

One of the things which we did as a group was try to think: is this impossible? Is it just that this is such a hard topic, we are doing the best we can. We looked at other countries in other industries for hope.

We found some hope in Sweden. They issue an orange envelope once a year. It goes to everybody (I guess over a certain age) in the population and it covers lots of information about their finances and whether they are going to be on track for something in the future.

In terms of statistics, they are quite successful. So when they asked consumers how many of them could recall receiving this envelope, 90% of them said they could. When they asked how many of them opened it, 75% said they opened it. When they asked how many had read some of it, more than 50% had read some of it.

So you may be thinking "just about 50% read some of it, that does not sound very good". But let me tell you that is incredible compared with the research that we all do in our companies around consumers reading the material we send.

Another industry I should like to pick out that deserves credit in a really complicated area is food manufacturing. Think about the nutritional information and the labelling that you see on products now – with the red, amber and green. What is the salt content? Is it high or low? What is the fat content and the saturated fat content? This takes something that is incredibly complicated and puts it into a really easy-to-digest labelling system that has gone down very well with consumers.

So why can we not do something like that in our industry? I reiterate that there are great examples of consumer information in our space, so there is no reason why we cannot do this on a more consistent basis.

The next thing we looked at was what might a framework look like if we were to be able to rewrite everything and say all consumer information follows this framework? We covered initially what were the benefits of this? How much more engaging would customer information in that way be?

We kept it at a high level deliberately. What we did not want to do was say look at this annual statement, this is great, this is much better and then to have discussions around "should that paragraph go here or there"? We very much wanted to focus on some high-level principles.

The first proposed principle is probably the most radical: every time we speak to consumers, let us speak to them about their goals rather than the numbers. This would feel much more tangible for the consumer – they would find it much easier to remember why they are saving and to understand whether they are on track and if they need to take any action.

It can be quite easy to think about a goal if it is a short-term goal. If you are saving over the next three years for a new car or to go on holiday, you can easily imagine that conversation with the consumer. What we found much harder as a group was how might you do this for saving for a pension over a 25 or 35 year period when you are trying to work out what level of income you need in the future? It is quite hard to make that tangible.

We do not purport to have that answer yet. We do strongly believe that this is an area worth focusing more on.

One answer we put forward as a possible, that we have seen in the industry that we think works quite well, is the idea of using pictures of what you might be able to afford in retirement rather than the number. You might have a shopping trolley of goods and services in the picture. You might have golf clubs representing your annual golf membership or a picture of a sandy beach representing your trip to the sun every year. Something that makes it easy to absorb, and something that makes it tangible.

You could then move on to describe risk and reward in the same way.

For example, perhaps things have gone really badly in the last year in the stock market so your golf bag has just fallen out that trolley. But perhaps you want to look at what other things you could add to that trolley if you paid an extra contribution. So we believe there is scope there to communicate pictorially with customers rather than focus on the number, which typically works much better for those designing information than those receiving it.

Our second principle covered a range of basics of communication, really. We are not saying this is easy, because we know it is not. We know that this problem would have been solved a long time ago if it were an easy thing to do. But what a difference it would make if we could somehow segment our information a bit more, not just send the same document to a 25-year-old that we send to a 55-year-old; not just send everything to everyone, but focus on what it is that is the best fit for this customer. And how do we allow them to get more if they need it?

We recognise very much that if you take this to the extreme it is not going to be affordable for providers. But there must be a middle ground somewhere where we can we can invest a bit in the business case for this to achieve the benefits.

Consistency was the other one that I would pick out.

Imagine that shopping trolley example, and imagine that you have just received your yearly statement and you have just been told that your golf club membership is in that basket. Then imagine that you phone up to ask a question of somebody at the provider and they know nothing about your ambition to have a golf membership in your retirement. That would not feel very joined up and it would act to confuse rather than support the consumer.

So whatever we do here needs to be consistent. That becomes particularly tricky when it is consistency across providers. What would be absolutely marvellous here is if we could come up with something that all providers used across the board so that it just became much easier for consumers to digest.

Finally, information should be free of bias. You might think this goes without saying also, but there are significant examples of bias out there at the moment. One of the examples we pick up in our paper is around the projections and around the fact that for different funds, providers can choose what rate to project that fund at.

Money Marketing picked up on a fund that one provider was illustrating would grow 1.25% a year higher than another provider. Exactly the same fund. So if you can imagine the bias that is introduced there, even if that first provider's charge was 0.5% a year higher than that second provider's, it would look much better in potential outcome to the consumer. So why would the consumer not pick that higher-charge product? So we do need to watch out for bias and think about how we can address that.

