

With-profits market developments – a consumer perspective

October 2024



Introduction

Consumers today face ever increasing levels of change, driven by factors including global political instability, a changing economic environment and rapid technological advancement. This uncertainty comes at a time when financial risks are being transferred from insurers and other institutions onto individuals, as explored in the Institute and Faculty of Actuaries' (IFoA) recent research on the Great Risk Transfer. Against this background of change, we commissioned a consumer survey ("Hymans Robertson Consumer Survey June 2024") to gain insight into consumer sentiment around long-term savings and insurance products, including a specific focus on consumers who hold with-profits policy variations .

Hymans Robertson commissioned Censuswide to carry out a consumer survey in June 2024. There were 1,001 respondents, all based in the UK and at the time of the survey all held at least one insurance or long-term savings product and were aware of at least one other product type. The survey was targeted to ensure 25% of respondents held at least one with-profits policy. Our survey results are representative of our sample and therefore will not be fully representative of the population as a whole. More information on our survey can be found in the Appendix.

In this paper, we combine insights from our consumer survey and our in-depth knowledge of the with-profits industry to explore the following areas:



Which **product features** matter most to insurance customers?



How do with-profits customers want to **engage with changes** that impact their policy?



Why have with-profits customers **chosen** their product?



What opportunities are there for firms to **innovate** in this space?



Do consumers prefer **guarantees** or the **potential for higher returns**?

We hope our insights will encourage firms to reflect on their product ranges and how they engage with consumers. We would encourage firms to consider consumer demand for guarantees in particular, and explore opportunities for innovation there. We welcome the opportunity to discuss our findings in more detail and contact details are provided at the end of our report.

¹ *IFoA: Great Risk Transfer*

Executive summary



Strong appetite among consumers for characteristic with-profits features

The most popular product features identified by our consumer survey are guarantees, potential for long-term growth and smoothed returns. With-profits products typically include all of these features and may be attractive to retail consumers, so providers may wish to consider promoting their with-profits products and/or including these features in their broader product offering.



Could there be a resurgence in with-profits sales?

43% of respondents said they'd consider purchasing a with-profits product if taking out a new savings or insurance policy, comparing favourably to non-profit and unit-linked formats. This could show that explaining and promoting the benefits of with-profits policies could drive demand.



There's a need for simple products that can be accessed without advice

Less than half of respondents agreed they'd pay for financial advice, highlighting the need for simple, non-advised products. All generations expressed comfort with online tools, and younger policyholders expressed the strongest desire for support in choosing suitable products to meet their needs.



With-profits customers rely on providers to ensure strategic fund changes are delivered well

With-profits customers need to be informed of any changes to their fund that impact their policy, but our survey suggests many policyholders are content for changes to proceed without any active engagement, highlighting the need for robust governance over any changes.



There's plenty of opportunity for innovation

Innovation continues to create opportunities for with-profits products. Recent examples include the integration of digitalisation and AI into operational processes, and sustained increases in interest rates supporting a re-emergence of products with return of premium guarantees.

Consumer preferences

Our survey explored product awareness, the features consumers value, and their motivations for selecting with-profits product variations. The majority of participants value certainty and rank this more highly than the potential for higher returns where that brings potential volatility.

Product knowledge and awareness

Filtering was applied to our consumer survey to ensure that all participants held at least one insurance or long-term savings product and were aware of at least one other product type, with product definitions provided as follows :



Workplace pension: A savings plan set up by your employer to help you save money for retirement, with contributions from both you and your employer.



Personal pension: A private savings plan you set up yourself to save money for retirement, separate from any workplace pension.



Other long-term saving (e.g. Lifetime ISA): Financial accounts or plans like the Lifetime ISA designed to help you save money over a long period, often with tax benefits.



Annuity: A financial product you buy with your pension savings that provides you with a fixed income for the rest of your life.



Income drawdown: A method of taking money from your pension savings as needed, while the rest of your money remains invested.



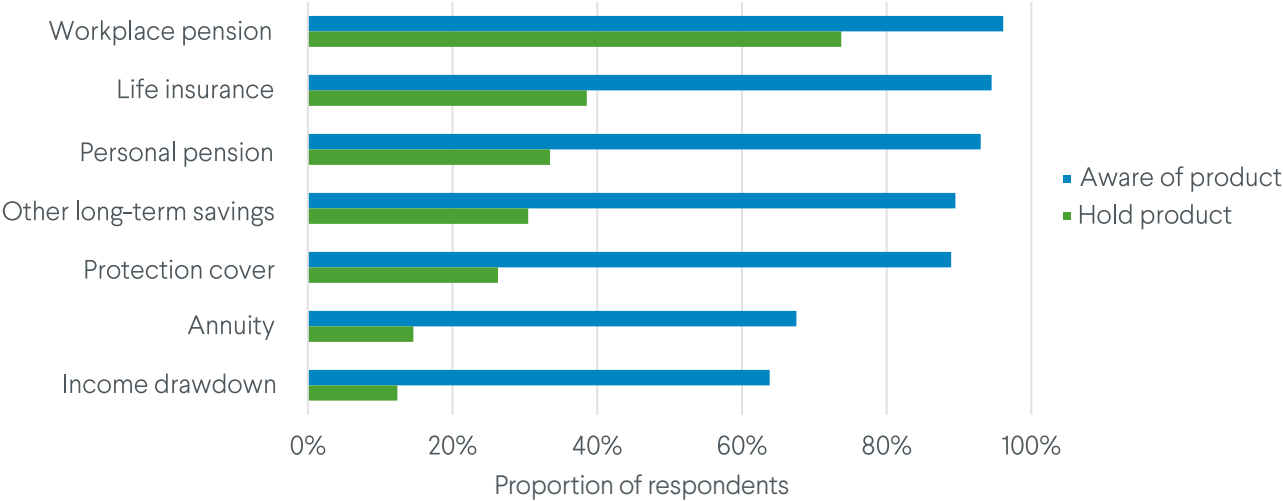
Life insurance: A policy you pay into that provides a lump sum of money to your beneficiaries if you pass away.



Protection cover: Insurance policies that provide financial support if you become seriously ill or unable to work due to illness or injury.

While awareness among participants in our survey is not representative of the general population due to the filtering applied, some interesting trends emerged.

Figure 1: Consider each of the following products and indicate whether you are aware of this type of product and if you currently hold this type of product



Source: Hymans Robertson Consumer Survey June 2024

There was the greatest awareness of accumulation products and insurance policies (specifically life and protection cover), which could be due to them being offered as workplace benefits or tied to mortgages. Awareness of decumulation products such as annuities and income drawdown was lower, although older generations (Baby Boomers and the Silent Generation, as defined in the Appendix) showed more awareness. This suggests consumers may not be as aware of decumulation products until they start to research the options available to them as they approach retirement age.

There was a downward trend as age increased for those who held a long-term savings or protection product. This was expected as the need for protection products (such as income protection) typically reduces as individuals get older.

When considering the products held by respondents, the least common were decumulation products. This is at least partly a consequence of the age profile of our survey population, with only 15% of participants over the age of 59.

