



Pensions Online

ESRC E-Society Programme

Pension provision is the subject of current debate. The pensions market in the UK is characterised as uncompetitive and inefficient, resulting in consumer confusion and apathy. Greater use of the internet is perceived to offer many benefits to industry and consumers. Tina Harrison from the University of Edinburgh and Kathryn Waite from Heriot Watt University have examined the extent to which the internet can facilitate and promote pension distribution and the impact of internet use on the structure, geography and processes of pension provision.

-
- Pension websites help empower consumers through increased access to information. Most consumers use pension websites to supplement the advice and reassurance provided by Independent Financial Advisors (IFAs) or other experts; certain consumer groups are able to enhance their decision-making capacity as a result of pension website use.
 - An emerging segment is the self-employed particularly those who are favourably disposed to the internet. Traditionally 'underpensioned', websites targeted at the segment might narrow the gap with other workers.
 - Although disintermediation is currently limited, it may occur in future; consumers believe future website use will result in an increase in their knowledge and confidence leading to greater capacity for self-service.
 - IFA internet use remains limited, although most IFAs have access to the internet. Few IFAs conduct pension sales online and relatively few have developed a client-facing website. Those IFAs who are more engaged with the technology are reducing the risk of disintermediation.
 - Moving pensions online results in a general downward shift in processing responsibility: to consumers from providers, employers and IFAs, and from providers to IFAs. There is an upward shift in the locus of pension expertise from employers to providers.
 - There are opportunities for streamlining pension processes and reducing costs in transactions and processing, although many supply chain participants perceive barriers to full automation.

Background

Greater use of the internet, as a low cost distribution and communications channel, is one way to reduce pension costs and improve consumer awareness and understanding of pensions. Retail banking research identifies the barriers to internet use and how online distribution changes business structures and processes. This research by Harrison and Waite investigates how the pension sector can benefit both economically and socially from the same developments.

The Project

The project investigates the potential of the internet to facilitate pension distribution and provides new insights into the impact of the internet on the pensions industry. This investigation reveals the economic and social forces that are preventing or promoting change and examines the beliefs, attitudes and behaviours of four key groups: pension providers, Independent Financial Advisors, corporate customers and individual customers. This bulletin reports on four key areas:

- The threat and implication of disintermediation
- The capability of the internet to empower those who use it
- The resource implications of channel conflict and competitive advantage
- The outcomes of shifts in responsibility for process enactment

The threat and implication of disintermediation

The immediate threat of disintermediation - removing the middleman or intermediary - is limited, although likely to increase in the future. Survey findings show that currently only 15% of IFAs have experienced any business reduction as a result of clients dealing directly with providers. Despite generally limited IFA Internet use, technology-savvy IFAs with consumer facing

websites are embedding themselves in the supply network and thus reducing their risk of disintermediation.

Consumers use the internet to supplement but not replace IFA advice. However, some consumers, particularly self-employed individuals, are more likely to reduce their reliance on IFAs after accessing online pension information. A high proportion of self-employed individuals report that their future pension website use may mean that they will rely less on financial advisors and they will be more likely to transact directly with pension providers.

Capability of the internet to empower those who use it

In focus groups, consumers discussed how the internet empowered them when buying goods and services. However, consumers do not find pension websites sites empowering despite the development of online pension information. Consumers want more technical and product-specific information to be available. Consumers recognise the potential of the internet to provide them with in-depth information about their own pension and to allow them to manage their own funds better.

Consumer surveys investigated four empowerment outcomes: increased information access, improved understanding of pensions, increased autonomous decision-making and behavioural change.

For skilled users, the internet does increase pension information access. Pension website users have an improved pension understanding, with up to two-thirds saying that they feel better informed and more able to understand their own pension. Pension website users also experience the conditions for autonomous decision-making, with up to half saying that they have greater confidence in making pension enquiries and decisions. However, there is only limited evidence of behavioural change, although the behavioural impact is greater for the self-employed and is predicted to increase in the future.

Resource implications of channel conflict and competitive advantage

For organisations, the decision to offer pensions via the internet is influenced by the match between business objectives and perceived benefits. Two key benefits are cost reduction and improved communication. Those organisations that move to a single web-based channel report a reduction in costs and staffing but expenditure increases for those that support both online and offline channels.