It is fine and well for a small group of us, supported brilliantly by an expert panel that we set up, to come up with some ideas for the way forward, but we really wanted to expand that net and think about how we know that we are focusing on the very best things.

We held a consumer information workshop and asked everybody to come up with ideas and rank them in terms of impact and effort. With that we came up with proposed outcomes and proposed actions.

The proposed outcomes did not change too much from our original draft list. However the actions are the most important thing and we got some fantastic input at the workshop. It is these actions that we are now going to explain in a bit more detail. We will cover what they are, why we think they are important and what you can do to help (if you believe that this is a problem worth fixing).

Mr A. P. Higham, F.I.A.: I am going to cover the first two of the immediate actions that were decided at the workshop as being ones most worthy of further work.

Champion cultural change with providers of information

The first one is for as many people as possible within the profession to try to champion a cultural change towards providing information for consumers, for members, according to the principles that came out of the paper that Mr Ritchie has just covered.

We felt that it was important to give that rather generic objective a specific set of actions.

The people who are my clients in my IFA business are the consumers. The views of IFA firms are very well listened to by providers. We hope that using myself as a focal point and with all your support we might be able to bring to bear some suggestions that might gradually move things along.

We are looking at engaging with the key decision-makers within the life insurance and pensions industry on specific areas where providing high-quality consumer information is seen by those companies as something they really must do rather than a "nice to have"; something where it is a very high priority for commercial reasons. That ensures that there is a high likelihood of there being a strong interest to try to make a change rather than it being something through paternalism or it is just the right thing to do, which we think could lead to a lot of interesting conversations but ultimately not necessarily have enough behind it to make any change.

We need to see what buy-in can be obtained with the industry to this theoretical research that we have done, and to see which of the principles, and the perceived benefits that we think will flow from it, are really appreciated by the people who make decisions about what information goes to consumers day by day.

So, the next steps are specifically to identify areas where there is a key driver existing to change, revise or rethink the information that is currently provided, and to be able to share the findings of this research with the teams that are considering new information. Not to tell them what to do. Not to lecture them on what to do. But to give them perhaps a different way of thinking about things, to share with them some of the insights that we have gained out of the work that we have done, and to see what feedback we get.

What we need from people will vary, depending on what you are able to help with. I would certainly very much welcome being informed of any area that you are aware of, where you know that changes in the way communications are done within your firm are occurring, and where you think that there is a strong business need to do it better, and where people would be open to listening to some of these ideas explored. If you could identify those and make an introduction to the working group, maybe facilitating setting up an initial meeting, we could try to make some progress over the next few weeks and months.

My objective over the next two months is to identify a short list of specific areas to focus on, some organisations to work with, and then to go and set up some initial meetings to get some feedback and to see which aspects of the research really resonate with people who are making decisions in this area.

Develop new guidance on the provision of financial projections for consumers

There is one particular area that this overlaps with. That is financial projections. This was felt to be a very important area because a lot of long-term savings providers have information sent to the consumer which is a projection or an estimate of what somebody might get out of it at the end of the day.

It has been a vexed issue through the decades of how much information is helpful. Too little gives too little a picture; too much, nobody reads. What is the right balance?

It is very actuarial in terms of the answers. Actuaries are the best-placed professionals to understand all the issues connected with it. We felt that it was important as a profession that we did not just come up with a piece of theoretical research and then fail to apply it to an area where we are the lead professional, that we lead by example and tried to see how we could come up with a better way of dealing with financial projections that take account of some or all of the principles our research proposes.

The FSA are shortly to consult on the mandatory basis that they require regulated firms to use when projecting benefits for certain long term savings contracts. A large number of financial products, pension schemes, long-term savings, that consumers use tosave for different purposes are governed by these mandatory rules.

The FSA sets a central rate, a single rate, that all firms must project at. They set that rate having taken actuarial advice. They have taken it, historically, from PwC. That advice is academically peer reviewed. There are a number of academics who peer review the PwC report in draft and in final form. This is all transparently published. If anybody would like to read it, it is on the FSA's website.

They based their single investment return on what a balanced fund might return. A balanced fund is typically informed by what balanced funds look like at the moment versus what they have looked like over time. Typically it is invested 60% equity and 40% bonds.

https://doi.org/10.1017/S1357321713000081 Published online by Cambridge University Press

They do not really get too specific about what the long-term means. What I am trying to emphasise here is that it is not heavily driven by what the market sentiment is today. That does have an impact but a very small impact; the rate changes rather slowly relative to the changing market conditions.