Surprisingly, 65% of those who said they held an annuity, and 60% of those who said they held an income drawdown product were from the Gen Z and Millennial groups (i.e. aged between 18 – 42). This may reflect a lack of understanding of different products, for example customers miscategorising their pension savings as annuities (or vice versa). Some customers may believe their pensions will ultimately provide them with an annuity, rather than being a defined contribution pot. This highlights an opportunity for providers to review and refine policy literature provided to consumers at the point of sale and throughout the policy lifetime to improve consumer understanding of the benefits and features of the products that they hold.

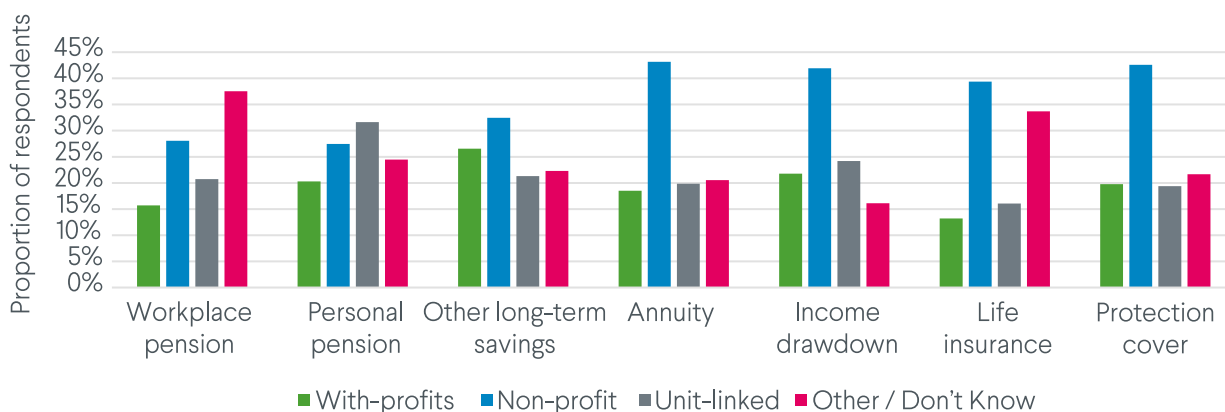
Our consumer survey filtered respondents to ensure that 25% held a with-profits product, but also captured non-profit and unit-linked variations of products held by respondents. The following explanations for these product variations were provided to participants:

Non-profit
A type of insurance/savings product where the pay-out amount is fixed and guaranteed from the start, regardless of any changes in investments or markets.

With-profits
A type of insurance/savings product where the pay-out amount is guaranteed at the start but can grow over time through the addition of bonuses.

Unit-linked
A type of insurance/savings product where the pay-out amount is tied to the performance of an investment fund, meaning it can go up or down based on how the fund performs.

Figure 2: Where you hold an insurance policy or savings product, please indicate for each holding whether the product is unit-linked, non-profit, with-profits, or other / don't know



Source: Hymans Robertson Consumer Survey June 2024

Product variations held varied across all generations, with non-profit policies consistently the most common. Consumers were least sure of what product variation they had for workplace pensions policies and life insurance. This could be due to these products commonly being held through workplace benefits, where employees are typically automatically enrolled into a default option. However, a notable proportion of respondents were unaware which variant they held, suggesting a lack of engagement with their products and their associated features.

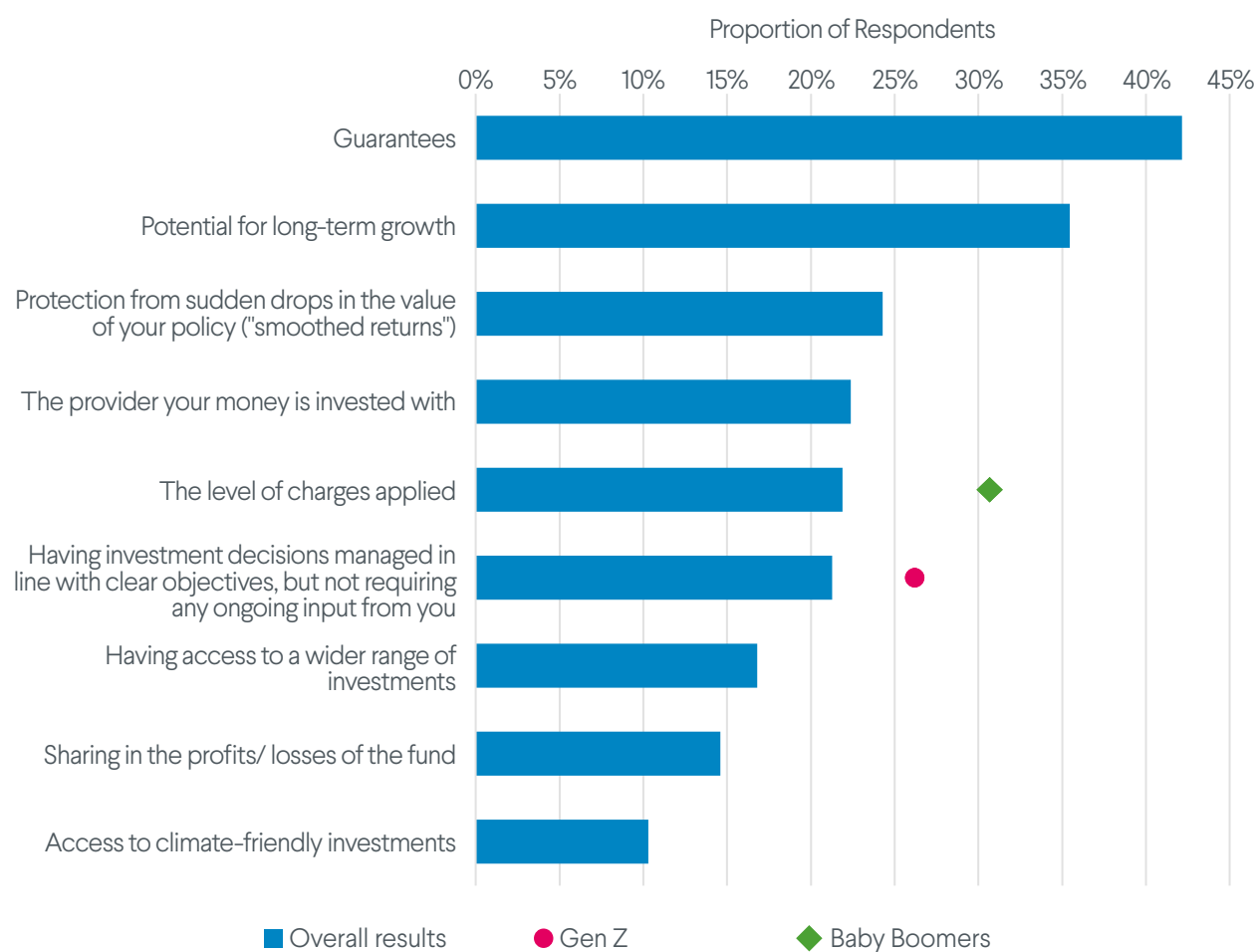
Interestingly the responses varied by age, with those in the oldest age bands less sure of which type of product they held. This could be for various reasons, for example being less engaged with policies purchased a long time ago, or younger generations being overconfident, resulting in misclassification of their policies or being more likely to take a guess rather than say they don't know.