Providers and IFAs see the benefits in online communication and process automation but identify the legal requirement for a signature as a big barrier to change. Offline paper-based methods are relied on as a 'safety net' to satisfy legal conditions and to make sure that no business is lost.

The outcomes of shifts in responsibility for process enactment

Use of the internet is shifting roles and responsibilities. There is a downward shift in processing responsibility: to consumers from providers, employers and IFAs and from providers to IFAs. In particular, IFAs report an increase in administration and processing as a result of provider internet development. Also identified is an upward shift in the locus of pension expertise from employers to providers and evidence of certain channel members performing tasks that previously were performed by other channel members on their behalf.

Occupational scheme activity is being transformed by a combination of structural change and internet use. Employer roles are defined, enhanced and shaped by internet capabilities. Roles operate along a continuum of being very hands-on to very hands-off. Organisations operating a Defined Benefit scheme tend to take a more hands-on approach, whereas those operating a Defined Contributions scheme tend to be more hands-off.

Implications of the research

Structural impacts

The research identifies the potential for structural change. Although disintermediation is currently limited, evidence from consumers suggests that some form of disintermediation could occur in the future. As consumers' knowledge and confidence levels increase, their capacity to self-serve could potentially increase.

The research notes that an emerging segment is the self-employed, particularly those already using the internet. The self-employed traditionally are an under-pensioned group; hence website development targeted at this group might serve to narrow the pension gap.

Geographical impacts

The project identifies changes in the geography of information provision. Survey findings show an increase in information access to previously disenfranchised groups such as the self-employed. In addition, increased access to information has improved IFA client service and individual consumer understanding of pensions. However, the findings indicate that the internet is increasing the distance between the employee and the employer for Defined Contribution scheme members. The evidence suggests that technology drives shifts in pension expertise away from the workplace.

Process impacts

The research identifies downwards and upwards shifts in roles and responsibilities for processing, administration and technology development. Providers state that they are developing technological solutions on behalf of IFAs and employers. IFAs perceive greater responsibility for processing. Employers identify shifts in processing to employees and shifts in pension expertise to pension providers.

Policy lessons and future research agenda

The research has extended previous research into internet use within the financial services sector by investigating and integrating the viewpoints across a supply network. The project discloses further opportunities for streamlining the process and reducing costs in transaction and processing. Barriers to full automation are perceptions or employee preferences and a legal requirement for a signature. In policy terms, there are problems experienced in translating the existing legal frameworks for offline pension purchase and advice and there would be benefits from review and clarification.

Several research priorities have been identified by the project:

- Continue to track consumer perceptions of empowerment through internet use. The research has shown that certain consumer groups enhance their decision-making capacity as a result of pension website use. Further research needs to track the impact of online empowerment on pension activity and identify how empowerment can be harnessed to the benefit of both consumers and industry.
- Investigate the impact of changes in workplace provision of pensions. The project has shown that the internet is a replacement channel for traditional face-to-face methods. Further research is needed to map the implications of these changes for the individual and organisation.
- Assess the capacity of online information provision to reach and inform disenfranchised customers.

Further Information

For more information on the research project, please contact:

Dr Tina Harrison

The University of Edinburgh
50 George Square
Edinburgh EH8 9JY

Tel: 0131 650 3820. Fax: 0131 668 3053.
Email: Tina.Harrison@ed.ac.uk

Or Kathryn Waite

Heriot Watt University
School of Management & Languages
Edinburgh EH14 4AS
Email: K.Waite@hw.ac.uk

The e-Society Programme

Funded by the Economic and Social Research Council and co-ordinated by the Department of Sociology at the University of York, the e-Society is a multidisciplinary programme of research that seeks to investigate how institutions, practices and behaviours are being changed by the technologies that constitute the digital age. This £5 million programme draws on the expertise of leading academics from across the UK. Launched in October 2003, the programme will run until the end of October 2007.

Further details of the projects in the programme can be found at
<http://www.york.ac.uk/res/e-society/>

E-Society Briefing 1

www.york.ac.uk/res/e-society/

