



Pensions for the people, by the people

Member empowerment and
greater ESG focus are the future
of workplace pensions

atlas

The considered choice of master trust

A powerful idea whose time has come

Why the members' interests must come first
in all aspects of workplace pensions

This year marks an important anniversary in the history of human rights. A century ago, the Suffragette Movement triumphed in its campaign to secure the right to vote for women.

While celebrating this achievement, we argue that another major battle still needs to be fought and won: the one for the rights of millions of workplace pension scheme members. On the whole, members are currently excluded from any meaningful say in the design and management of their schemes. The rallying cry of our campaign to secure pensions for the people is 'putting the member first in everything we do'.

The three slogans of this member-focused revolution are: customer-centric design and delivery; customer empowerment, and meaningful ESG integration.

Pension scheme members in this country are the beneficial owners of over £3trn of assetsⁱ, but members of workplace pensions lack agency and have little influence over the decisions about their money that are made by trustee boards, insurers, asset managers and consultants.

According to a recent in-depth research report, *The Future Face of Retirement*, conducted by Atlas, 72% of workplace pension scheme members feel that they are not engaged with their company pension while 77% do not understand enough about pensions to make considered decisions.

In the majority of cases, these members have not chosen the provider they are dealing with while many pension providers largely ignore, in any meaningful way, the real needs and considerations of members in designing and operating their products.

As ultimate owners of those billions of pounds of

assets, members should be front and centre in the design of these pension products, yet all too often their views are not considered by employers and providers for whom compliance and technical product considerations take precedence over user-friendliness and optimal customer experience.

Indeed, when it emerges that no less a figure than the Bank of England's chief economist professes to be unable to understand pensions, it becomes clear that a radical overhaul of our approach is necessary.

"I consider myself moderately financially literate. Yet I confess to not being able to make the remotest sense of pensions. Conversations with countless experts and independent financial advisers have confirmed for me only one thing – that they have no clue either. That is a desperately poor basis for sound financial planning."
– Andy Haldane, Chief Economist at the Bank of Englandⁱⁱ.

We argue that workplace pensions must be designed around the end user and not built around the preferences of the provider, the employer, the associated consultant or adviser.

The issue of poor design and over-complexity is one that has bedevilled many industries. However, the impetus of competition, combined with viable alternatives, has addressed this in other industries and elsewhere in financial services. We believe in learning lessons from other industries, drawing on areas of best practice, to create a blueprint for delivering customer-centric excellence in DC workplace pension provision through Master Trusts. In short, we champion the cause of 'pensions for the people, by the people', not 'products for the provider'.

In our previous paper on the governance revolution, we advocated effectiveness, proactivity and relevance as the three defining aspects of good governance. In this

paper we identify personalisation, efficacy and empowerment as the three core characteristics of superior customer experience.

We also contend that true ESG integration is a fundamental part of our vision of the customer-centric pension. There is strong evidence of growing demand among members for their pensions savings to be invested more ethically and sustainably, taking account of how asset allocation impacts society and the environment both positively and negatively. We argue that companies with a strong environmental, social and governance ethos are significantly more likely to deliver better results for scheme members over time.

We therefore adhere to the principle of *the triple bottom line* as an essential element of a customer-centric pension strategy and design. That is, that the impact a company has on society and the environment is just as important as the economic value it created. It is no longer sufficient for companies to be 'best *in* the world'. Being 'best *for* the world' is also essential.

THERE IS STRONG
EVIDENCE OF GROWING
DEMAND AMONG MEMBERS
FOR THEIR PENSIONS SAVINGS
TO BE INVESTED MORE
ETHICALLY AND SUSTAINABLY

The provider-centred problem

In media and communications technology, products live or die by their customer appeal. That manifests itself through genuine differentiation, superior user-friendliness or addressing needs in better and innovative ways. The Apple iPhone, Amazon digital shopping, Netflix streaming service and Microsoft X-Box gaming console are examples of this. By contrast, products such as Windows Vista, the Nokia N-Gage and the Blackberry all failed by being difficult to use or not addressing customers' core needs.

