CHANGING TECH

Technology is increasingly prevalent in day-to-day life and the role it plays is likely to continue to increase over the next decade. So, what could this mean for pensions and is the industry ready to enter a new digital decade?

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Entering a digital decade

The new decade kicked off with the annual CES show, a global stage for the leading brands around the world to showcase their innovation and advances in their fields; while some of the products are already in use today, we have already been promised even more. With flying taxi rides from Uber and Hyundai predicted for 2023, and robot chefs preparing our dinner alongside us expected in the next decade, what could these leaps in technology mean for the pensions industry?

"Technology has a crucial role in the pensions sector," Previnet senior manager and head of international clients, Martino Braico, says. "It constitutes the foundation for administration, which is performed by taking advantage of rule-based engines, designed to reflect the rules and legislation governing the plan".

Administration is a key focus for potential technological improvements in the industry, and as Braico emphasises, this would "automatise and speed up the process, allowing more flexibility in a market that is becoming more and more dynamic".

But the role of technology in the pensions industry is increasing every day and as Braico points out, "administration is not the only technology-driven part of the pensions world".

The ability to 'ask Alexa' how much is in your pension pot for example, is not just a gimmick, but a genuine step towards integrating pensions within the bigger financial picture. It's also just one example of the strides the industry has taken over the last few years, and the future could mean even better personalised communications, according to Aviva workplace savings and retirement propositions director, Matt McGill.

"Using data analysis to hyper-segment customers will allow the creation of automated communications tailored to be relevant to the customers receiving them (rather than one size fits all)," McGill explains. "This also applies to nudges and prompts that will be automated to help customers meet targets and goals".

Braico echoed this, emphasising that while technology can already "strengthen the link between members and their pension," the key to utilising it to help members will be in "creating a tool able not only to let members actively decide how to manage their pension, but also to capture their attention".

Legacy limitations

Whilst technology may allow for better member tools and product integration, it can be held back by legacy systems, says McGill. “A lot of the pensions industry is using technology that is not from the last 10 years,” points out Smart Pensions chief technology officer, Sam Barton.

On-premises systems and software, he explains, are similar to having your own software and data, but only inside a walled garden, which can cause issues when you want to share that data with members themselves.

“You’ve got to somehow get it out of the location it’s in, typically in the same office as the pension provider, then you have to securely share that data on the internet, that’s a big challenge,” he says.

“On-premises software and hardware needs to evolve into cloud-based software so that you can meet customer demands and dashboard demands,” Barton adds, “and in terms of scalability, it is much easier to scale a cloud-based application than it is to scale an on-premises computer”.

However, scale is not only an issue of size. Barton states that if schemes are to keep pace with competitors they will need to have “infinite scale” in order to create efficient processes that allow them to take advantage of opportunities, such as those presented by the introduction of auto-enrolment, which saw a huge influx in the amount of daily processing.

A robot army?

Automation and technology often seem to go hand in hand, and while the pensions workforce is not going to be replaced with an army of robots anytime soon, it will be impacted by the increasing level of automation.

“Pension administrators will become tech experts,” predicts Braico, “focused on improvement and capable of managing and supervising highly-complex tools. Our vision is that pension admin jobs will evolve thanks to technology, creating new highly-qualified roles.”

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This in turn will open the doors for more product options for members, as Braico highlights: “Technology will lead to the enrichment of the products currently offered to people. In the coming years, technological limitations and obstacles will be removed. Members will be provided with instruments capable of letting them not only manage their pension but be part of this world.”

Great expectations

As technology advances, it seems likely that members will come to expect more from their pension. As McGill explains, this trend may have already started. “There is growing demand for pensions to become more integrated with other financial services products, which will enable customers to see their full financial picture.

“Once members can see all their pensions in one place, technology that enables customers to view and transact on other financial products, i.e. savings, lifetime mortgages etc, will allow customers to better plan for the best possible retirement. This could also include wellness information and guidance.”