It is not a mark to market approach; it is more akin to the way pension schemes used to be valued some 25 years ago.

Having got this central rate, the FSA then require firms to illustrate a sensitivity. There is no great science to that. You just illustrate 2% more and 2% less.

One of the things that we would say from dealing with consumers is that the range of 5%, 7% and 9% is probably interpreted by anybody who bothers to read it as being a reasonable spread.

You might get this at the bottom end; you might get that at the top end. You will be somewhere in the middle. The reality, as we would all know as actuaries, is probably at the current time it is showing you the range of results that you might get from the top quartile of results. So it is giving you good information about what will happen if everything goes really well. It is giving you zero information about average; it is giving you no information about what happens if things went badly.

So we would like to feed into the consultation a piece of thinking that builds on the principles that we have used in this research, and that develops the thinking of the profession away from just standard actuarial assumptions setting and put that response forward. Hopefully, the profession would feel able for Council to sign it off and to send it in on behalf of the profession.

We would welcome input from practitioners and actuaries who use these assumptions and can also see some of the issues connected with them.

Mr A. J. Hague, F.I.A.: The two actions which Mr Higham talked about are undeniably very important. However, if we succeed on those, arguably I believe they will only impact on a proportion of the people in the UK. That is, having really good quality illustrations will only help those who are engaged with financial services providers at the moment. There is a huge number of people, millions of people, who just do not have any engagement with the industry at all. That is, millions of people who are heading towards poverty in retirement potentially.

So that is probably the biggest challenge of all for us to transform information, transform how we communicate to those people.

I am going to talk about our next two proposed actions which try to get that big goal of closing the savings gap and to get to those people with whom we currently do not engage at all.

Provide independent decision aids for consumers

The first of these is the independent decision aids for consumers. A lot of change is happening at the moment, potentially with the retail distribution review we will see fewer advisers out there in the market. There could be more consumers out there who are without access to a financial adviser. This means more consumers looking for help with financial decisions. So we can provide decision aids to help them understand their financial goals and what they should be doing. The decision aids

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could help the consumers move up the engagement scale. We use concepts in our paper, the concepts of “tell me”, “help me”, “enable me”, to show the progression that consumers can make if we give them the right information.

We see decision aids as a way of helping people start that journey.

Organisations, such as the Money Advice Service, could be crucial here. If we partner with such organisations the Actuarial Profession can make a big step towards helping customers understand their goals.

The Money Advice Service, for example, already has a significant amount of customer support available on its website. There is a lot more that we could do and we suggest looking at areas such as lists of questions that consumers should be asking themselves: What am I saving for? When will I need the money? case studies to help consumers understand what typical people like them do, possibly with examples along the lines of the shopping trolley example that Mr Ritchie talked about earlier; and simple online tools such as a financial health check.

The Actuarial Profession could support the Money Advice Service and other organisations in promoting the key information, and that information will carry much more weight if it is endorsed by both parties.

The independent decision aids action only helps once we have prompted people to engage in the first place, when we have caught their interest and made them realise that there are things that they need to do.

Promote rules of thumb – the savings ‘five a day’

That brings me onto the next topic; the rules of thumb. What we are talking about here is the equivalent of eating your five fruit and vegetables a day. What is the savings equivalent? That is what we are striving to find.

Everyone knows that they should eat their five fruit and vegetables a day. That has had a massive impact. That is the sort of goal we need to strive to get. If we could get that level of awareness in terms of the importance of savings, then it will be a massive step towards closing the savings gap, getting more people engaged with the financial services providers, and doing a lot for profitability and the balance sheets of the financial services industry as well.

We think that the Actuarial Profession should take a lead in this, working with other stakeholders to create suitable slogans and promoting them.

The next year or two are critical years because auto-enrolment is starting to happen. Millions of people will get their first exposure to savings through auto-enrolment. It is absolutely critical that we get that right. If we get it wrong for these people, we risk turning them off savings forever. If we get it right, we will have millions of new people who will start that engagement cycle.

We recognise that this is very difficult. A slogan that has the high impact we need, and also works perfectly for all customer types, I do not think exists. I think it is worthwhile having a go and seeing what is the best we can come up with.

An example that we have used to illustrate this is the concept of save half your age. What we mean by this is if you are 20 years old, you should be looking to put 10% of your income into a pension.

We see this action as being critical to getting customers to start that journey. If we can do that, then the other actions can help. Once we have got customers to start the journey and take an interest, then they can move on to look for the independent decision aids that will help guide their actions.

