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# Briefing Note

# DASHBOARD IMPLEMENTATION

## The ABI Should Be Nice, Retaliatory, Forgiving and Clear

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### 1. PRESSING AHEAD

The new Economic Secretary to the Treasury, Simon Kirby MP, recently confirmed the Government's enthusiasm for a pensions dashboard.[1] This is welcomed. Fully functioning, it could become the ultimate disruptor of incumbent industry providers because, by offering consumers a simple overview of all of their pensions pots, it could break the industry's cultural attachment to opacity, thereby highlighting poor performing, high charging providers.

The minister has indicated that he would like a dashboard prototype to be ready by March 2017, and that he is keen to see the whole industry work together to set the minimum standards for how data is shared. To date, eleven industry players have indicated their participation in the project (being facilitated by the Association of British Insurers, ABI)….but many more are

1 Speech at the Aviva Digital Garage, 12 September 2016.

*not* participating.[2] If the dashboard is to be successful, *all* providers will have to submit data to it, ideally in a standardised format. But, potentially, some have a lot to lose from so doing.

## 2. WHAT OF LIFE INSURERS' BACK BOOKS?

Some 45% of life companies' cash flows, and up to 50% of profits, currently stem from their high margin, in-force closed books of now-defunct products.[3] Bastions of opacity, their iniquitous high charges epitomise the misalignment of industry and consumer interests, acknowledged in a recent FCA report.[4] The FCA looked at 11 providers' closed-book life insurance products sold before 2000 (£150 billion across 9.4 million customers). Six providers (Abbey Life, Countrywide, Old Mutual, Police Mutual, Prudential and Scottish Widows) currently face FCA enforcement over closed-book failures, specifically concerning their lack of disclosure of exit fees and paid-up charges, and opacity over the loss of valuable guarantees.

Other companies, including Phoenix Life (a closed book specialist), regularly attract criticism for failing to treat customers fairly (over pension exit charges, for example). Their business practices are out of synch with modern times (including "freedom and choice").

Given that an effective dashboard's destination is likely to be online transferability, some life companies may be reluctant to genuinely engage with it, very aware that their back books would become exposed to the risk of (value destroying) transfers. From the consumers' perspective, the back books should be first onto a dashboard, not least to help break the life companies' hegemony.

In reality, some life companies require more than a nudge (i.e. a shove) to make their back books "dashboard ready". A 2019 deadline should be set by when all life companies' closed books should be "dashboard-ready". This could prompt some of them to re-engage with dormant customers, and start delivering a better service. Indeed, forward thinking companies could see themselves as a future consolidator of choice.

## 3. ENCOURAGING DASHBOARD PARTICIPATION

The Economic Secretary has made it clear that if voluntary pan-industry data submission were not forthcoming, then the Treasury would look to legislation to facilitate it. But this is unlikely to deliver the underlying cultural changes required to catalyse a behavioural transformation across the industry: this is more of an exercise that should be played out over an extended period.

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2 The eleven are Aon, Aviva, HSBC, LV, Nest, Now: Pensions, People's Pension, Royal London, Standard Life, Willis Towers Watson and Zurich.

3 A "back-book" is defined as "all life" business lines excluding the go-to market business lines i.e. pensions, protection and annuities. These "closed" or "semi-closed" business lines contain out-dated products with limited or no growth prospects, and are no longer actively sold: whole-of-life policies endowments and with-profit and unit-linked investment bonds.

4 *Fair treatment of long-standing customers in the life insurance sector;* FCA Thematic Review TR16/2, 2016.

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Consequently, before legislating, the Treasury could encourage the ABI to pursue an alternative strategy to achieve pan-industry collaboration, based upon work by political scientist Robert Axelrod.[5] This has been acknowledged as one of the better strategies for triggering the evolution of cooperative behaviour, independent of strong central authority, leading to commitments to take unilateral action. The ABI should coax the eleven lead companies to be "Nice, Retaliatory, Forgiving and Clear", thereby encouraging others to join in.