Product features customers value

Our survey found that when asked to select the top three product features they value, participants most commonly chose guarantees, potential for long-term growth and smoothed returns, showing **consumers value stable growth**. These features are characteristic of traditional with-profits products, and while these have fallen out of favour in the market the features can be applied to new products (with-profits or otherwise). In particular, the higher yield environment could allow guarantees to be offered at more attractive prices than could have been achieved in recent years, on both with-profit and unit-linked products variants.

We also asked respondents if they had the option to choose between two savings products with the same level of fees, which they'd prefer, if any. **Almost 60% of consumers said they'd prefer a product that would not decrease in value, but offer slightly lower returns than a product that could be more volatile, but with higher expected returns**. This further highlights the customer demand for guarantees, if they can be provided at an acceptable cost.

Figure 3: When thinking about insurance and long-term savings products, what features, if any, are the most important to you? (tick up to three)



Source: *Hymans Robertson Consumer Survey June 2024*

We've seen examples of providers introducing some of these features into other products, in particular new smoothed managed funds which provide smoothing without the discretionary element of with-profits. Going further, adding guarantees could fill a gap in the market and there is opportunity for firms to leverage their with-profits expertise to do so. Other factors that were important to respondents included choice of provider, showing that brand sentiment and trust is still an important consideration for consumers, as well as the level of charges applied.

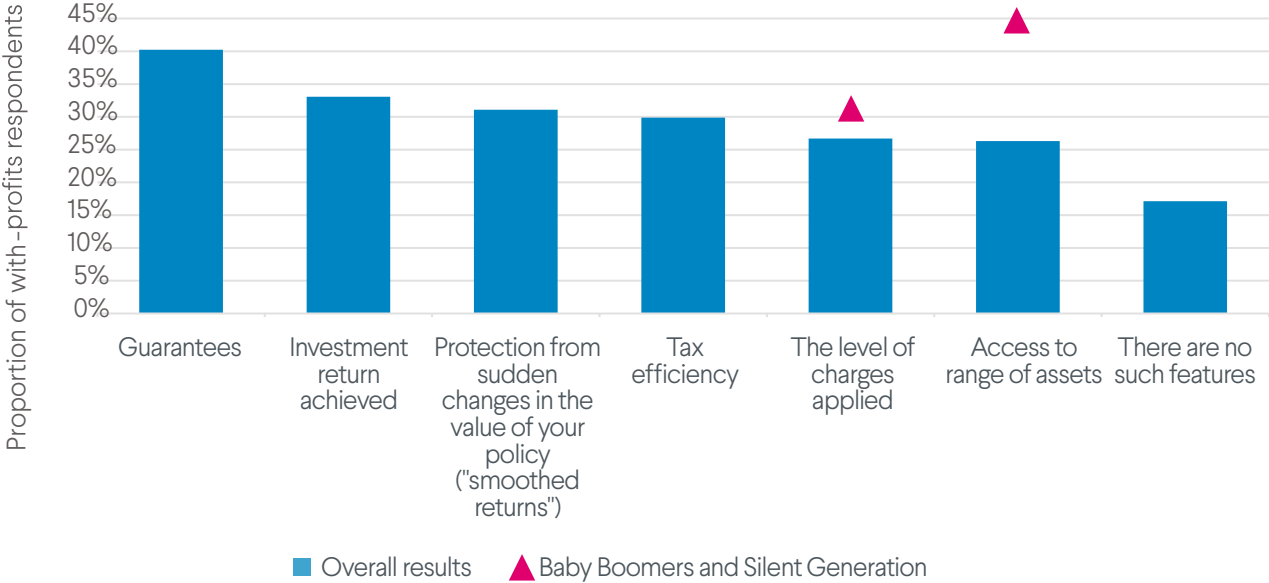
Assessing the results by generation, we observed two outliers to the general population, which we have illustrated within Figure 3:

- Over a quarter of Gen Z respondents chose having investment decisions managed in line with clear objectives, but not requiring ongoing input as one of the three most important product features. Ready-made solutions with clearly defined investment goals is an area where expect further innovation, building on initiatives like Investment Pathways².
- Almost a third (31%) of Baby Boomers said the level of charges applied to the policy was important to them. This could be due to them becoming more conscious of the impact this can have on the value of their benefits, which are front of mind as they approach or enter retirement.

² <https://www.fca.org.uk/publications/policy-statements/ps19-21-retirement-outcomes-review-feedback-cp19-5>

We asked an additional question to the 251 with-profits policyholders, relating to the most important features of their with-profits policies, which highlighted consistent themes.

Figure 4: When thinking about your with-profits policies or products, what features are the most important to you, if any? (tick up to three)



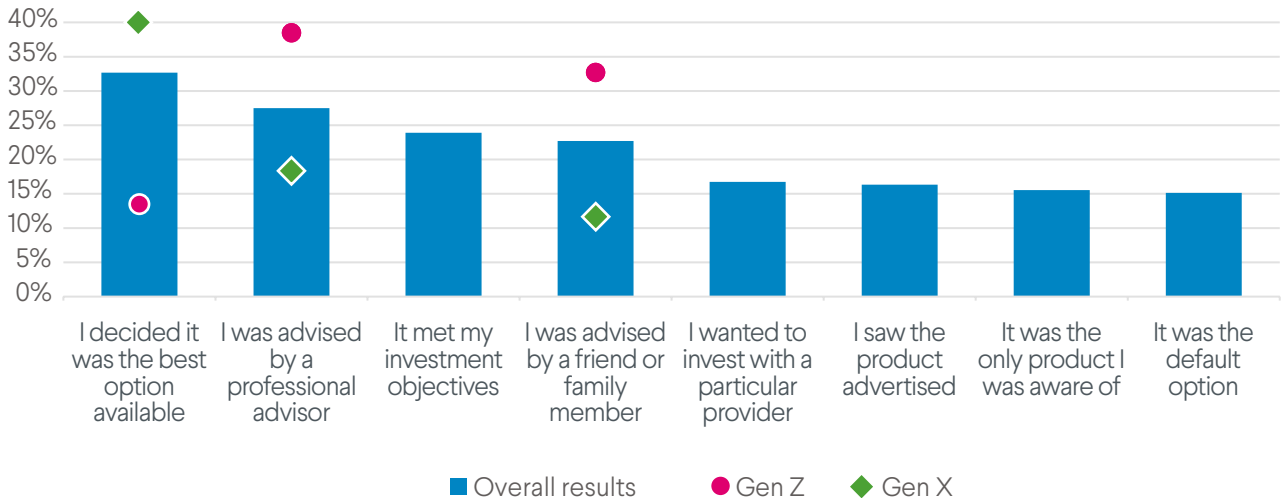
Source: *Hymans Robertson Consumer Survey June 2024*

Guarantees, investment returns and smoothing were also the most important features for the with-profits customers within our sample. There were also generational differences observed in the responses from with-profits customers, with 45% of the Baby Boomer and Silent Generation saying that the level of charges applied by the provider was important to them, and 32% of those generations classing tax efficiency as important. Access to a range of assets was the least common selection across generations, with only 17% overall selecting this option.

