



Institute  
and Faculty  
of Actuaries



Koninklijk Actuarieel Genootschap

# Improving Consumer Protection IAA Presidents' Forum

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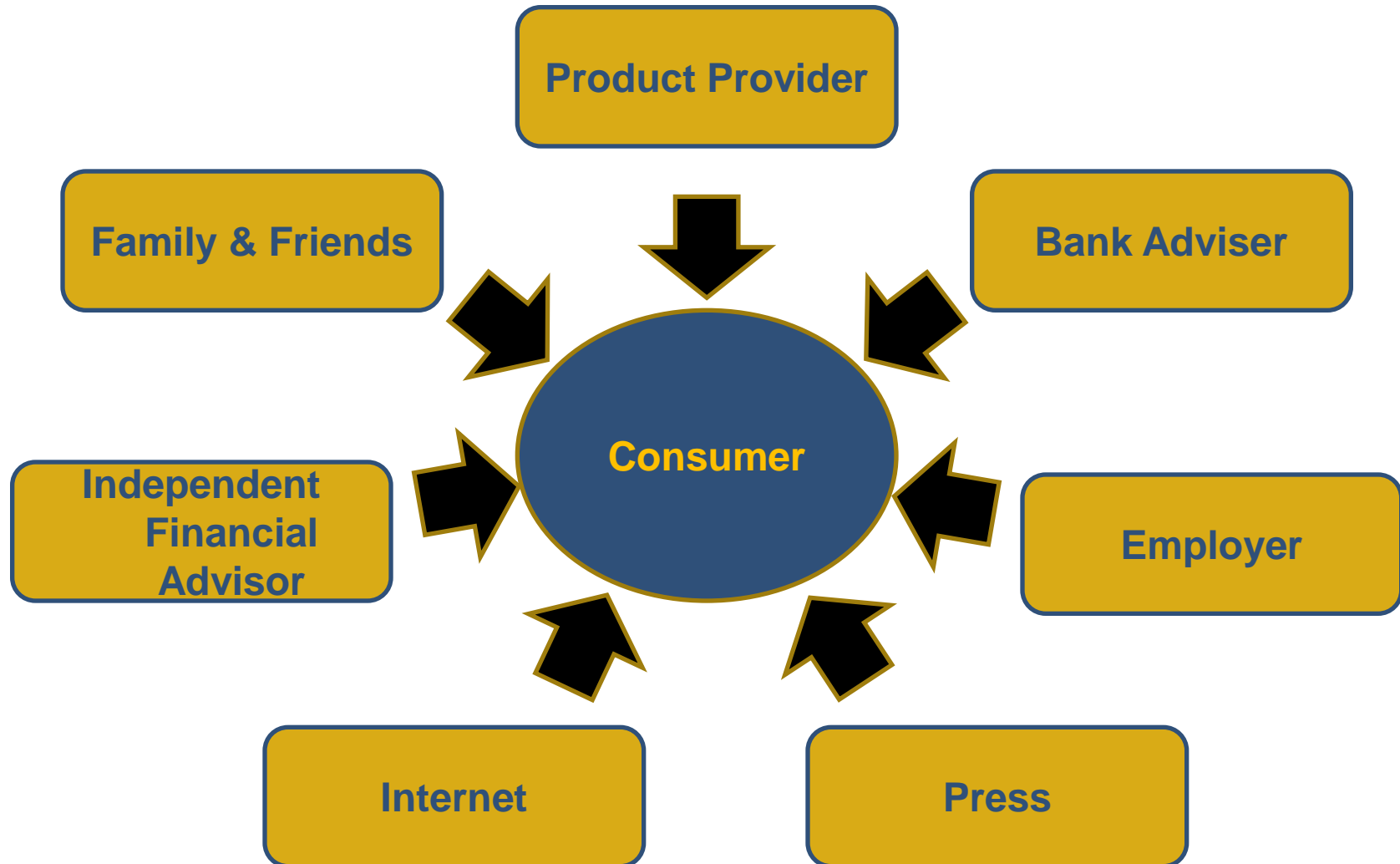
# Consumer Protection – What does it mean?