In terms of next steps on this particular action, we have customer research lined up to test these concepts with consumers, and see what they think of the ideas that we are talking about today. We plan to gain input with financial advisers, get their views and look to use on-line discussion groups to get some feedback on what we are trying to achieve here.

Perhaps most important of all, we would welcome your ideas as to what, as actuaries, we can do to help in this critical area.

My final thought is that it seems to me that one of the reasons why the concept of eating five fruit and vegetables a day has worked so well is because it is taught in schools. So right from the youngest age our children today learn the importance of healthy eating. There is a lesson there for us in terms of the savings industry.

Ms C.A. Stephens (guest):

Support better education on financial matters in schools

The first question we are going to look at to support better education and financial matters in schools is what is financial education in schools? It certainly was not around when I went to school and perhaps was not around when you all went to school, either.

If I can go back to 2008, Ofsted prepared a report detailing a sketch of personal finance education in the secondary school system [http://www.ofsted.gov.uk/news/new-ofsted-report-developing-financially-capable-young-people].

It found the coverage was very patchy. So the Financial Services Authority provided funding via an educational charity for consultants (like myself) to visit schools and to encourage teachers to put personal finance into their lessons. This has been based predominantly on materials that focus on borrowing money, interest rates, but not insurance or savings matters. Now, a lot of the projects did finish in 2011 and the coverage is not as patchy as previously, as you can imagine. But in January 2011, a group of 225 MPs got together and subscribed to getting personal finance into all schools. They felt it was an important subject, not necessarily a standalone subject, but one to be integrated into normal lessons.

This then led to the All Party Parliamentary Group (APPG) committee asking people in education to make their contributions. Carol Vorderman came to the forefront in education last August and helped launch a report that had been commissioned by the Conservative Party [http://www.conservatives.com/News/News_stories/2011/08/~/media/Files/Downloadable%20Files/Vorderman%20maths%20report.ashx]. One of her recommendations was compulsory maths to age 18.

This was followed by the APPG's own report. The recommendations were that personal finance education should definitely be made compulsory, but it was going to be focused on

https://doi.org/10.1017/S1357321713000081 Published online by Cambridge University Press

the maths curriculum. Really importantly for professionals in the finance industry, in my view, being best placed to collaborate on the production of resources, is for resources to be produced by outside organisations and those people best placed to take personal finance into the schools.

That leads me on to Report Number Three [http://www.actuaries.org.uk/research-and-resources/documents/future-statistics-schools] which was produced for January. It was sponsored by the Actuarial Profession. Their first recommendation was about the increasing importance of statistics. Also, there was a recommendation that examples in schools were to be seeded through 'hands-on' real life examples that they could relate to either in their future lives or within the workplace.

So where does that leave us? The mathematics curriculum at the moment is due to be reviewed. It is going to be released in 2014. Naturally, the curriculum feeds into the GCSE syllabuses which then provide the foundation for the A-level maths.

I certainly know how important it is to engage people, and the younger the better. We want to prepare students for the real world. What better way than to take insurance and pensions into the classroom? It is going to have universal coverage for everybody.

There is a huge space there waiting to be filled by providers, people sponsoring really good resources, and maybe incorporate our rules of thumb in there as well. Statistics have been produced on the impact of financial literacy. It gives valuable critical-thinking skills.

I have worked for two educational charities in the past two years. I have taken personal finance into schools.

A report was produced in November 2010, a consultative report, between a group called Pfeg and Healthy Schools South East [http://www.pfeg.org/teaching_resources/resources/money_on_our_minds.html]. They consulted with school students and they asked them what they felt was the most important subject that they needed in the school. The top answer was insurance. It was 77%. That really backs up this. The students want it; we know that there is a need there as well.

Probability, mathematics, statistics and finance are all part of actuarial science. These are the skills that we need the future generation to take on board and to give us a world-class education system and world-class educated people.

We feel that the profession is best placed to be able to collaborate on this. We need the Actuarial Profession to be active in this.

We are going to need sponsorship from some organisation that is willing to get their name into the classroom, not giving advice, but to get some good quality resources in there for the teachers to be able to pick up and run with.

Having worked on both sides, insurance and education, I am quite shocked at the gulf that remains between the two industries. All I ever see in a classroom, if insurance is ever mentioned, is that it is always seen as a gamble. We need to share our knowledge and expertise.

We see on the TV all the time about switching interest rates between one building society account and another, and people get applauded for saving 50p here or £10 there. In actual fact, if you do not

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have insurance, if you have the wrong type of cover, you might have missed the tick box on an application form, that can put you into a serious state of debt. That is what we want to avoid.