In a market where the customer is king, innovation, user experience and customer satisfaction matter a great deal. However, that is not the case in the DC workplace pensions market which operates in manner more akin to the nationalised monopoly industries and closed shops of the 1970s.

In our recent survey, more than half of company finance departments acknowledged that improving member engagement was the biggest challenge they faced in terms of their DC provision and strategy over the next two years.

At the same time, only 15% of UK pension scheme members reported feeling empowered and confident that they have saved enough to be able to retire comfortably while 84% wanted to better understand their retirement strategies.

We argue that this reflects the fact that providers, employers and their advisers too often fail to recognise the importance of the soft components in a product offering, such as customer communication, customer service and customer experience. These cannot be

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valued in pounds and pence although their absence leads to frustration, disengagement and poor financial outcomes for customers.

Workplace pensions currently operate like a club for employers, pension providers and advisers. The member is excluded and sidelined. This arrangement is characterised by an over-emphasis on the technical, product, compliance and metrics aspects of provision at the expense of customer experience.

This explains the current appalling over-complexity and opaqueness of scheme designs, and the widespread use of impenetrable jargon which is at odds with the tenets of plain English and user engagement. Members are alienated at every step of the process by providers who are incapable of seeing things from their perspective. Rather than aiming to engage members, the worst culprits are guilty of being patronising to members and showing off to their peers.

This industry introspection and self-obsession is in evidence everywhere. For example, the first message that greets members trying to access their pension website is often a technical question: "Are you a DB or DC member?". The fact that 74% of members in our survey admit to not understanding the differences

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between DB, DC, master trusts and other pension arrangements reveals the gulf in perspective between providers and individual pension savers.

Our ethos of 'pensions for the people, by the people' advocates replacing this operational culture with a customer-centric culture. This will entail fresh thinking that reflects the new reality, rather than being hidebound by traditional and outdated roles and practices.

Our industry would do well to learn from the experience of the broader financial services sector where 76% of individuals that start the process of a financial application online will abandon the process due to friction along the wayⁱⁱⁱ.



The customer-centric solution

The fundamental challenge in the delivery of an excellent pension customer experience is persuading financially constrained, technically unsophisticated members to contribute more into opaque and complex pension products that they don't understand, don't trust and rarely look at.

This will not be addressed by current failing communication practices which are predicated on flawed assumptions such as:

- Presenting detailed technical information will persuade members to change their behaviours
- Setting a big goal will encourage members to work towards it
- Members' behaviour is rational and is the result of conscious choice

A customer-centric pensions experience, taking into account the insights of behavioural economics, can address these issues. A good pension customer experience and proposition requires leadership in ensuring that members are fully engaged with their retirement plans. That in turn demands: a focus on creating customer experience tools to address motivation; a passion for simplifying the customer experience; and a design that addresses customer needs.

The relationship between employers, consultants and providers on the one hand, and members on the other, is currently more of an arranged marriage than a love match.

We recognise that several initiatives are currently

being debated with a view to addressing this member experience deficit such as: pension passport, mid-life MOT, mid-retirement MOT, pension dashboard, default guidance and simplified annual statements.

All of these tools have the laudable aim of giving members simple, relevant information to help them make decisions: for instance, our research indicates that 94% of employees would find a pensions dashboard useful. But we feel that they are not sufficient on their own to fix the problems of poor customer experience. For that, we need to look to the examples of other industries.

We advocate that personalisation, efficacy and empowerment are their key customer expectations. The goal is participation rather than information.

