Pensions Online ?

A Study of Producer, Distributor and User Attitudes and Behaviour

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This Business Briefing focuses on the findings of a survey of IFA internet use. E-commerce is now an integral part of many marketing channels and distribution systems offering numerous advantages such as increased business efficiency, enhanced information flows, improved transaction speed, wider geographical spread, increased temporal reach, cost reduction and differentiation. E-commerce not only has the potential to enhance supply chain performance, it can also change traditional supply-chain structures. It may even pose a threat to certain supply chain members. For example, the internet offers a direct link between customers and suppliers enabling companies to bypass others in an otherwise extended supply chain. The term “disintermediation” describes the bypassing process. Co-ordinated and collaborative e-commerce development amongst supply chain members may increase effectiveness and strengthen linkages but fragmented development may result in business inefficiency and weakened links between supply chain members. Set against this background, the research sought to investigate the beliefs, attitudes and behaviour of IFAs towards the internet for pensions.

Background

The research reported represents the beliefs, attitudes and behaviour of Independent Financial Advisers (IFAs) towards the use of the internet for pensions. A survey of 5000 IFAs was conducted in June/July 2004, of which 692 usable questionnaires were returned.

The objectives of the survey were:

- To explore attitudes towards the internet in general;
- To assess current internet presence among IFAs;
- To assess the extent of internet use and web facilities for pensions business;
- To investigate the impact of the internet already on pensions business, and to explore beliefs of future impacts.

Key Findings

In terms of general attitudes towards the internet, almost three-quarters of the sample agree that use of the internet is consistent with the business strategy, the technology set-up of the organisation, and the way IFAs deal with providers. There appears to be less consistency with the way IFAs deal with clients – many noted in earlier interviews the importance of a face-to-face relationship. Half the sample report that change is required in the way both clients and providers deal with IFAs in order to make full use of the internet.

Around half the sample does not feel that using the internet to conduct business is complex, neither does it pose a serious security risk. However, a similar proportion feels that current regulation and compliance poses difficulties. Opinion seems to be divided as to whether IFAs feel they have access to the necessary skills and possess the necessary financial resources to develop an online capability.

While 99% of IFAs surveyed have access to the internet, actual use of the internet for a variety of activities remains rather limited. Main activities tend to support existing relationships rather than the generation of new business, and relate more to B2B rather than B2C contexts.

For example, the majority of IFAs (63%) do not conduct any pension sales online, although 23% report it is increasing. In terms of use of the internet (and email) at various stages of the buying process, 27% report using it at the advice stage, 47% at the application stage, 35% for executing a transaction and 64% for servicing the ongoing relationship.

With regards to the extent to which the internet and email have replaced traditional paper-based methods of doing business, the biggest impact has been on the IFA-provider interface where 68% report the internet has replaced traditional methods. The next biggest impact has been on the relationship with existing clients: 53% and 57% respectively report it has replaced traditional methods of dealing with existing individual and corporate clients, compared with 42% and 47% respectively for new individual and corporate clients.

In terms of the benefits or outcomes experienced from using the internet for pensions, the greatest impacts reported are: access to research materials (84%), improved service to clients (63%) and time-savings (55%). 42% also report experiencing an increase in product administration and business processing, shifting down the chain from providers.

Areas where IFAs have experienced limited benefit include an increase in sales revenue (experienced by only 17%) and an increase in the number of new clients (15%). On the positive side, it would appear that only a small proportion have experienced the impact of any disintermediation – only 11% have experienced a reduction in their business as a result of clients dealing direct with providers or felt any weakening of their position within the supply chain.

Implications

A key challenge facing the industry is how to widen e-participation. Due to the size and degree of fragmentation of the financial intermediary market, product providers have tended to develop e-commerce relationships with a number of preferred intermediaries, developing proprietary technology and networks. This tailoring of developments to typically larger organisations is argued to be a barrier to e-marketplace participation. Other barriers include the lack of a common framework, misconceptions that the internet has to be a substitute for established methods and not a complementary tool to enhance business, that the industry environment does not encourage innovation and that there is little incentive to be the first mover. Moreover, the lack of standardisation across the whole financial intermediary sector continues to be a key factor inhibiting the widespread participation of intermediaries in e-commerce.

A large proportion of the financial intermediary sector comprises small and medium sized enterprises. Some of the barriers to participation relate to recognised problems common to SME e-commerce adoption, such as connectivity, while others are more specific to the individual company such as lack of resources. In contrast, the realisation of the benefits of participation generally rests with the ability of individual SMEs to identify opportunities and to plan their online trading effectively within the constraints of their industry environment.

In terms of what this means for providers, the relationship between larger companies in developing technological relationships is seen as important, not only in capturing a significant part of the marketplace but also in terms of providing an example by which other firms influenced by a "Me-Too" development strategy can follow. At the same time, however, strategies to encourage wider participation among smaller IFA businesses need further consideration.

A significant proportion of the IFAs surveyed appear to be influenced by the opportunities that arose or emerged to participate in e-commerce provided by external parties, mainly software developers. Rather than attempting to develop a technological relationship directly with intermediaries, a networked approach might prove more beneficial in this context, whereby IT suppliers act as a further intermediary in the technology supply chain between provider and IFA. This approach does not necessarily have to preclude individual provider-intermediary relationships but may offer a more inclusive approach to e-participation and speed up the rate at which it is adopted.

Further information

A copy of the full report (IFA Internet Use: Beliefs, Attitudes and Behaviour) can be obtained, free of charge, by post or downloaded from the project website, using the contact details at the bottom of the page.

The E-Society Programme

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