Pensions in the digital era: Is the industry keeping up or falling behind?

The digital revolution is here to stay, but is the pension industry keeping up? What more can be done to encourage greater adoption of technology?

▶ Summary

• Despite increased demand from members, the pensions industry as a whole continues to adopt technology at a slower pace compared to other sectors in the financial services industry.
• Many schemes have implemented technologies focused on improving member engagement, enhancing personalised communications and allowing members to manage their pension easier.
• Addressing member demand and regulation, such as the pension dashboard, will both play an important role in encouraging more pension schemes to embrace the digital revolution.

Many areas within the financial industry, such as the banking sector, have embraced technology, fundamentally transforming the delivery, management and consumption of their services.

The state of technology adoption

However, the pensions industry appears to be moving at a slower pace compared to other areas of the financial services sector, says Trafalgar House Pensions Administration director, Daniel Taylor.

"While other sectors have surged ahead, too many pension schemes are stuck in the past with no real digital presence. It's an embarrassing reality that needs urgent attention," he says.

Gallagher head of implementation and technology, Kris Elliot, agrees the industry is lagging behind. He notes the pension sector is typically slow to adopt leading-edge technology, largely due to its limited direct interaction with customers and the influential role of trustees in decision making.

"Ultimately, we can put technology in front of trustees, and while they may want to embrace it, they're having to make decisions and balance the risk and benefit of doing so because they're making decisions on behalf of the whole membership, as opposed to just them," he says.

It is also unsurprising that the pensions industry is falling behind other sectors, particularly the banking sector, as the pensions industry faces unique challenges compared to banking, adds Scottish Widows' workplace savings engagement and innovation specialist, Robert Cochran.

He notes that in banking, the technology needs were clear because customers engage regularly through various channels. Whereas pension members typically receive communication only once a year, making it harder to determine their specific technology needs.

"The challenge within pensions is to get people to engage, to get them to know what's in their pension, and then is it enough? What can they do next? In banking, the imperative is to let people do things like bank a cheque, pay somebody or move money around, which people are wanting to do on a regular basis," he says.

Taylor adds that although the pension industry is adopting technology more slowly, this is not because of a lack of demand from members.

"Members are crying out for more digital options. There's been a major shift towards digital because it's easier, more secure, and fits with how we live our lives today. The industry needs to catch up, fast," he says.

Technologies in use

Even though the industry seems to be falling behind, numerous forms of technologies have still been implemented into individual pension schemes.

Smart Pension CEO, Jamie Fiveash, says the most widely adopted technologies in the pension industry focus on three key areas: Removing the burden from employers, allowing members to manage their pension their own way and improving member education and information.

"Alongside those categories, two foundational aspects are tech that enables better value, which is an evergreen focus, and more recently artificial intelligence (AI) has become a hot topic," he adds.

PensionBee vice president for product, Martin Parzonka, says it has integrated an open banking provider to allow members to link their bank account to their pension account, so contributions to their pension are more seamless.

"Previously, customers would use standing orders from their bank account or a direct debit. Both of those come with negative consequences sometimes, so there's friction with sending money into us, which adds a lag to the time it can be invested. By enabling them to link their bank account directly to the pension account using open banking rails, it's seamless," he says.

Elliot notes that technology can also improve the personalisation of member communications, resulting in better engagement and education.

While many pension schemes have been offering digital benefit statements for a few years now, new technologies and data analytics are now providing even more personalised communications, he notes.

"If we can leverage the information that we've got now, we can provide an even further personalised communication. So, it's not just personalised to you or I, but it's actually information that's relevant, bearing in mind where you are on your journey," he says.

For example, the way a pension scheme communicates to a 20 year old that's just starting out on their retirement journey needs to be very different to somebody who's aged 55, he adds.

The positive impact of implementing technology in pension schemes on members is evident, says Moneyhub chief commercial officer, Dan Scholey.

"When polled, 84 per cent of users of Open Banking driven Pension Portals agreed they felt more in control of their finances after embracing the technology. A further 70 per cent felt they got better at saving or investing, with 68 per cent saying access to an app had helped them to better understand what they currently have for their retirement and how much they needed to achieve a chosen standard of living," he says.

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How can technology be further embraced?

Taylor says there is a real appetitive among trustees to embrace new technology, but many just don't know how to make it happen as full digital transformation, especially for DB schemes, remains a costly hurdle.

He recommends that there is a middle ground that every scheme should be aiming for – starting small and pushing forwards.

"We need clear, modernised guidelines that not only encourage digital adoption but make it the default. It's time the industry and regulators stepped up to meet the demands of the digital age," he adds.

Fiveash agrees that regulation will be important in encouraging more pension schemes to embrace technology, particularly the long-awaited pensions dashboard, which is a digital service that will allow members to access all their pension information online, securely and in one place.

"The upcoming Money and Pensions Service dashboard is going to push pension providers to embrace technology in a more meaningful way and Smart Pension is fully onboard with this. We're confident that this new interconnected system will help simplify pension saving and improve financial outcomes for savers in the long term," he says.

Parzonka adds the pension dashboard will help members recognise the importance of engaging with their pensions and foster communication between different providers, all supported by technology.

"The technology will enable the industry to connect together and understand what all consumers have in their pension pots, and those consumers will then log in to a centralised database," he adds.

In addition to the pension dashboard, upcoming regulations like the Digital Information and Smart Data Bill are set to promote the better implementation of technology. These regulations will simplify the use of data to enhance individuals' financial outcomes, adds Scholey.

"Things like dynamic saving, which will allow people to sweep spare cash via Open Banking's Variable Recurring Payments into investments and even pensions, will help people save for the long term. Combining this with digital taxation, means the impact will be huge and great news for consumers, providers and UK," he adds.

However, Elliot argues that regulation will only play a small part as it is generally behind the curve. Instead, the implementation of technology will be driven by industry capacity and consumer demand, he says.

"People expect accurate data and real time information," he says, adding, "it's that capacity and consumer demand that will drive the technology forwards, as opposed to regulation."

> **Written by Niamh Smith, a freelance journalist**