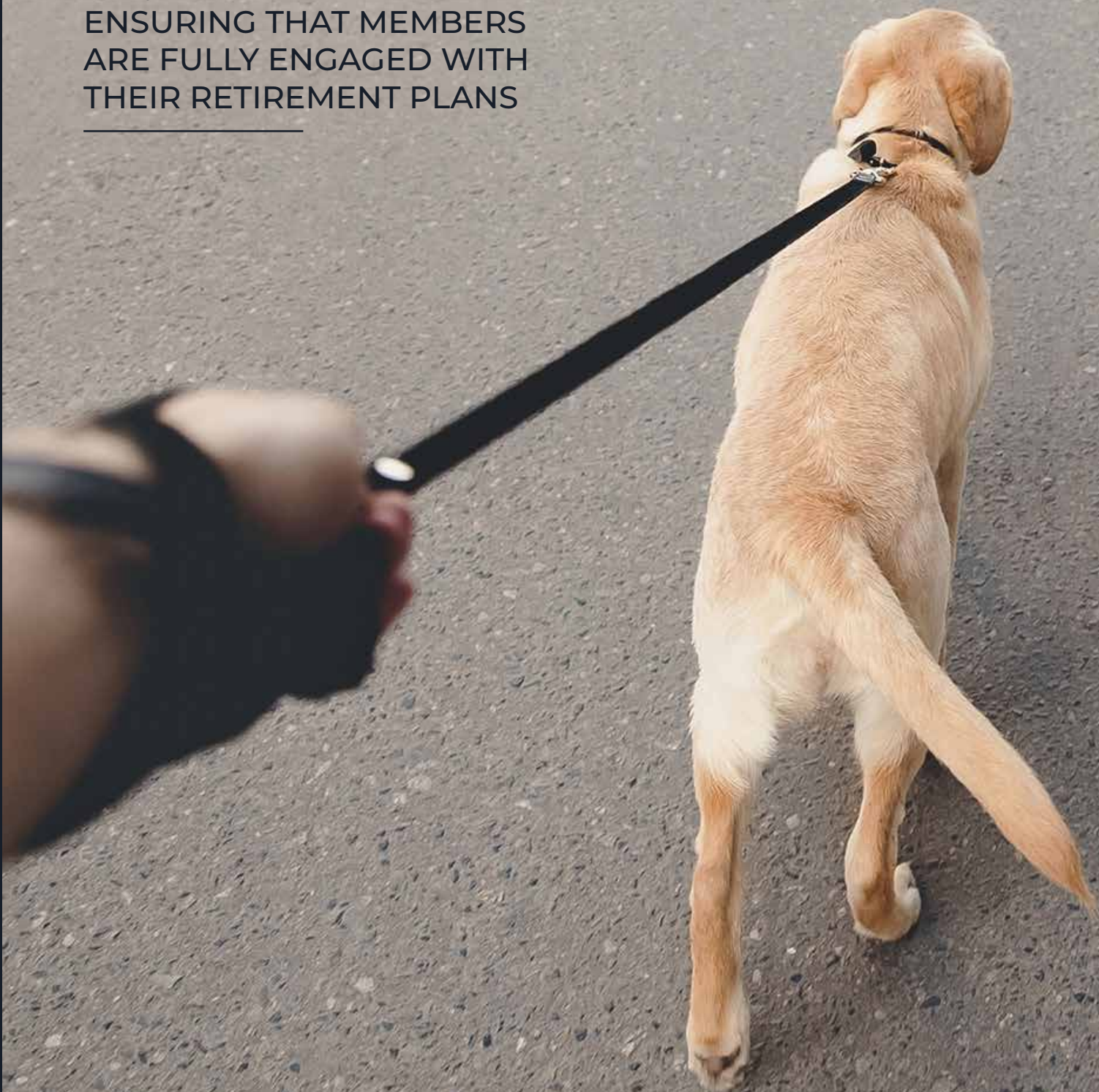
Personalisation: Understand my particular needs and tailor the offering and engagement accordingly

Efficacy: Make the interactions and communications simple and easy

Empowerment: Give me the tools, help and support to own my own financial future

IN A MARKET WHERE
THE CUSTOMER IS
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USER EXPERIENCE AND
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THEIR RETIREMENT PLANS



Pensions for the people, by the people

Jack Welch, legendary CEO of General Electric, was voted the greatest manager of the 20th century by *Fortune Magazine*^{iv}. He used only three measurements to tell him everything that mattered about his company's performance: employee engagement, cash flow, and customer satisfaction.

The member experience of their pension should be the sum total of every interaction that they have over the course of their relationship with their employer and provider.