Motivation for selecting a with-profits product

Our survey found the most common motivation behind having chosen a with-profits product were being viewed as the best option available (33%), being advised by a professional advisor (27%) or the product meeting personal investment objectives (24%). This supports the findings of the IFoA ‘Value of with-profits for consumers’ working party³, which found that most policyholders selected their with-profits policy through “conscious” choice (69%), rather than passively (31%).

Figure 5: If you hold a with-profits insurance policy or savings product, what reasons contributed to your purchase? (tick all that apply)



Source: Hymans Robertson Consumer Survey June 2024

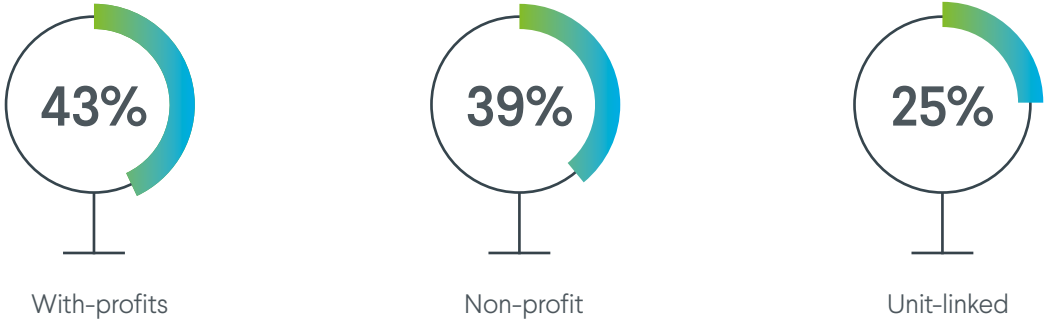
38% of Gen Z said they were advised by a professional advisor, and 33% were advised by a friend or family member. Comparing this to responses from older Gen X participants, the responses were 18% and 12% respectively, suggesting that younger generations appear to rely more on advice than the older generation.

³ IFoA: Value of with-profits for consumers - Phase 3 Report

Consumer appetite for new with-profits products

Our survey found that when asked what variations consumers would consider, when taking out a new savings or long-term insurance product, with-profits was the most popular. While this may appear surprising, the results perhaps show that when benefits are properly articulated this could drive demand.

Figure 6: If you were to take out a new savings or insurance policy, which of the following product types would you consider, if any? (tick all that apply)



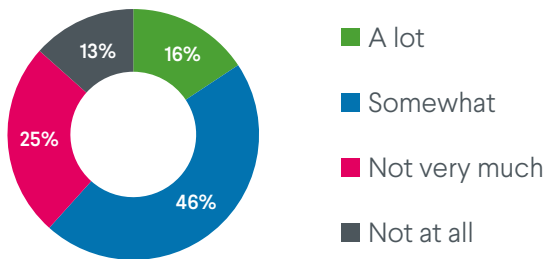
Source: Hymans Robertson Consumer Survey June 2024

If we break the results down by age, an interesting pattern emerges. **Unit-linked products were most popular with younger respondents, but this popularity decreased with age. Similarly, the proportion of respondents who would consider a with-profits product increased with age.** This could be driven by older generations valuing certainty over benefit amounts, particularly as they approach retirement age, or simply by reduced awareness of with-profits within younger generations.

How do environmental considerations impact consumer behaviour?

While only 10% of participants in our consumer survey included access to climate-friendly investments as one of the three most important product features (Figure 3), 62% of participants indicated they do give weight to environmental considerations when thinking about retirement products, with 1 in 6 participants saying environmental considerations would impact their policy choice “a lot”.

Figure 7: When thinking about retirement, how much, if at all, do environmental considerations impact the policies you chose?



Source: Hymans Robertson Consumer Survey June 2024

The responses also showed differing attitudes towards environmental considerations between the younger and older generations, with the younger generation placing more emphasis on this. For example, over 80% of Gen Z said that they were influenced by environmental considerations, which fell to half among Baby Boomers and the Silent Generation. These generational trends are consistent with previous consumer research conducted as part of the Hymans Robertson 2021 Protection Report⁴, where we found that 60% of those aged 25-34 said they would be more likely to purchase from an insurer if 10% of the proceeds were given to green causes, compared to 30% of those aged 55 and older.

⁴ *Hymans Robertson 2021 Protection Report*

Brand considerations

Our survey found that brand recognition was more important to consumers than whether the firm they invest their money with was a mutual or a proprietary firm. We offered participants the following choices when considering which type of provider they'd be mostly likely to invest money with for a new savings or long-term insurance policy:



A **mutual** provider: A company owned by its members, where profits are reinvested or used to benefit members.



A **proprietary** provider: A company owned by shareholders, where profits are reinvested or distributed to shareholders.

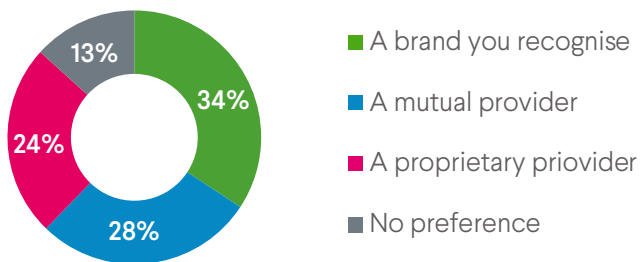


A **brand** you recognise: A company with a well-known brand that you trust, regardless of its ownership structure.



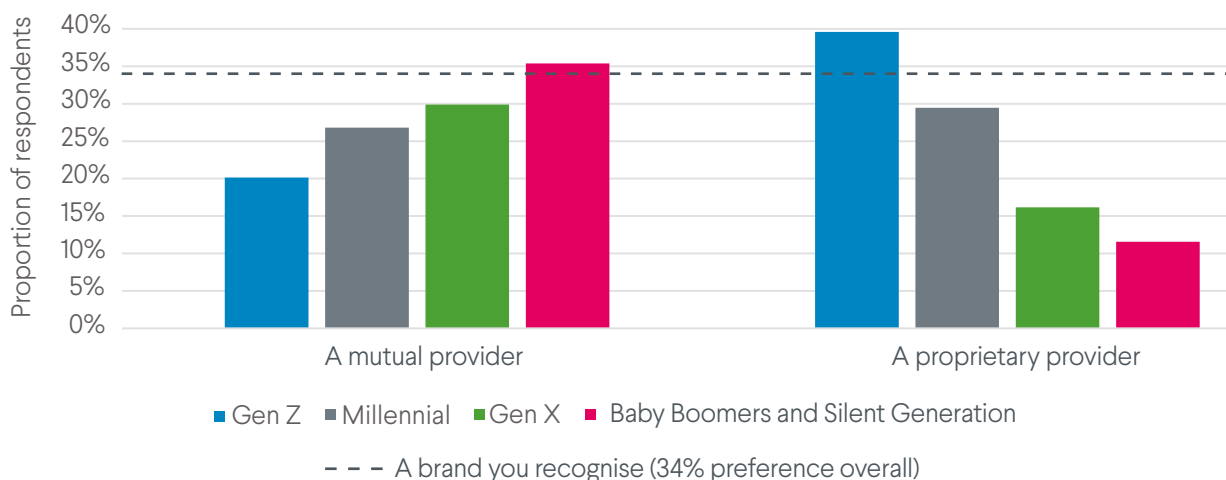
No particular preference for any of the above

Figure 8: When considering the provider of a new insurance or long-term savings product, which of the following would you be most likely to invest your money with, if any?