So, in summary, what is it? What is financial education? It is already in schools. Some of us who have children will know that it should be in their child's school already. The banks have become extremely successful from what I have seen.

You might go into a school and say, "Do you do personal finance education?" They will say, "No." Then you will mention a bank's name and their product and they will say, "Oh, yes. I do know about that." We think it is one of the best ideas simply because of needs and wants. It is the economics of the situation. We want to do the best for the next generation.

What are the next steps? We do need sponsorship. What do we need from the Actuarial Profession? We need ideas and a cheque book.

Mr Ritchie: Thank you, Ms Stephens.

Explore how best to communicate financial risk and risk mitigations

I have talked already about how we might communicate financial risk in a different way. We have talked about golf bags falling out of trolleys, pictures, and so on. There is a lot of work to be done about the best way to do this. We think that it is one of the best ideas because we think that it is fundamental to engagement.

We think it is important that consumers understand the risks and the benefits and that they know how that relates to what they are seeking to achieve. It is equally important that what happens in reality is then consistent with their understanding of what could have happened. So we need to get this right.

We believe actuaries are particularly well placed to help in this area. We spend our lives talking about assets and liabilities and how to marry the two up. Consumers have that exact same issue: how do I marry up what I want with what I have got? How do I plan best for my future? I say that actuaries are particularly well-placed – that is, as long as we hook up with other experts as well. I do not think that we can do this in isolation. We need to be speaking with consumer champions, advisers, regulators and as many end customers as we can.

How might we do it? This is probably a big enough subject to be a working party in its own right. Maybe that is what we should do. Perhaps we should set up a working party to focus on this very point.

Mr L. M. Edmans CBE (Chairman of the research and branding agency, Bdifferent): Bdifferent has been working in the field of customer communication for at least the last 10 years. I am first going to present the views on the paper of the principles of Bdifferent, based on that experience. I will then make one or two observations of my own.

Bdifferent's views: They start by saying that it is absolutely right that the financial services industry must continue to improve on the way it informs consumers about the products and services available.

They say that the Treating Customers Fairly (TCF) initiative has helped considerably in that respect. They have noted the change in the attitudes of companies towards wanting to understand

https://doi.org/10.1017/S1357321713000081 Published online by Cambridge University Press

how much their consumers have comprehended since TCF came in. For example, just recently they have had a client who has withdrawn a consumer brochure after listening to research findings on it from consumers and is now rewriting it before putting it back into research. They were shocked when they watched consumers discussing it because, internally, they thought that it was easy to understand.

They then go on to cite what is happening with annuities and the open market option as an example of how in different specific areas there are real attempts to improve matters.

They think that looking forward, as the paper has suggested, it would be a good idea to take an area, and really work that one through rather than try and do everything for everybody. They think that pensions statements would be a very good place to start, although they go on to say that there have been many attempts to get pensions statements straightened out, over a long period. It is not necessarily just the communications and the attention to detail issues that count, it is practical matters, such as the fact that to change the pensions statements means having to rebuild your IT systems.

The other thing they mention is that they think that the Actuarial Profession could help here because of your level of influence in this area. Compliance and risk teams do need to understand and listen to what consumers are saying about what the consumers want to know about their pension and not what they are told that they need to know.

There have been many examples to try to get documents which are really comprehensible to consumers. They are written in that language but they then go into compliance and when they come out the other end nobody understands them.

Precision and completeness (and defensive wording to protect the provider or distributor) can be the enemy of comprehension.

The next point that they make is that looking at how people save is key, but do not forget spending and, in particular, do not forget borrowing, too. People only save in the context of what they spend and what they borrow. Any research that is looking at one aspect of somebody's finances needs to be aware that if a particular part of the balloon is being squeezed in the other parts have to be squeezed out.

As Ms Stephens said, when you talk to people about finances, their first reaction is to think about what they are spending and what they are borrowing rather than what they are saving.

There is a need for clarification as to what is 'information' and what is 'advice'. The problem with ideas like 'simplified advice' or 'simplified products' is that, although you might be able to simplify the products, you cannot necessarily simplify the needs of the person they are meant to allay.

Then they go on to talk about getting non-industry people involved in the way in which you already have mentioned.

My comments: Personally, I think it is great to see the paper come out. I particularly liked the stress on the need to get consumers engaged. Unless people are connected and thinking about their finances, then frankly nothing else applies.

https://doi.org/10.1017/S1357321713000081 Published online by Cambridge University Press

I would suggest there could be a real task for the Actuarial Profession in taking on the challenge of evaluation. Evaluating how much difference it could make to people to have their finances sorted out and consequently how much the effort to make that change happen is worth, and how much, therefore, it is worth paying for it. Discussions about financial capability, information and understanding are number-free zones. To get somebody to become involved with their finances and having them straightened out is hugely valuable to them.