In genuinely consumer-focused industries, great customer experience is achieved when customers consistently get a flawless product or service, delivered by caring, friendly people, in a timely fashion, supported by an effective and efficient problem resolution process.

When this doesn't happen, those customers vote with their feet. They cancel services, switch providers and share their negative experiences. That hurts business revenues, profitability and employee turnover. The workplace pensions industry has been insulated from these realities by the current asymmetry between providers and members.

However, at Atlas Master Trust, we believe strongly that our industry should be putting the member first regardless of these structural faults. Indeed, that is the first test of genuinely customer-centric pension provision.

In order to understand what differentiates the best customer experience providers from the rest, we believe the example of the world leaders in customer satisfaction is instructive.

The financial services industry is currently facing an influx of challengers from the retailing and technology sectors who are extremely advanced in delivering sophisticated and tailored customer-centric products with highly-rated customer experience: Alipay from Alibaba, Amazon Cash from Amazon (ranked number one in the last six bi-annual surveys conducted by the UK's Institute of Customer Service) and Facebook Messenger P2P are just three notable examples.

These companies are guided by principles such as customer obsession, passion for invention, commitment to operational excellence, and long-term thinking. These lessons could well be adopted by workplace pensions providers who are serious about addressing the serious issues of member alienation and poor customer service.

Great customer-centric organisations are constantly curious, fostering a culture of innovation and continual self-improvement. They are focused, which means they're listening all the time. They challenge themselves, but they're very clear about their purpose: it's about the impact they have, rather than the function they carry out. Process matters but outcomes are paramount.

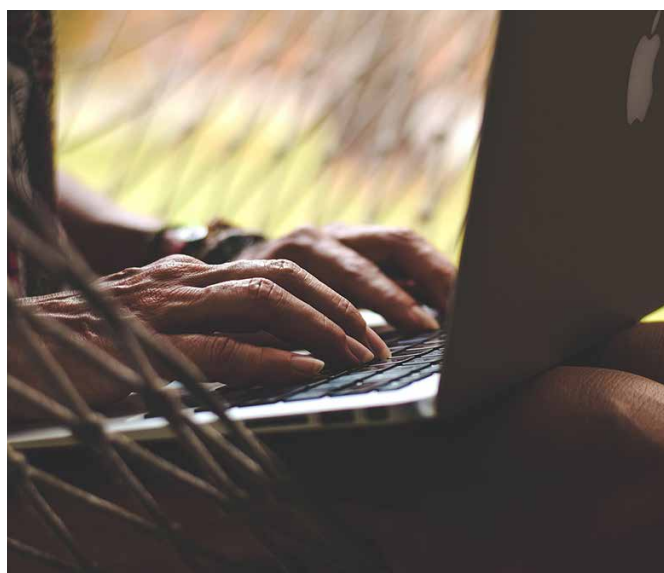
While Amazon's employment practices are a factor which investors take into account from an ESG perspective, its marketplace success is attributable to its undisputed leadership in customer service and experience. In this regard, the view expressed by CEO Jeff Bezos has resonance for the workplace pensions market: "There are many ways to centre a business. You can be competitor-focused, you can be product-focused, you can be technology-focused, you can be business-model focused, and there are more. But in my view, obsessive customer focus is by far the most protective..."



Challenger banks: the revolution in banking

'Challenger' banks such as Monzo, Atom, Tide and Starling have transformed banking.

There are currently around 75 such banks vying to capture the loyalty of small business owners simply



because big banks have failed to do so.

Challengers have focused on building platforms that facilitate the trend towards independent working and the gig economy, giving freelancers and small business owners the necessary tools to manage and grow their business.

They offer value-added products and services to help customers with a range of tasks, such as invoicing, receipt and expense management and payroll. By doing so, they position themselves as partners, not mere utility providers.

To give just one example, account opening procedures are a lot easier and quicker with challenger banks compared with their established rivals.

Indeed, onboarding often requires as little as taking a picture of your ID and a video of yourself.

Their simplicity and excellence in customer experience are exemplars for the direction of travel that we advocate in workplace pension provision.