Whilst the dashboard may go some way to establishing this bigger picture in the UK, in wider Europe, Braico stresses that “the second pillar sector needs to be more and more integrated with other sectors,” in order to establish connections with complimentary products that will allow individuals to evaluate their finances amid ‘the bigger picture’.

However, the industry could be risking being outshone by third parties, warns Barton. “As soon as the dashboard is ready, there will be a rush to market – an open market where that data will suddenly be in the hands of third parties who are providing better member experiences”.

This shift, explains Barton, could also see a ‘survival of the fittest’ attitude emerging in the industry, as we see a forced ‘digital evolution’ rather than a digital transformation. This evolution could mean that “those who can’t keep pace may find themselves having to pull out of the space or change their business processes,” Barton says.

Limited by data?

Poor data is often cited as a key limitation for the adaption of technology by pension schemes and providers, but it can also be helped by it.

“New technologies including big data, advanced analytics and machine learning help us to make the data we already own more productive, with the added benefit of automation,” says SimCorp head of open innovation, Anders Kirkeby. The impact of this improved data management will be seen much further than just in the administration space.

“[Data management] is a key challenge asset managers and pension funds face today, given the sheer amount of data they handle and how to make sense of it,” says Kirkeby. “In short: to transform disconnected and stale ‘big data’ into operational data – used to produce true insights or to offer new interactive tools, whilst meeting regulatory requirements."

This increased automation and stronger data management may subsequently lead to a change in investment offerings and trends, as SimCorp product manager alternative investments, Hugues Chabanis, explains, highlighting that access to reliable data has been a "key hurdle" for investment decision makers when considering alternative investments.

"The lack of straight-through processing for alternative asset classes has meant additional operational effort is required to turn data into usable information," Chabanis adds. "While a time lag in reporting means portfolio managers are constantly playing catchup, putting them on the back, rather than the front foot when going out to the market."

These inefficiencies will need to be resolved, which according to Chabanis, means "managers will need to remove or consolidate disparate legacy systems to enable the efficient and reliable collection and processing of alternatives data for the manager to succeed."

Border control

Some countries are already leading the way in terms of innovation; Denmark, for example says McGill, "has been at the forefront of the pensions dashboard for a long time. They first created one back in 1999 and have even produced a documentary series about it to boost engagement".

The dashboard though, is not universal, and these regulatory differences can be a crucial differentiator in different countries' approach to technology.

"We experience remarkable differences between countries," explains Braico, "both on the technological and governance sides."

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"Countries like the Netherlands and Belgium already focused their activity so as to provide members with a complete experience and understanding of the pensions world. This involves the use of technology for the interaction between authorities and pension institutions/ administrators, for government portals where multiple information on pensions is available to members, providing flexibility for them to act and manage their pensions."

Barton agrees that regulation will be impacted by technological changes, and already has been, explaining that "having not just good technology, but an agile way to deliver that technology and meet changes in regulation, means that the regulation doesn't have to be married to what systems or incumbent software can provide for".

But as legislation catches up with technology, there is a risk that inconsistencies between countries could cause issues.

In fact, geography and cultural differences may already be limiting the full impact of technology on the industry. Finnish Centre for Pensions development manager, Virpi Rautiainen, explains that thanks to the European Union's Electronic Identification and Trust Services Regulation (eIDAS), the end of 2023 will see people "able to perform a number of procedures in all EU member states without any physical paperwork. If we want to develop common European services," Rautiainen explains, "we should have a 'common European Social Security Number' or equivalent. Technology is not the limit in this issue."

Technology moves quickly, and with flying cars a genuine possibility in the next decade, it seems unsurprising that experts such as Barton expect to see the impact from these technological changes as soon as the next few years.

But with Brexit continuing to cause tensions in Europe, and legislative updates failing to keep pace, a digital transformation of the industry may be at risk of failing before it's even begun. ■