The future of pensions technology

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The challenge of meeting pension needs

Many developed countries are increasingly looking at the private sector to deliver a sophisticated range of financial products and services for the ageing population.

Many people who would have previously relied on a State Pension are now being asked to engage with their retirement funding and make important financial decisions at a time where there is an absence of affordable independent advice. There are strong demands for more engagement in retirement planning and investment, improvement in trust and transparency, and for new products and services throughout the pension life cycle. EY believes that technology will have a large part to play in meeting these demands.

The two key global challenges identified in EY’s 2018 Pensions 2030: Building Sustainable Retirement paper were:

- **Stagnant and inefficient infrastructure**: The pensions industry lags in realising economies of scale and becoming truly digital. The key stakeholders – governments, regulators, employers and providers – are yet to exploit the benefits of collaboration through connected technologies.

- **Disengaged consumers**: Occupational schemes and private pensions struggle with helping individuals whilst ensuring that they are not overstepping regulatory boundaries. Poor choices are being made at all levels because stakeholders have not harnessed digital technology, analytics, behavioural economics and views of the risk aligned to today’s life spans.

There is an absence of affordable independent advice.

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1 How can we make saving for the future feel like a good investment now? Minds made for building financial services, Ernst & Young LLP, 2018.
These themes were echoed in the Financial Conduct Authority (FCA) Retirement Outcomes Review² published on 28 June 2018. An unintended consequence of the Retail Distribution Review (RDR) has been that fees have made giving advice on small pension pots uneconomic, creating an ‘advice gap’.³

**Fees make giving advice on small pension pots uneconomic.**

The FCA review found:

- **Lack of guidance**
- **Weak competition**
- **Insufficient innovation**
- **High charges**

Technology can make a significant contribution to bridging the gap between current capability and what the market and regulators are demanding over the coming years.

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The FCA is demanding innovation in product and service. In order to compete, providers will need to build new capabilities. These capabilities follow a logical progression and start with three fundamental responses to the external drivers:

### External drivers
- Higher demand – more small pension pots
- Fees too high to make traditional advice economic
- Regulator demanding customer guidance
- Volatile markets requiring more customer engagement
- Retirement planning required not just at retirement

### Customer-centric advice and guidance
- Reduction in cost of advice – less human intervention
- Requires access to specific personal data
- Requires robust modelling to create investment pathways
- Drive to customer engagement in risk management
- Mobility and omni-channel access

### Improvements in data architecture
- Customer-focussed data architecture
- Robust data security and customer confidence
- Flexible data model, ETL and data lakes
- Reduction in reliance on transactional data sources
- Focus on data quality

### Customer-centric advice and guidance
- Systems architecture to facilitate APIs and data capture
- Reducing cost of system ownership and cybersecurity
- System flexibility and reduced cost of change
- Facilitating automation and speed to market
- Picking the right vendor and configuration model
Innovation in customer-centric advice and guidance

The core of the FCA demand is the provision of low-cost, omni-channel, agile, tailored, and compliant advice and guidance throughout the pension life cycle. Providers will need easy-to-understand and trustworthy tools for customers that can be shown to offer good investment outcomes.

Improvements in data architecture

To drive innovation in advice and guidance, providers will need to develop the ability to access and analyse data from multiple sources. Pension providers will need to learn the lessons of other industries that have already recognised the value of both external and process-driven data.

Agile platforms and automation

Seamless, accurate and cost-efficient analytics driving customer insight cannot be provided efficiently by core systems architected more than 20 years ago. Moreover, these analytics cannot be subsequently added to the core systems in an ad hoc way. The FCA is demanding both product innovation and cost reductions, so replatforming will be essential to provide access to accurate data at a reasonable cost and to drive process automation. The regulator is expecting pension providers to engage more actively with investors and this must be done at a low cost.

Technology implications

Data-enabled decision support
- Accurate modelling
- Inhibiting data architecture
- Flexible data modelling
- Cybersecurity
- Modern application programming
- Data accessibility
- Cost of ownership
- Process automation
Pension providers need to build core systems and integrated applications that meet the challenge of providing flexible and scalable services at low cost.