Comparison websites: the revolution in insurance

Price comparison websites have revolutionised the purchase of insurance, credit cards and energy products. They have done so by streamlining and simplifying the process, building it around the customer rather than the provider, agent or broker, and saving customers billions of pounds a year.

The UK Competition and Markets Authority (CMA) estimates 85% of all UK internet users have used a price comparison website at some point and they have become an essential tool for anyone looking for

a new policy or to switch from their current provider.

Unsurprisingly, Amazon has held talks with some of the largest insurers in Europe about the possibility of listing their products and packages on a new UK comparison website^v.

While it may be anathema for many in the pensions industry, it is the case that a pension is simply a tax-free savings wrapper and could conceivably be offered in such a way.



Lessons from healthcare: the patient revolution

Patient-centric healthcare is about putting the patient at the heart of everything just as our customer-centric pensions put the member at the heart of everything. Patients are becoming more involved in their own healthcare through the increased openness of the medical profession and their willingness to share information. Patient-centric approaches design healthcare strategies and treatments using patient insight and input.

This can take the form of patient journey mapping, patient advisory boards and patient advocacy groups and it informs research and development focus, clinical trials and healthcare systems. It involves communicating with patients as they wish to be communicated with. It has been shown to greatly improve patient outcomes in terms of treatments, recovery and wellness. We believe it is an exciting model on which to base DC workplace pension strategies.

Patient-centred care is defined by the Institute of Medicine (IOM) as: “healthcare that establishes a partnership among practitioners, patients and their

families to ensure that decisions respect patients’ wants, needs and preferences and that patients have the education and support they need to make decisions and participate in their own care”.

If we substitute the words ‘member’ and ‘pension provision’ for ‘patient’ and ‘healthcare’ then that serves as an excellent definition of our preferred model of customer-centric pensions.

**PATIENT-CENTRIC
HEALTHCARE IS ABOUT
PUTTING THE PATIENT AT
THE HEART OF EVERYTHING,
JUST AS OUR CUSTOMER-
CENTRIC PENSIONS PUT THE
MEMBER AT THE HEART**

The ESG edge

Customer-centric schemes don't just provide design and communication tailored to members' needs. They also enable investment strategies that meet members' increasing requirement to take social and environmental factors into account when building their portfolios. Today, so-called ESG (environmental, social and governance) investment accounts for an estimated £23 trillion of assets under management^{vi}.

'Pensions for the people, by the people' must take account of the clear generational shifts in attitudes. Millennial scheme members, those in their 20s and 30s, are twice as likely as older generations to invest in companies or funds that target beneficial social and environmental outcomes, according to Morgan Stanley.

It seems that 'doing the right thing' is indeed the right thing to do to deliver greater customer satisfaction for the ethical scheme member. In 2005, this idea found institutional expression in a seminal report from the United Nations (UN) entitled *Who Cares Wins*, which in turn gave rise to the Principles for Responsible Investment (PRI), launched at the New York Stock Exchange in 2006.

Today, the PRI initiative has gone global, with over 1,600 members managing assets worth over \$70 trillion assets under management. There is a realisation that concentrating exclusively on maximising short-term profits is a massive risk in its own right. Indeed, the UN PRI, working with United Nations Environment Programme Finance Initiative, found in 2009 that some \$2.15 trillion of environmental damage had been caused by the world's 3,000 largest companies in 2008.



CUSTOMER-CENTRIC SCHEMES SHOULD GO FURTHER, EMBRACING ESG AS BEST PRACTICE IN CUSTOMER EXPERIENCE RATHER THAN AS A BURDEN OF COMPLIANCE

Moreover, there is compelling evidence that investment strategies that integrate ESG factors deliver better long-term performance.

Analysis by Morgan Stanley found that investing in sustainability often exceeds the performance of comparable traditional investments. For example, the MSCI KLD 400 Index – comprising companies with the highest ESG standards – significantly outperformed the S&P 500 over 25 years from 1990. Meanwhile, S&P companies in the top quintile of ESG integration outperformed those in the bottom quintile by 25% between 2014 and 2018^{vii}.