Source: Hymans Robertson Consumer Survey June 2024

Figure 9: When considering the provider of a new insurance or long-term savings product, which of the following would you be most likely to invest your money with, if any? (Results by age)



Source: Hymans Robertson Consumer Survey June 2024

Clear upward and downward trends are seen between age groups to this question. Baby Boomers and the Silent Generation favoured mutuals the most, whereas Gen Z preferred a proprietary firm. The preference for mutuals could be tied back to the popularity of with-profits among the older generations, with less awareness among younger generations of both with-profits products and the concept of mutuality. However, there was relatively little variation between generations saying they'd choose brand awareness over the other options, highlighting the importance of both brand awareness and trust, given our reference to this in the definition provided to participants.

In their 2024 Manifesto the Labour Party committed to help “bring innovation and new products to the market”⁵, including the aim to double the size of the UK’s co-operative and mutual sector by addressing barriers to entry and growth such as access to finance. The FCA is also currently exploring barriers to new entrants, with a call for input⁶ to simplify their rulebook. Taken together, there’s potential for more new entrants, including mutuals, being established, giving consumers more options when selecting a provider.

⁵ *Labour Party Manifesto 2024*

⁶ *Review of FCA requirements following the introduction of the Consumer Duty*

To pay or not to pay?

When asked whether respondents would be willing to pay for financial advice, those willing to pay for financial advice outnumbered those who weren't by almost 2 to 1 (46% compared to 25%).

As annual household income increases, there is a trending increase in the proportion that would pay for advice, which is commonly attributed to relative affordability.

When navigating financial decisions consumers can either go it alone or seek advice from a regulated financial advisor, who will provide bespoke information and personal recommendations for a fee. At the time of writing, there's very little available between these two approaches and the FCA are aware many customers are caught in this "advice gap".

The FCA closed their consultation on the Advice Guidance Boundary Review⁷ earlier this year, which considers ways to bridge this gap and aims to offer a middle ground between guidance and regulated financial advice. This could help everyone benefit from tailored information, no matter their household income. The FCA's proposals are summarised below and we expect the results of this consultation will be released later this year.

Proposal 1: Further clarifying the boundary	Proposal 2: Targeted support	Proposal 3: Simplified advice
Designed to empower FCA-authorized firms to provide greater level of support which may be closer to the boundary.	Use of limited information to suggest products or courses of action that are suitable for a particular target market.	This would be personal advice to a particular consumer that would result in recommendation.
This will still be general information and guidance , with no explicit charge.	Options suggested based on 'people like you' . Potential to charge for this support.	Not holistic advice and unlikely to be offered at retirement. Expect there to be explicit charges.

Source: FCA DP23/5: Advice Guidance Boundary Review – proposals for closing the advice gap

⁷FCA DP23/5: Advice Guidance Boundary Review – proposals for closing the advice gap

Our survey found that most respondents (64% in aggregate and over 50% from each generation) are willing to use online financial planning tools when selecting savings or insurance products, which is perhaps unsurprising given the popularity of other online methods in this space, such as online comparison websites to shop around for these policies.

Although online planning tools are popular in helping customers select a savings or insurance product that meets their needs, other research has highlighted a lack of trust in automated decision making. The FCA's 2022 Financial Lives Survey found that 82% of UK adults had low levels of trust in computer decision-making to complete their retirement planning without any human interaction. Our survey found that just under half (48%) of participants wanted to speak to someone over the phone when selecting new products, showing there is still demand for human interaction.

64%



are willing to use online financial planning tools when selecting savings or insurance products.

48%



prefer to speak to someone over the phone when making financial decisions.

With-profits fund strategy

Over their lifetime, with-profits funds may merge with other funds, close to new business or convert the form of benefits to non-profit or unit-linked. The optimal strategy is informed by what best meets policyholder needs as well as other factors including existing transfer scheme requirements and broader commercial considerations. It's important to be clear on the rationale for any fund merger or conversion, and that any change is in the interests of the affected policyholders.

With-profits funds can undergo a variety of changes, throughout this section we have focused on three of these:



merging with-profits funds (whether between closed or open funds)



converting funds to non-profit and fixing future benefits



converting to unit-linked, with the policyholder taking on associated investment risk.

For closed funds, the endgame decision may be dictated by an existing Court Scheme, usually the product of a prior demutualisation or Part VII transfer. Over the years the prescriptiveness, existence and nature of these “sunset clauses” have varied with market practice and some with-profits funds may find themselves with a very prescriptive endgame plan that allows little flexibility, despite significant changes in circumstance, while other funds have little steer to take action. The presence of a sunset clause within a Scheme typically allows firms to merge and sometimes also convert the fund without returning to the court, often (in more recent Schemes) with the expectation that an Independent Actuary will opine on the fairness of the proposed change to both impacted policyholders and other stakeholders.

Given the often complex interactions at play within a with-profits fund, strategic transformation can be challenging for consumers to understand. In addition to setting out the ‘what’ it is also important to set out the ‘why’ – the rationale for the change and why it is clearly in policyholders’ best interests to proceed with it. The status quo, continuing with the fund in its current form, may be perfectly acceptable, but equally ‘doing nothing’ can often lead to poorer outcomes overall for those in the fund. This highlights the importance of continuously reviewing the options available to the fund, particularly as the fund and economic conditions evolve.

Indeed, the FCA’s 2019 with-profits thematic review (TR19/3)⁸ included clear guidance to firms that pre-existing sunset clauses should be reviewed to ensure they continue to be appropriate and avoid customer harm. Consumer Duty has also set expectations on firms to deliver good customer outcomes, irrespective of what existing sunset clauses may prescribe. Prior Schemes need to be assessed to ensure they deliver good outcomes, considering the full cost benefit analysis of amendment as part of the assessment. We’ve seen recent examples of updates to sunset clauses as part of wider Part VII Court Processes, a trend we expect to continue.

⁸ *FCA TR19/3: Review of the fair treatment of with-profits customers*

▮▮ Hymans Robertson have acted as Independent Actuary and Independent Expert on many with-profits transactions. In addition to clearly identifying and considering the impacts of any transaction on policyholder benefit expectations and security, our experience has taught us the importance of clear communication for impacted policyholders, and the wide range of information needs that need to be catered for.