I would like to see another evaluation aspect which is not simply to measure what people say, when they are asked in surveys but what they have done to change their behaviour. Using your 'five a day' analogy, the question is not, 'how many people know that they ought to be eating five a day?', it is, 'how many people are?'

Ms K. J. Byrne, F.I.A.: I am going to talk about three areas from my own experience. First of all, information sources and what information sources consumers value and use; secondly, risk perceptions; and thirdly, I want to talk about bias and Principle 3.

What I researched for my MBA back in 2004, was how consumers evaluate risk in financial products. The first thing I started looking at was information sources and what information sources people used and valued.

What I found quite surprising was people valued personal information sources, their own internal information sources more than external sources. They went very much on past experience, and also their own knowledge.

90% of people thought past experience was either very important or extremely important. 87% of people thought that their own knowledge was very important. Now only 50% of the people thought that they were experts in this area, which means that until you have built up some expertise, you have to go somewhere else for some help, which is the "help me" that the paper talks about.

So, people go to external information sources, too. I would have thought that people like IFAs would be top of the list. But no; top of the list were the financial pages of newspapers. Journalists have a really important role to play here.

The second most important thing was product providers' literature. I was surprised because I thought no one ever read it. But people do value it and do read it.

The third on the list was financial advisers.

My second area is risk. My dissertation was published in the Journal of Financial Services Marketing in September 2005: "How do consumers evaluate risk in financial products?"

I looked at how people perceive risk and the important things for them perceiving risk, which is not how we as actuaries would think of risk, perhaps.

Risk propensity is extremely important to people's risk perceptions. What I found was that if people have had bad experiences in the past with taking risk, they were much less likely to take risk in the future, whereas if they had good experiences with taking risk, then they were much more likely to take more risk in the future.

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Principle 3 put forward in the paper, is that consumer information should be free of bias. The paper then states that that is self-evident. I would like to challenge that. The paper also mentions the book "Nudge", by Sunstein and Thaler. I want to take one example from there, and one from financial services just to explain what I am talking about here.

What they talk about in "Nudge" is, for example, children in the school cafeteria have to choose their lunch. You can lay lunches out in different ways. You can have them in a random order with things anywhere, which would be unbiased. Or you can do it so that they would be more likely to select the healthy options and nudge them in the right direction of making the right choices.

If you think of that in a financial services context, what you sometimes find is, if you have got to make a choice between, say, four funds, people will tend to spread their money across them.

I have been presenting "The psychology of money", about financial decision-making, to business networking groups and I include an investment allocation question in this presentation. What I found was that people do tend to put money across the four different categories, whatever they are, because they think they are diversifying. So if you have an application form which asks people to "Tick what percentage you want in each fund or select the fund you want to use", and you have, say, for example, a money market fund, a corporate bond fund, a property fund and a UK equity fund, you are likely to get 25% in each one and so the equity exposure is 25%.

But if on that form you had a money market fund, UK equities, global equities, European equities, people will still put 25% in each fund and they end up with a choice that is 75% equities. You can get a very different outcome depending on how you present the information to people on the decisions, which is to do with framing that information.

What I would throw out as a contentious point is whether information should be presented free of bias. Maybe you should be trying to nudge people in the right sort of direction. I think you alluded to this in your statement that it was stopping people from systematically making decisions that were not in the best interests of the consumer.

Finally, I want to refer to a point that Mr Edmans mentioned about engaging people and the value that we can give as actuaries by putting numerical values on things.

What really drives people to take action is feeling the pain, the pain of losing money or that they are not going to have a happy retirement and find that they are living in squalor, or something like that, to put it to its extreme.

If you can make people visualise and emotionalise, and feel the pain, that will make them take action. What makes them continue is the pleasure that they get from it and the sustained good returns.

Mr K. H. McBrien, F.I.A.: I would like to make three points.

The first is: is there a problem? Section 2 of the paper sets out the issues very clearly. The big outcome that others have referred to already is the insufficient savings engagement shown in paragraph 2.1.8. There is a massive problem in this country in the post defined benefit scheme environment where people are just not saving for pensions enough.

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It is interesting to talk with consumers about pensions. Even financially sophisticated people think the mortgage is the biggest issue confronting them. They do not realise the implications of the new pensions environment.