Another major academic study proved conclusively that companies with high ESG integration achieved an annual above-market average return 4.8% higher than for those with low commitment to sustainability^{viii}.

DC pension schemes in the UK are facing new regulations that will require them to disclose their policies on all material financial factors, including ESG – and specifically climate change. DC schemes will be obliged to put these into their Statements of Investment Principles and make them available online. We believe that customer-centric schemes should go further, embracing ESG as best practice in customer experience rather than as a burden of compliance.

This is because we acknowledge the long-term impact of investment decisions made by institutional investors is a vital part of pension provision: both financially and in terms of the impact of those decisions on the world into which we wish to retire. This view is reinforced by the evidence showing that companies that perform well on ESG issues tend to produce better returns for investors. Pensions funds will do well by investing in companies that do good.

— Pensions for the people, by the people

AT ATLAS MASTER TRUST,
WE BELIEVE STRONGLY
THAT OUR INDUSTRY
SHOULD BE PUTTING
THE MEMBER FIRST

Hard facts



Engagement

72%

of pension scheme members do not feel engaged with their company pension

77%

do not understand enough about pensions to make considered decisions

52%

More than half of finance departments acknowledge improving member engagement as their biggest challenge in the next two years

84%

of members want to be better able to understand their retirement strategies

74%

of members do not understand the difference between DB, DC and master trust



ESG integration

\$23trn+

value of assets invested according to ESG principles

\$2.15

trillion: amount of environmental damage caused by world's 3000 largest companies in 2009

0.72%

the factor by which annualised returns in specialist ESG funds (MSCI KLD 400) outperformed the S&P 500 over a 25-year period

4.8%

the annual above-market average return for companies with high ESG integration over those with low ESG commitment

25%

the amount by which S&P companies in the top quintile of ESG integration outperformed those in the bottom quintile between 2014 and 2018

In this paper we have set out the principles and thinking behind our advocacy of genuinely efficient, effective and customer-centric 'pensions for the people, by the people'.

As part of our campaign for this positive cultural and organisational change, we have distilled our views and recommendations into a simple but powerful ten-point proposition that captures the fundamental elements of our pensions philosophy:

The member manifesto



- 1**
Put the 'voice of the member' and member satisfaction at the heart of the governance framework
 - 2**
Embed a customer service excellence culture into all areas of the scheme, as well as its management and delivery
 - 3**
Consult and interact with members regularly and act consistently on their feedback
 - 4**
Anticipate member needs proactively
 - 5**
Put member empathy and perspective at the heart of all processes, design decisions and communications
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- 6**
Embrace simplicity and avoid complexity
 - 7**
Use a proactive, omni-channel approach to communicate in a timely, relevant and appropriate manner
 - 8**
Create accountability for optimising the member experience and satisfaction
 - 9**
Embed strong ESG principles into investment decision-making and wider operations
 - 10**
Always be prepared to challenge and change, while continually striving to make the member experience better, easier and more rewarding

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MANY PENSION PROVIDERS LARGELY
IGNORE, IN ANY MEANINGFUL WAY,
THE REAL NEEDS AND CONSIDERATIONS
OF MEMBERS IN DESIGNING AND
OPERATING THEIR PRODUCTS



The considered choice of master trust

Atlas is the trustee-led Master Trust representing the considered choice for employers who want their people to have the financial futures they choose.

Atlas' core belief is that no member should be surprised by their outcome, giving people control of their financial future. It gives them the reassurance that their best interests, and hard-earned money, are being proactively looked after by a board of independent trustees.

Atlas' open structure drives quality, supported by people-experts Capita, daily administrators of British life, and the investment expertise of Schroders.

Together, we create financial futures from working lives so our members are the masters of the life they choose.



Contact: Andy Dickson
Head of Business Development
Atlas Master Trust
andy.dickson@atlasmastertrust.co.uk
07936 333491

Andy is a regular contributor to the pension trade press and a presenter at leading pension and investment conferences in the UK and overseas. He is the former Chairman of the DC Investment Forum and a current member of the Advisory Committee. His previous role prior to joining Atlas in 2018 was Investment Director at Aberdeen Standard Investments.