

Pensions Online ?

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A Study of Producer, Distributor and User Attitudes and Behaviour

This Business Briefing focuses on IFA web development. Findings suggest that IFAs are either dynamic or static according to their beliefs, attitudes and behaviour of web development for pensions. The advent of the internet posed a threat of disintermediation of the supply chain: a situation where consumers would buy direct from the producer thus by-passing the intermediary. This raised concerns over the continued importance and role of intermediaries in a variety of contexts. Indeed, in many sectors, especially travel, the supply chain has been shortened considerably. In the context of pensions, however, the Independent Financial Advisor (IFA) occupies a significant position in the supply chain, providing not merely a distribution function but more importantly information and advice. The introduction of Stakeholder pensions threatened to undermine that role, being a simplified product that lends itself to internet and other direct channels. Set against this context, research was conducted among a sample of IFAs to explore the extent to which they are embracing internet technology.

Background

A total of twenty UK-wide interviews were conducted between November 2003 and May 2004 in which IFAs discussed their experiences of website development. The major financial centres of London, Bristol and Edinburgh are represented together with key areas such as the Home Counties and the North East. The different sizes of IFA companies are also accounted for with respondents drawn from a variety of businesses ranging from those with turnovers of more than £5 million to sole traders.

The following issues were discussed:

- Use of the internet to interface with pension providers and clients.
- Impact of the internet on traditional pension processes or procedures.
- Development of the website for pensions, past present and future.
- Opportunities or threats associated with using the internet for pensions.

This issue focuses primarily on website development. Reports on the complete findings can be accessed from the project webpage (contact details overleaf).

Dynamic or Static?

The findings suggest that patterns of IFA website development fall into two broad categories. There are IFAs who exhibit an

ongoing and dynamic relationship with the medium and IFAs who tend to have simply a one-off, static or passive relationship.

Factors Inhibiting Web Development

IFAs identified a range of internal and external factors inhibiting their website development. Internal factors include little perceived financial benefit and lack of technical knowledge within the company. Technical skill gaps were particularly evident in cases where website creation had been externally managed. IFAs in this position frequently commented on their frustration at their own lack of knowledge:

*" I don't have the expertise ...
and I don't know how to go
about finding people who do
have the expertise."*

External factors within the wider business environment include the level of market readiness and lack of clarity regarding regulatory issues. Low consumer readiness for online pensions, translating into perceived low demand, was frequently cited as a reason for not developing web facilities for pensions.

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IFAs believe that clients are unlikely to shop online for a pension as they are reluctant to shop offline.

Regulatory confusion is also cited as a factor preventing some IFAs from developing their web activities. The influence of perceived lack of regulatory clarity for online transactions was compounded by high levels of awareness amongst IFAs of prosecution for pensions mis-selling offline.

Factors Facilitating Web Development

Key external facilitators include the growth in financial services-specific supplier skills. Internal facilitators are the alignment of website strategy to the business model of the IFA and the type of clients being serviced.

Several IFAs reported that the growth of website companies with specialist knowledge of the financial services market was key to initiating and developing their website. Others gave examples of how attendance at a technology roadshow organised by a pension provider helped them to make contact with a software company with the necessary technology to interface with the key fund portals:

"...they were negotiating with providers ... and it's meant that our website has kept pace because for a small company to keep trying to develop it is a lot of money..."

The IFAs who were most active website developers were those that had aligned their website development to a clearly defined business model. Business models ranged from those with a relationship-based business, which uses the website to encourage client interaction, to those with an execution-only sales model, which uses the website as a low cost sales channel. In most of these cases website development was conducted in-house and the online functionality is viewed as an integral part of the business.

In addition, these companies are using their websites to target clearly defined market segments. For example, some IFAs operating an execution-only model are targeting new business from the well-informed high net worth individuals and using the channel to lower the cost for the client. Other IFAs are clearly using the web to reduce the amount of time

spent on non-profitable activities and increasing value and service in more profitable areas:

"...if we can get the client to do that bit of research themselves ...giving them that information on the website saves us time and obviously we can try to concentrate on areas that are a bit more profitable for us."

Next Stage

These findings have implications for pension providers, the FSA and the practitioner community. Clearly, this research is qualitative and only reported in brief here. The interviews have been followed up by a questionnaire survey of 5000 IFAs throughout June-July 2004. A report on the findings will be available from September 2004.

The next stage will investigate the workplace environment and, via case analysis, will explore how the internet and intranets are being used by employers and occupational scheme members to access pension information and details.

For more information on the research project or to become involved in any of the future studies, please contact Dr Tina Harrison (Project Director) or Mrs Kathy Waite using the contact details at the bottom of the page.

The E-Society Programme

This research is part of The E-Society Programme, 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. It is a 6-year programme funded by the Economic and Social Research Council with a total budget of £6.5 million.

For further information on the E-Society Programme or any of the projects in it visit:

<http://www.london.edu/e-society/>



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