My second point I put as a question. What role does the poor information to the consumer play in this lack of awareness of the importance of long-term savings? When you read through section 2 of the paper it is pretty depressing reading. It resonates horribly with the experience we had in doing market research over many years. Every time you go out there and talk to consumers, the same message comes back. They are confused by the information. They mistrust it. They are concerned. They just do not know how to set about resolving the issue.

When you sit there with the array of different data from different companies and try to make sense out of it, it is extremely difficult. The dimension that makes it especially difficult is that people have so many different pieces of information from different providers. The range of information is an inevitability nowadays as people have so many different jobs and thus so many sources of information. They might have a chance of understanding with one provider. But when it comes to multiple providers, basically the consumer has not got a hope.

Finally, if poor or confusing information is the problem, what should be done about it? Paragraph 3.2.59 of the paper talks about the need for fair, clear and not misleading information. The theme of the report, I suggest, is slightly different. I think the Working Party are looking for information which is clear, fair and demonstrates risk. That is the way that I would have expressed it.

The paper talks about marketing and promotional material. What is in my mind, because it is such a large issue, is the annual pension statement. I am not sure that the annual statement can be really called marketing or promotional material.

Adequacy of pension provision is a big item. Rather than spread ourselves out over a whole array of issues, I suggest what would be most useful and most likely to give a return is to focus on one item such as progress towards pension objectives, to focus energies on getting a result in that area.

Who is going to undertake this work? We have to accept some of the responsibility, at least, for the confusing information which is out there in the market.

When you look at our profession's strategy, we say we want to act in the public interest, we want to be an outward-looking profession. This work of transforming consumer information in pensions provision is a perfect vehicle by which we can demonstrate that strategy.

The first action point listed in this excellent paper is to champion cultural change with providers of information. I wonder whether we should express that in a slightly different way; that we should be championing the consumer position such that they get proper information from the providers. Most of my thinking starts with the consumer.

In the appendix of the paper, you get down to actions V and W where we see an interaction with the consumer. I think a more effective way of planning action is to start off with the consumer and make sure you understand what their issues are.

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I have addressed three issues.

a) Is there a problem with a lack of awareness? Definitely.
b) What is the problem? Confusing information
c) What should be done about it? I have proposed the idea of focused effort on annual pensions statements. I applaud the Working Party's idea of a tiered approach which would work well here. I think that the documentation should be very carefully researched.

I suggest sorting out information on progress towards pensions objectives is a great opportunity for the actuarial profession to get involved in a matter of public interest and to demonstrate its strategy.

Mr D. I. W. Reynolds, F.I.A.: I sit on the With-Profits Committees of two life insurers. Both have a process by which customer communications are presented for review.

It is not an easy or cheap process to improve them. For some of the oldest policies, the documentation is hardcoded into the systems. I think that we should spend some time on how the principles that the authors have set out can be implemented. This will not be a quick process but it will have to be consistent; it will have to be long-term and it will have to be fully committed by the profession.

May I suggest five principles of implementation.

First, do not start by seeking more information from consumers. That will just make the initial contact more complex and may be impossible for the bulk of existing business.

Companies will need to make the most of the data they have already got. A fair amount of information for putting a policyholder into a consumer segment is probably available to them or it can be guessed at and using postcode analysis can help.

Second, do take account of the provider's ignorance of the policyholder's total investments. Much of the population is reluctant to put all their eggs in one basket. So they will have savings in other forms and with other providers.

My third principle of implementation is that we must support the widespread presentation of generic information, not only about products but also about how consumers are helped to articulate their goals. This is set out in the paper in 3.2.5. These goals will change over time and especially at certain events.

The Money Advice Service is good, and can be significant in this process, but it needs to develop around life events, which I do not think is part of it at the moment. Maybe we can help them in developing that.

My fourth principle is that improved communication needs to be owned by all the directors of life insurance companies. This profession can own it and it will not happen. We have to get to the directors of companies.

So may I suggest that one action we take away is that the President sends a copy of the paper to every director of a life insurance insurer in the UK with a single page covering letter which should be

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able to highlight the issue and the need for drastic improvement and ongoing commitment to that improvement from the board?

My final principle is that you will not succeed in this if you are too actuarial.

There are signs of being too actuarial in paragraphs 3.2.71 and 3.2.77. In the latter paragraph it is not clear to whom providers should provide "full and detailed documentation to describe the methodology and the underlying assumptions used to create the information".

It is all too detailed unless it can perhaps be done by some independent external body, and that may lead to some form of kite-marking.

So paragraph 5.28 of the paper is probably the most important one in the paper. Let us think as "humans" and not as "econs" (defined in 5.28).