- Consumer protection is about managing the risks faced by consumers.
- Consumer risk awareness and risk appetite differ by market / culture.
- Consumer confidence falls when consumers are:
  - negatively surprised by certain risks
  - cannot determine the magnitude of the risks.
- Unrealistic to exclude all risks.
- The main opportunities to manage improved protection are:
  - transparency
  - education
  - communication

# Consumer Protection – Why be involved?

- Prevailing thoughts around consumer protection presume consumers are rational:
    - Informed consumers make good decisions
    - So improved rationality and more information will lead to better actions.
  - Is this correct?
  - Member actuarial associations may be in a position to be involved in this area
  - Actuaries can take a holistic view to ensure:
    - Proportionality
    - Relative risks (or action vs. inaction) are prioritised
    - Long-term consequences are managed
    - Development of the “skin-in-the game”-mentality  
(<http://www.youtube.com/watch?v=0Uc4DI-BF28>)
  - What is the risk of actuarial inactivity in this space?
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# Main Sources of Information for Consumers



# Behavioural Economics

**Information  
Overload and  
Complexity**

**Consumer Inertia  
and Ambiguity  
Aversion**

**Availability  
heuristic**

**Regret and loss  
aversion**

**Consumption vs.  
Deferred  
Consumption**

# IFoA Consumer Information Working Party

- This presentation is based on the work of the Consumer Information Working Party of the IFoA.
- This Working Party was formed to explore the information needs of different people at different lifestages and how those needs could be better met by designing a consumer information framework.
- The timing of their work coincided with a significant opportunity to change how we approach communications following two major changes in the UK long term savings market:
  - UK Pensions Reform - All employees will be automatically enrolled into workplace pensions schemes. A single state pension has also been announced (to replace the basic and earnings related elements currently in accrual).
  - Retail Distribution Review – a system designed to make payments to financial advisers clearer for UK consumers by banning the payment of commission so financial advisers only receive payment from clients for their personal recommendations.

# Designing a Consumer Information Framework

Any framework should aim to provide the following benefits:

- More **engaged and better informed** customers
- **Better experience** for consumers i.e. reduce complaints and mis-selling claims.
- **Increase public confidence** through awareness of risks faced and understanding of products available to meet those risks.



# How are these benefits delivered?

A possible framework for the provision of information to consumers of long-term savings and investment products, could be based upon three key priorities:

1. Information should relate to a consumer's financial goals
2. Delivery should facilitate consumer engagement
3. Consumer Information should be free of bias





# Consumers need to identify their goals

Consumers can identify their goals by asking key questions:

1. What level of benefit are they looking to achieve?
2. Is their goal reasonable and are they tracking their savings' progress?
3. Have they explored all alternatives?



# Information should relate to a consumer's financial goals

- Financial goals should be framed in terms of consumption needs and wants
- Outcomes and risks should be assessed relative to the consumption goal
- All significant forms of asset and liability risk should be considered



# Delivery should facilitate consumer engagement

This should come via:

- a. Segmentation - Design information that is appropriate for each consumer segment. This allows providers to recognise different types of consumers and tailor products to meet the needs of more people
- b. Format and Framing - Present information in a format and frame to facilitate decisions
- c. Timing - Time information to when people need to make decisions
- d. Consistency - Ensure information is consistent across the full range of consumer touch points



# Delivery should facilitate consumer engagement (continued):

e. Information should be tiered to each engagement level

Tier	Purpose
<b>Limited</b>	Direct people onto a generally appropriate path, and outline benefits of further education / engagement and how to go about it
<b>Basic</b>	Basic education of problems, needs, and potential generic solutions
<b>Detailed</b>	Detailed education about one or more particular solutions to a specific problem that applies to the consumer

# Consumer Information should be free from bias

- Methodology or Model Bias
- Input or Assumption Bias
- Presentation Bias



# Information providers are able to help them

Information providers can help consumers by focusing on three outcomes:

1. Communicate savings progress relative to the consumer's goal
2. Communicate risk and reward by reference to the chances of achieving the goal
3. Ensure communications are engaging, easy to digest and free of bias (so meet the Principles described earlier)



# Conclusions of the Consumer Information Working Party

Next steps highlighted by the IFoA Consumer Information Working Party:

- A. Championing cultural change with providers of information
- B. Grasping the opportunity of regulatory reviews
- C. Applying a consistent approach to financial projections for consumers
- D. Providing independent decision-aides for consumers
- E. Introducing an independent watermark of quality
- F. Exploring how best to communicate financial risk



# What has IFoA done:

- IFoA Past President, Jane Curtis, made financial literacy a key theme of her presidency and it has been a focus of our public affairs strategy since
- We have engaged with a range of traditional and non-traditional stakeholders to inform the debate. This has included:
  - Responding to consultations dealing with improving the level and type of financial communication consumers receive
  - Providing an actuarial voice to UK consumer advice agencies on what consumers need to be informed of
  - Meeting with key UK stakeholders on this topic
- We have also commissioned research in conjunction with the Royal Statistical Society on the teaching of statistics in secondary schools and the extent to which it supports non-mathematical subjects and people in their day-to-day lives





**Questions**



**Comments**