By committing to submit standardised data, as well as embracing full cost and fee transparency, the ABI-led group should set an example. This could include establishing a set of guiding principles, ideally endorsed by consumer groups. The leaders should then encourage other industry participants to make similar unilateral commitments, and prepare to be publicly scathing of those who refuse to take action. If others subsequently change course, the leaders should publicly acknowledge that they have done so and build bridges with them (by, for example, sharing standardised documentation).

The leaders should be absolutely clear about their direction of travel and how they are going to behave, and that there is no advantage to be gained through prevarication. This would only leave the non-participants looking quixotic, self-indulgent or cynical…..and risk the wrath of politicians who want to establish a savings culture. In addition, not to participate potentially risks a Tragedy of the Commons, perhaps culminating with the industry ceding control of the dashboard to the Treasury.[6]

Axelrod's strategy also suggests that the ABI should focus on a role as educator, coach and communications platform, rather than attempt to act as a quasi-regulator and policeman. It should also find ways of breaking the coaxing process into small steps towards dashboard participation, as well as regularly reminding all providers that, irrespective of the outcome of individual negotiations, they should plan for the Treasury ultimately having its way.

## 4. THE BROADER CULTURAL CHALLENGE

At first sight, the dashboard may appear to be primarily a technology challenge, but the barriers to implementation are predominately cultural. Today's industry incumbents are mostly large corporate structures with procedures and internal politics that can make for a culture that de-motivates and deters innovation.

Indeed, organisations rarely think because of fear of conflict. The stultifying conformity of committees, striving to avoid conflict, means that many struggle to accommodate creativity and innovation. In addition, they are usually dominated by extroverts who drown out the quiet introverts. Yet history tells us that it is independent, individualistic introverts who tend to

5 After Robert Axelrod; The Evolution of Cooperation, 1984. This approach was later developed by Michael Liebreich (of Bloomberg New Energy Finance), in the context of climate change; How to Save the Planet: Be Nice, Retaliatory, Forgiving & Clear, September 2007.

6 A Tragedy of the Commons occurs when an individual's behaviour lead to negative consequences for all group members.

catalyse creativity and transformation, not organisations. The list includes Newton, Apple's Steve Wozniak, Einstein, JK Rowling, Darwin and Google's Larry Page. They prefer to work independently, solitude being a catalyst for innovation.[7]

So, the biggest issue is likely to be the status quo of the current employees. In some companies, perhaps 80% of the staff will, very soon, no longer be required, and that includes some of the senior management. Many are in their 50's, and some will lack the energy to transform themselves and get out of their comfort zone, which is difficult to do. Preserving the status quo is the easy option, particularly if a defined benefit pension beckons in the not-too-distant future.

Meanwhile, some traditional pensions providers are struggling to make the transformation to what is rapidly becoming a technology-centred business. Some are likely to be tempted to buy into financial technology (FinTech) capabilities, others may become middlemen behind platform-hosted FinTech products. One danger is that they then transmit their culture to the acquired company, whereas the reverse is actually what is required. Indeed, perhaps the (more entrepreneurial) FinTech leaders should assume control of the acquiring pensions provider, and then promote their disruptive, digital, mentalities. They are more likely to be capable of delivering the required transformational, rather than incremental, change, which will include harnessing big data for product development and promotion, and incorporating Amazon-like recommendations to increase product consumption (all delivered digitally, of course).

Realistically, many pensions providers have perhaps three to five years to re-engineer themselves before a functioning dashboard, displaying static information and, crucially, incorporating utility (to consolidate disparate pots, for example), forces revolutionary change upon them.

[7] Wozniak's memoires: *I don't believe that anything really revolutionary has been invented by committee. Work alone if you aspire to great creativity. Not on a committee. Not on a team.*

## THE AUTHOR

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He is the author of more than 35 influential pensions-related papers for the Centre for Policy Studies (all of which can be freely downloaded from www.cps.org.uk). He is occasionally consulted on pension reform by serving Ministers and shadow Ministers, the DWP Select Committee and the House of Lords Select Committee on Public Service and Demographic Change.

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