To conclude, this is an excellent piece of work but it will have no value at all unless we use it to kick-start the process of improving communication. That, at a guess, and with a fair wind, will take a decade.

Ms S. Smith (guest, Money Advice Service): I am a behavioural expert and am delighted that you are interested in, and are taking on board, what is being learned from psychology about how people behave. The marriage between psychology and economics is teaching economists something about how people behave and what you can expect from them.

I have three comments to make. First to emphasise that we know, and it is fairly obvious, that motivation precedes action. Motivation precedes seeking out of information. We seek information when we have a goal and we need to act. Only then do we think that the information is important for us. Understanding motivation and why people would even want to look at the information you are providing them with is really important.

Secondly, and linked to motivation, I think it is terrific that you have this goal-based idea. You are thinking about what is concrete in people's lives. Financial information and the whole notion of finance is abstract for a lot of people and is difficult for them to engage with for that reason. Numeracy is an issue here. Your recognition that visual images and pictures can create a more direct relationship between people's lives and the information you are giving them is a good start.

And thirdly, in relation to Mr Edman's point about slogans, I would stress that rules of thumb do help people. I do not think the answer to everything is a slogan, and if you want good slogans you may need communications experts to help with that. I do think that if you could develop simple rules of thumb that people can use as a guide to whether: "more or less, given the situation that I am in, am I doing about the right thing?" would be really helpful.

The Money Advice Service is encouraged to see a professional body working to improve the presentation of information to support better choices and life outcomes.

The Chairman: Thank you. Regarding the motivation point, one of my firm's clients has gone quite a long way on this. They have everything joined up and if their HR department gets notification that there has been a change of address, they get a thing on their iPad to say that a lot of people at this point in their lives use the flexible benefits thing to get some extra insurance; or if a lady changes her name because she gets married, they get something on their iPad that says "This is a change in life. You ought to look at this part of the pensions brochure". They use that motivation that some event has happened in the person's life, "and other people who have had this event have typically bought…"

The paper does come with an introduction and an endorsement from the Pensions Minister who is a very thoughtful man in this area. Clearly, it is a paper that is right for its time.

There are improving trends in a number of places, but we could go a lot further. There was a suggestion that, although the profession carries a lot of influence and has a lot of capacity, we ought to think about prioritising. We should use our influence as well with insurance company directors.

It is an excellent example of collaboration with the Money Advice Service, the government, the Financial Services Authority and with the Royal Statistical Society.

I thank the authors of the paper for where they have taken us to date, but as the authors themselves said, this paper would not be worth anything unless the Institute and Faculty now kicks on to the next stage and turns it into action. It is a test of our strategy, that we now walk the walk and see this through to some sort of positive benefit. I know that the President will want to do that.

Written Contributions

Mr S. F. Bleasdale, F.I.A.: I fear that the authors are approaching the problem from the wrong angle. No matter how good a framework can be formed, different providers will provide different answers to different questions, leading to confusion.

I believe a better approach would be one taken by alcohol companies. Here the consumers are directed, wherever alcohol is advertised, to a single website – drink aware.

If a similar location for financial products existed, it could become well known and trusted. When there is a common way for consumers to translate, for example, "money I hold now" into "my retirement position", then the dialogue with the consumer would have a place to start.

Mr. M. Iqbal, F.I.A.: Communication might be poor but that is not the problem. The problem is product complexity. If you present complex products in a simplified way, you will cut corners and sometime in the future rue it. Think of a generation of pension consultants describing defined benefit pensions as deferred pay and disappointing early leavers. Think of with profits business where the client was not made aware that profits might mean losses.

That is why jargon is so important. It assigns specific meaning to a set of words to avoid ambiguity. Of course jargon can also be used to obfuscate.

Even the simplest of products require careful definition. Think of unit trust and the problem of defining the value of the assets. Events or terms that we currently regard as unambiguous might require definition in the future (death for example).

The authors state that illustrations seldom address the needs of the consumer. Eight years ago I was a member of a working party set up by the Research Committee at the behest of the FSA. We came up with a solution which was to show the median result, the upper quartile result and the odds (expressed as n in 100) that you might not get your money back. The FSA must have had cold feet.

There is another real problem. People's attitudes and requirements (3.2.18) change over the lifetime of a contract, and the outcome might disappoint because they forget, or less commonly, choose to forget, what the intention at the outset was. I think the pendulum has swung in favour of consumers. It doesn't matter if they don't understand, they will be amply compensated for any loss suffered irrespective of whether the provider is culpable or not.

We should clamour for simplified products and then caveat vendor.

Note that IRR (3.2.11) might not be unique and could sometimes be negative.