Customers can be financially vulnerable, or experiencing age related cognitive impairment, such as dementia. Therefore, it's particularly important to explain the impact of any transaction in clear and simple terms and set out the rationale for why a proposed solution is necessary and in policyholders' best interests. ▮▮

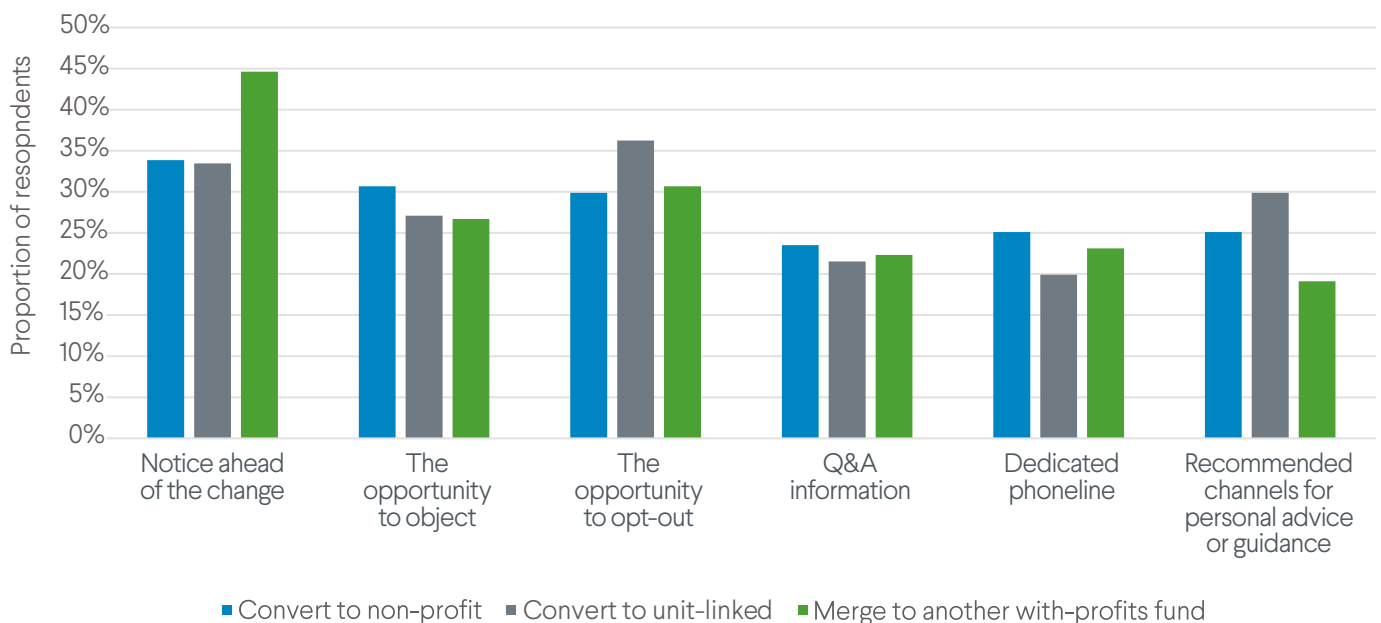


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What consumers want from endgame solutions

In our survey, we asked consumers to reflect on how these solutions might impact on them. The 251 participants who held a with-profits policy were asked about the kind of information or involvement they would expect to have ahead of a fund merger or conversion.

Figure 10: If the following changes were going to be applied to your with-profits policy / product, what kind of information / involvement, if any, would you expect to receive ahead of your policy / product converting or changing fund? (tick all that apply)



Source: Hymans Robertson Consumer Survey June 2024

Inevitably, not all policyholders will engage with a fund transaction process.

It is striking that no option attracted a majority, suggesting many policyholders were content for changes to proceed without any active engagement from them at all.

There are two key consequences of this:

- All reasonable efforts should be made to maximise engagement through an inclusive communications strategy and engaging communication materials.
- The provider, and any appointed Independent Actuary, must consider the full range of impacts across the affected policyholder population, including those who might not choose to engage, to ensure that the impact of the change is likely to be in the interests of those customers too.

The most common information expected by survey participants is notice in advance of the change, already a requirement of all fund merger or conversion processes either through the court process requirements or as a consequence of FCA rules⁹. Similarly, respondents rated the ability to object as also being of relatively high importance and again this is typically either a legislative and/or regulatory requirement.

The appropriateness of offering an opt-out can vary depending on the nature of the fund and the specific changes being proposed. For example it is normal for a fund merger to not have any opt-out since this would leave a smaller fund behind, exacerbating any issues that prompted the merger. Where an opt-out is provided, it is necessary to assist policyholders in deciding which course of action is best for them and the factors that they should weigh against their own personal circumstances. It is in this context that more dedicated forms of support become particularly relevant, e.g. dedicated telephone helplines and provision of guidance and/or personal advice. Our survey results reflect the more specialist nature of this provision, with lower proportions believing this should always form a core part of proposed changes.

Other considerations

There are a number of other aspects to consider when undertaking a fund merger or conversions. Some of the key ones are set out below.



For a fund merger, considering whether the funds are merged on the basis of similar fund strengths and access to estate distributions is maintained, or alternatively whether a 'buyout' approach with a full distribution of the smaller fund's estate is more appropriate, flexible and attractive to policyholders.



The pricing basis for any buyout, including treatment of diversification impacts, and the trade-offs between risk and reward.



Design of conversion, e.g. from with-profit to non-profit or converting other forms of guarantees including buyouts of Guarantee Annuity Rates (GARs).



Design of opt-out facilities and associated provision of guidance and/or advice (including any appointment of third-party advice firms).



Production of policyholder communications plans and materials.



Independent Actuary review.

Our team have considerable expertise in supporting firms in these areas and would be happy to assist with the development and implementation, or Independent Actuary review, of any fund transaction you may be considering.

⁹ Principle 7 require firms communicate in a way that is fair, clear and not misleading. COBS 20 required advance notice of changes to PPFM, in this case there ceasing to be one.

Opportunities for innovation

Innovation across all sectors has been driven by rapid technological advancements and a growing desire for enhanced experiences from customers. Consumers today aren't just looking for products that meet their basic needs; they're seeking out cutting edge solutions that are convenient and personalised. As a result, providers need to keep pace and deliver innovative solutions that both attract and satisfy consumers.

Over the past few years, we've also seen regulatory developments that support product innovation. For example, under Consumer Duty if a firm can illustrate that a change will result in better customer outcomes, they now have the right to push in that direction.

Platform modernisation and AI

Now more than ever, digital and AI systems allow firms to transform the way they operate, both internally and with their customers. We've seen a big digital push by providers, with many utilising more interactive webpages and apps to improve customer engagement. Lately, we've seen further opportunities to digitalise the customer journey, with some examples given below:



Online chatbots and virtual assistants:

Chatbots and virtual assistants have allowed consumers to interact with providers 24/7. They provide faster responses times to queries and facilitate policy changes without the need to wait in call centre queues, potentially enhancing customer satisfaction.



