Fintech's place in the pension fund industry

"South African financial services players are uniquely positioned in a sophisticated industry on a high-growth continent. The opportunities for innovative solutions for a young and adaptable population is huge, and the impact of fintech in Africa could well overtake what we are seeing in the US and Europe," said Paul Mitchell, fintech leader (PwC), at the Sanlam Investments Institutional Insights conference.

In a panel discussion with fellow global fiduciaries, Antony Barker and Mark Fawcett, Mitchell explored the relevance of fintech within the South African retirement fund industry.

He went on to say that members' behaviour and their expectations around how companies interact with them is changing quickly. The fintech industry is driving these changes in financial services, and the established businesses in the industry which recognise this are having to adapt quickly. This is leading to a reassessment of many elements of the retirement member experience and engagement process that will play out over the next few years.

What role does technology plays within pension funds in the UK?

Antony Barker from Santander UK, said fintech is nothing new. It is seen as an enabler, allowing efficiency, better access to information (and information sharing) through improved analytical tools and identifying investment opportunities. Ultimately, it allows some form of aggregation, embedding efficiencies and driving down costs in pension funds.

He did caution that technology could become a barrier to interpersonal communication. “Online engagement can become anti-social because we lose the face-to-face personal contact. It’s just not a conversation or an interaction anymore.”

One of the disadvantages of robo-advice, for instance, is its inability to appreciate the subtle nuances of language. It can’t pick up what was not said the way an intuitive human can. So it can be an enabler, but in some respects a detractor.

Fintech as an enabler in retirement funds

The National Employment Savings Trust (NEST) used technology to make the enrolment experience seamless and easy. It signed up 1,000 employers a day, which makes technology critical as an enabler. They created plug-ins for external payroll systems to allow easier process for pension deductions, and allowed advisors to administer pension deductions on their clients’ behalf.

Mark Fawcett of NEST said the next phase would need to address an enhanced member experience, and to make retirement income products as seamless as possible. Processes must all be integrated; the advice and guidance model must be seamlessly connected to the products on offer. There mustn’t be a complicated implementation issue and member costs should be affordable.

NEST also provides online tools so members can work out how much they must contribute towards their retirement savings. Interestingly, said Fawcett, financial education for adults has shown to be relatively ineffective, despite the millions poured into it by industry. Even financially savvy people can make the wrong choices because they often default to the lowest-cost option.

Where is fintech falling short?

“The problem with any form of robo-advice is the trade-off between simplicity, clarity, understanding and ease of use, to the level of sophistication required to cover the myriad of possible outcomes to make sure it works and is self-checking,” said Barker. This is where it becomes very difficult. There tends to be an inherent bias in programmes that offer advice, that is, the innate level of conservatism to avoid risk of potential litigation.

“The real danger is that we undershoot people’s expectations like the original default funds,” said Barker. People switch out into risk-reducing funds far too soon, whereas the optimum strategy would to place funds in 100% return seeking assets and then easing your risk exposure just three months before retirement. So this innate conservatism carries the risk of worsening the savings picture.

What are the positives?

Santander have successfully used video, Skype and remote scanning of documents to their banks, with mobile technology in particular acting as an enabler. However, on the pension fund side, security and protection of personal data is the greatest risk fiduciaries and members face – data encryption must be in place, especially if information is stored on cloud servers. Strict governance needs to be in place to prevent fraudulent activities. “We’re most at risk in the financial services industry,” said Barker.

Another challenge he highlighted is that we have to redesign pension provision models and formulae, because people are living for longer during retirement – all these models have to be recalculated.

Mitchell closed the discussion by saying that detractors aside, we need to play catch-up in a world that is innovating swiftly, and where millennial investors demand speed, ease and access to information. Fintech also supports cost pressures by reducing the cost of advice to members and providing access to lower-income population groups.

Widespread collaboration is needed to address the challenges in dealing with IT security, regulatory uncertainty and differences in business models. Ultimately, the potential for disruption poses significant risks to existing business models and those retirement funds that do not take the time to understand the role that fintech will play.