Replacing legacy systems is time consuming and errors can be expensive. However, EY believes that flexible, easy-to-operate and cost-effective systems that meet the market and regulatory challenges can be achieved. EY believes that the successful systems of the future will have the following characteristics:

1. **Scalability and flexibility: not building future legacy**
   - **Flexibility in installation:** This allows either cloud or on-premise deployment depending on customer preference.
   - **Browser-based:** Applications should ideally run in a native browser.
   - **Modular and adaptable:** The FCA is looking for innovation in product and service propositions in pensions over an extended timescale, so building a new system that is difficult to change is simply building the legacy system of the future.

2. **Modern user interface and experience: fast response and accessibility for staff and customers**
   - **Advanced user interface (UI) design:** A fast, well-thought-out and fully responsive UI can save a significant amount of time and cost by streamlining a user’s workflow, decreasing training times and providing accessibility for customer self service.
   - **Fast response times:** UIs should offer sub-second responses, like a traditional web browsing experience. This is one of the key enablers of internal process cost savings, and accessibility and engagement for customer-accessed interfaces.

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**Building a futureproof architecture**

The challenge of meeting pension needs  
Technology fundamentals  
Building a futureproof architecture  
How EY can help  
The future of pensions technology
Rapid and robust implementation: tight scope and good governance

- **Rapid implementation**: Multi-year implementations are not uncommon in core platform replacement. A modern insurance software solution with a minimum viable product proposition would not take longer than six months.

- **Out-of-the-box functionality**: The attraction to configure modern, highly configurable systems to duplicate existing processes reduces the value of out-of-the-box functionality built on experience. This also takes more time and effort, and reduces opportunities for automation. Tight governance is needed to prevent excessive configuration.

Easy and seamless integration: digital and mobile applications tightly bound

- **Multi-device accessibility**: A modern platform must be able to provide seamless support for digitisation and mobile devices, including offline access and transactions. Users should be able to access the same functionality with the same speed and responsiveness as they can with a desktop tool, and continue working whilst disconnected from the internet.

- **Multi-device usability**: Applications should have simple and responsive displays. This is a critical element in delivering the FCA demand for engaging customers and providing advice and guidance. The FCA wants pension customers to be coaxed away from passivity, and intuitive mobile applications plus the gamification of pension planning will be key to achieving that engagement.

Cybersecurity and anti-fraud enabled: building trust and preventing breaches

- **Verification**: Modern platforms need to be secure enough to protect customer's data from any leaks and cyber attacks. A two-step or biometric identity verification, and advanced encryption methods to prevent unauthorised access to sensitive information will build the trust vital to encourage customers to share sensitive financial and personal data.

- **Fraud detection**: Given the large sums involved and the financial inexperience of many pensions customers, machine learning for fraud detection is a system feature that will become indispensable.

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Key considerations

There are no stand-out market leaders providing a comprehensive technology package for pension providers. Technology solutions need to fit each provider’s market strategy. Being clear on objectives and scope, and issuing a clear request for proposal, are key in order to find the technology combinations that meet the provider’s market aspirations.

Selecting the right technology partner is critical. Technology is a facilitator of new business models, but a clear set of goals aligned to the market of the future will be required for success. A clear view of where providers want to position themselves in the changing pensions landscape and of which combination of technology solutions will get them there is critical.
However, none of this will be possible with legacy systems. Updating your pensions technology will help you to manage evolving regulatory requirements and address issues around technology debt. The risks and issues of the past have changed considerably and the significant successes in the wider insurance sector show that projects can be completed to scope on time and to budget with the correct approach. Ultimately, although the prospect of such a large-scale technology project is daunting, the benefits far outweigh the risks. What are you waiting for?

**EY has delivered more than 140 projects globally with a 100% success rate.**

The benefits far outweigh the risks.

EY has a global technology-enabled transformation capability with a proven track record of implementation support. With nearly 2,000 technology transformation professionals having delivered more than 140 projects globally with a 100% success rate, our approach using unique accelerators and methodologies has helped our clients transform their businesses.

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