Improved readability: We've also seen examples of providers using AI to produce initial drafts of policyholder communications, reducing the time and resource required to create them, and to summarise the contents of other documentation, such as Principles and Practices of Financial Management.



AI call scanning to detect vulnerability:

Some providers are using AI to listen to calls through their customer service teams to detect signs of vulnerable customers. The use of AI in this way is still a developing area which is likely to benefit insurers in identifying potentially vulnerable customers and making appropriate adjustments¹⁰, and ensuring customers receive good outcomes regardless of vulnerability.

¹⁰ *Financial Times: St James's Place uses AI to spot and help 'vulnerable' customers*

Generative AI offers promising enhancements to customer experiences that are front and centre. However, significant improvements can also be made with existing technologies. Processes such as valuation, reporting, bonus setting, and experience analysis are central to the operations of with-profits providers. For many providers, some examples of processes like these were established years ago, involve manual tasks and mountains of spreadsheets, and are often not well-understood by current staff. These outdated processes present opportunities for substantial improvements in cost efficiency and risk management.

The rising prominence of open-source coding platforms like R and Python, now equipped with plenty of powerful off-the-shelf data analysis and data visualisation tools, has made it more possible than ever to cost-effectively enhance with-profits processes for the benefit of all stakeholders.

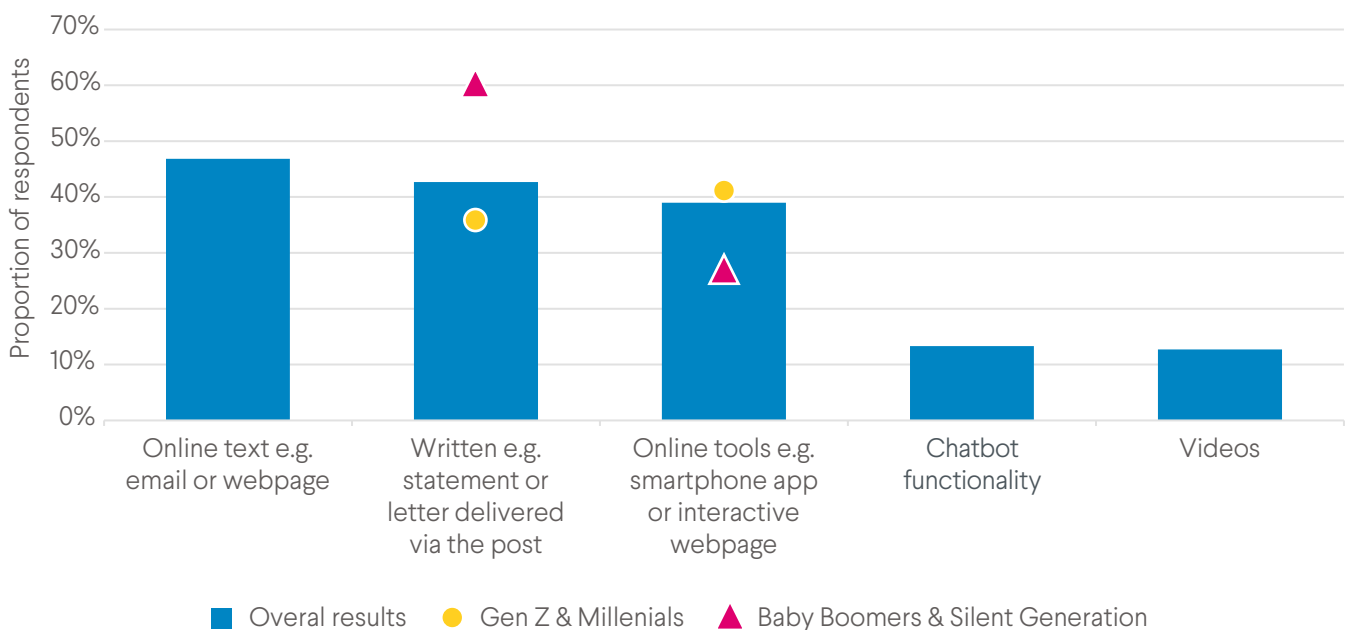


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Innovation in communications

With digital communication becoming increasingly popular with providers, we asked respondents what forms of communications they prefer when receiving information about their long-term savings or insurance products. The most popular forms of communication were online text through emails or static webpages (47%), postal statements or letters (43%), and online tools through apps or an interactive webpage (39%).

Figure 11: What form of communication, if any, would you prefer for receiving information about your long-term savings or insurance product? (tick up to three)



Source: Hymans Robertson With-Profits Consumer Survey June 2024

Only 13% of respondents said their preferred method of communication was through chatbots, which could be due to their general infancy.

Looking at the responses by age group, there were some differences in communication preferences to highlight, with the younger generations preferring digital methods of communication and the older generations preferring more traditional methods. Our survey found that consumer preference for written statements increased with age, and for interactive tools reduced with age. It's perhaps unsurprising that younger generations are more open to digital support, not only because of their familiarity but potentially also due to environmental concerns.

Case study: Are video communications the way of the future?

Videos can be a powerful tool in helping customers understand their long-term savings and insurance products more clearly. Unlike policy documents that can be difficult to digest, videos can break down key concepts into easily digestible pieces using visuals and simple language. This can allow consumers to learn at their own pace and revisit information as needed, which is a valuable feature for those who are vulnerable.

One advisory firm in the UK uses videos to explain to applicants what to expect during a medical application, following feedback from their customers that they were put off as they didn't know what questions were going to be asked. They also send videos and voice notes alongside emails to explain their content.

When considering vulnerable customers, providers may find it difficult to replace printed letters with digital solutions in all cases. Similarly, chatbots are unlikely to fully replace the need for call centres, and the importance of a personal touch. Videos could be a way to help bridge the gap between the traditional and digital communications to make sure all customers are confident in understanding the policies they select.



Product innovation

Smoothed managed funds

Smoothed managed funds lessen the impact of investment volatility, typically within set parameters, to give more stable long-term returns to consumers saving towards retirement. This can result in lower returns than the underlying investments when returns are positive, in order to reduce the impact of negative returns. There are also some smoothed managed funds available for decumulation, offered as part of income drawdown products designed to generate a stable income, minimise the risk of volatility to the consumer and preserve as much of the policy value as possible¹¹.

These funds provide smoothing without requiring the application of discretion that is a necessary part of with-profits management. This can result in greater transparency, as discretion can prove difficult to quantify. However, smoothed managed funds don't typically benefit from guarantees and so there is an opportunity for with-profits providers to offer this additional certainty by reintroducing guarantees.

Guarantees

Reflecting on the demand for guarantees highlighted by our consumer survey and what appear to be sustained increases in interest rates, we consider there to be a significant opportunity for firms to reintroduce products with various forms of guarantees. Such products were historically popular in the market before the era of ultra-low interest rates.

The design of the guarantee can be tailored to suit individual customers' needs and price sensitivity, for example by selecting between a standard 'return of premium' guarantee or a lower 95% or 90% return of premium one.

Guarantees can also be accompanied by an option to trade away some upside potential, to reduce cost whilst still providing an attractive range of potential investment outcomes.

Case Study: A success story in innovation from across the pond

In the US there has been a rapid increase in popularity in providers offering **defined-outcome** products, which provide customers with returns based on the performance of an underlying asset or index, whilst offering them a pre-defined level of downside protection at the expense of an upside cap.

These products look to provide consumers with a more transparent view of the potential outcomes of their investment over a period of time. The key features of defined-outcome products are:

- **Downside protection:** the “buffer” that is built in to protect against losses up to a certain limit. This buffer can be tailored to provide a buffer against losses either up to a limit, e.g. the first 10% reduction in price, or an absolute level of protection, e.g. the policy will return the initial amount invested.
- **Upside cap:** the “cap” to the maximum return that can be gained, regardless of how well the underlying asset performs.

By withholding a share of the upside potential from policyholders, providers can provide downside protection at a lower cost to the investor. The US market for these products has more than \$40bn of assets under management.

¹¹ *Hymans Robertson The Decumulation market: opportunities for providers*

At-retirement products

The increasing proportion of consumers reaching retirement age with a Defined Contribution (DC) pension pot, combined with the rise of flexible access to those savings, has led to innovation in the UK retirement market. Newer options like Collective Defined Contributions (CDC) schemes and Master Trusts aimed at the institutional market may lead to innovation for retail customers as well.

Fixed-term annuity (FTA)

FTAs look to provide more flexibility than a typical annuity product, as they allow customers to keep their retirement planning options under review while giving certainty over income for a guaranteed period. Policyholders remain exposed to longevity risk and the risk that they may not be able to afford the same level of income beyond the fixed term. With-profits variations could give customers the opportunity to benefit from favourable experience during their fixed term.

CDC

In the context of workplace pensions, CDC blends aspects of both DC and Defined Benefit (DB) scheme designs. The employer and employee contributions are set and then pooled and invested collectively to achieve a sustainable target benefit level for all surviving scheme members, although there may be reduced (or no) benefits due to the estate of members that die before retirement. Members of CDC schemes will be paid an income at a target level, with variable increases to this income depending on the level of the fund available.

Get in touch

The Hymans Robertson team has extensive experience in with-profits management, including fulfilling the role of With-Profits Actuary, acting as Independent Actuary on proposed fund changes, advising on the application of discretion and helping firms innovate through new product design. If you would like to know more or have any questions on the topics addressed in this paper, please get in touch with your usual Hymans Robertson contact or any of the authors.

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Appendix

Our survey

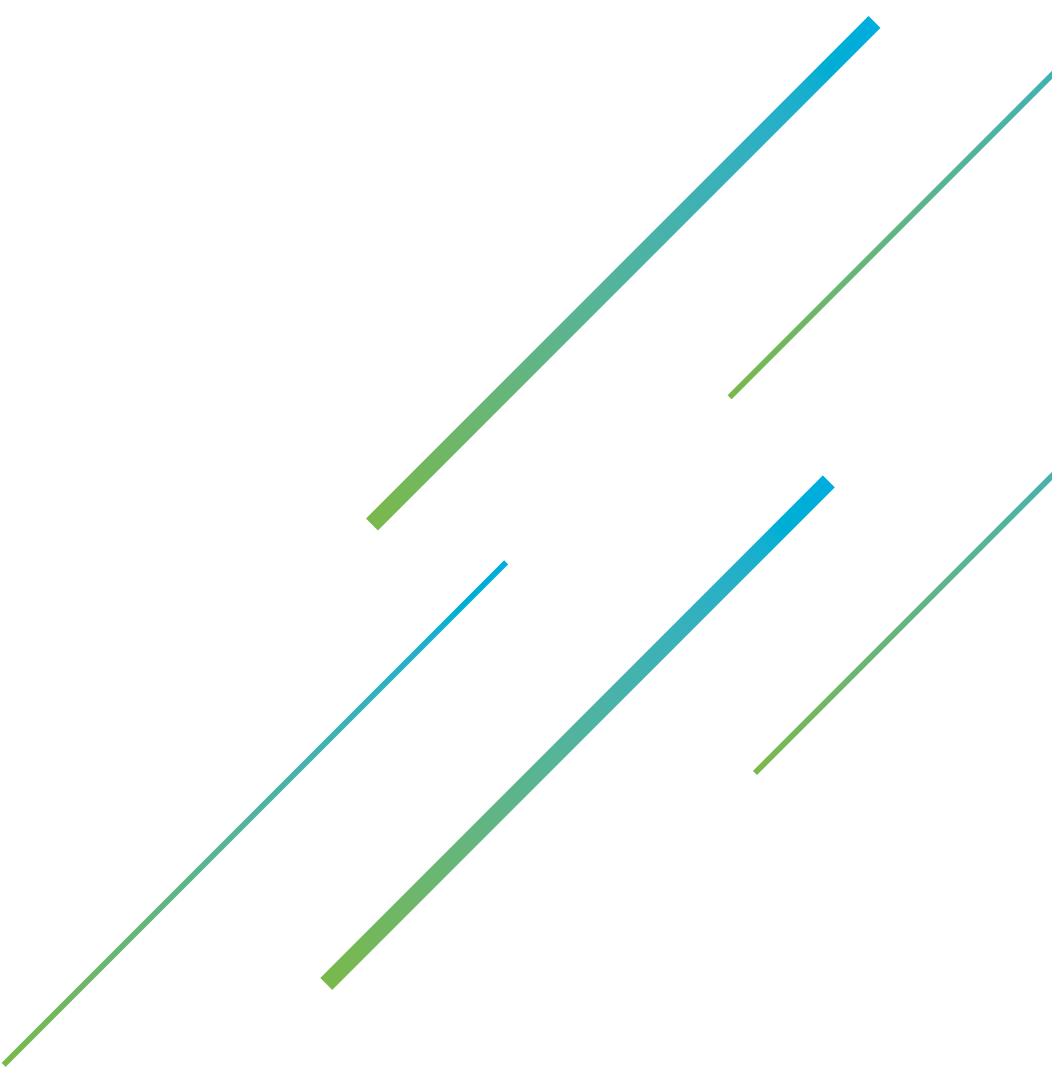
Hymans Robertson commissioned Censuswide to carry out a consumer survey in June 2024. There were 1,001 respondents, all of whom who were based in the UK.

Filtering was applied to our consumer survey to ensure that all participants held at least one insurance or long-term savings product and were aware of at least one other product type, and that 25% of respondents held at least one with-profits policy.

Throughout the report, wherever we refer to age bands, we do so by generation, with each generation defined as below:

Generation	Age band	Proportion of ...	
		All respondents	With-profits respondents
Generation Z (“Gen Z”)	18 – 26	15%	21%
Generation Y (“Millennials”)	27 – 42	41%	40%
Generation X (“Gen X”)	43 – 58	29%	24%
Baby Boomers	59 – 77	15%*	15%*
Silent Generation	78+		

** The Silent Generation represents only 1% of survey respondents so has been grouped with Baby Boomers throughout our analysis .*



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