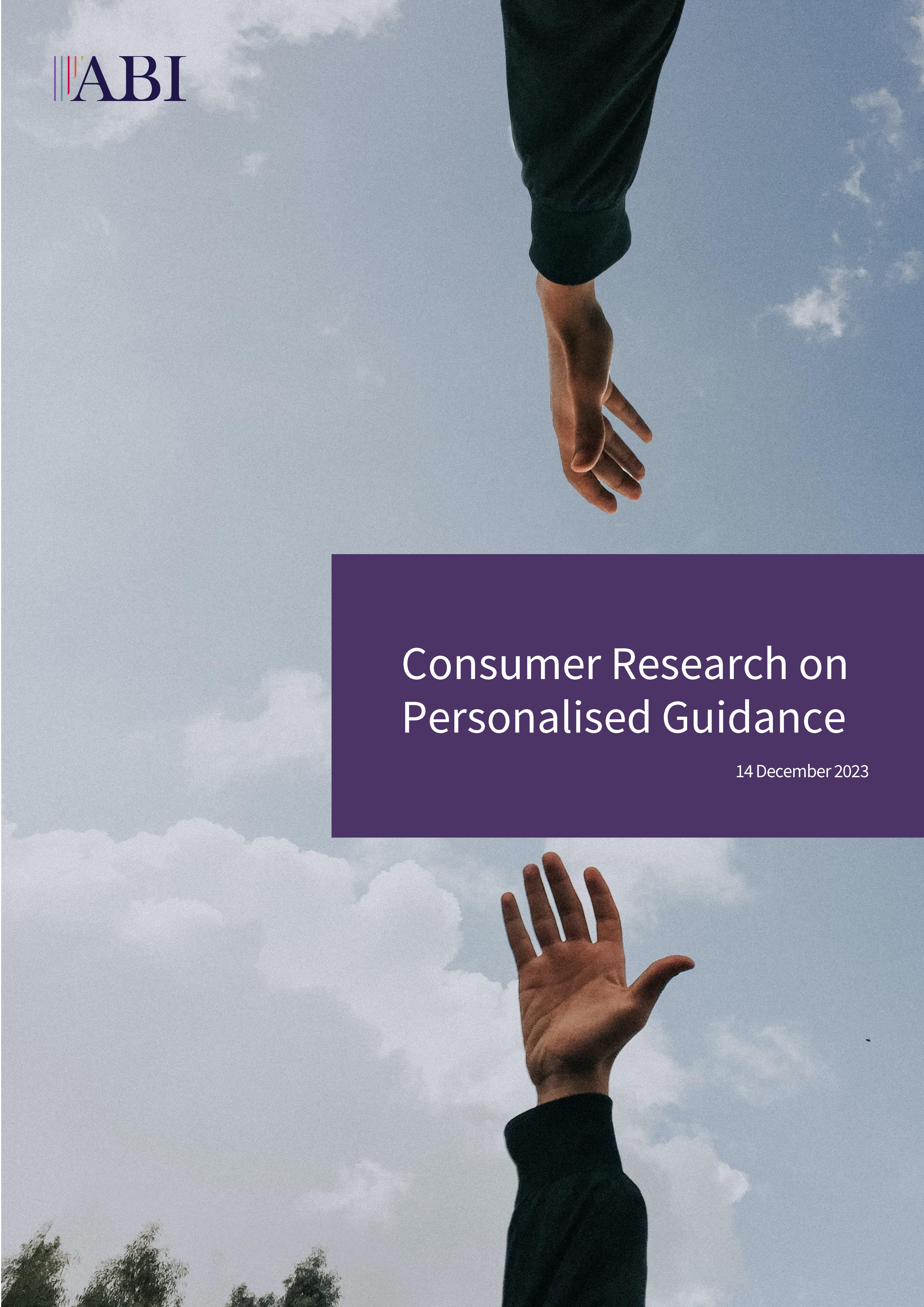

Consumer Research on Personalised Guidance

14 December 2023

Contents

The UK insurance and long-term savings market and the ABI

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than **300 firms within our membership**, including most household names and specialist providers, providing peace of mind to customers across the UK.

We are a purpose-led organisation: **Together, driving change to protect and build a thriving society.** On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is **trusted by customers**, is **invested in people and planet**, and can **drive growth and innovation through an effective market**.

A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over **300,000** individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments **of £1.5 trillion**, pay over **£17.2 billion** in taxes to the Government and support communities and businesses across the UK.

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Foreword

People aren't saving enough for retirement, and when they reach retirement, they're struggling to make smart financial decisions. But how can we expect savers to engage more, save more and make informed decisions about investment strategies when the FCA's most recent Financial Lives Survey shows that only 8% of adults receive financial advice; and over a third of non-retired adults have never thought about how they will manage financially in retirement?

This is a particularly worrying problem for Generation DC (those with the more modern Defined Contribution pension) who, ever since pension freedoms, need to make active decisions about how to manage their pension pots in retirement. Meanwhile, in the background, inflation is eroding returns on our cash savings.

What it all boils down to is that customers need more support. And one crucial way in which people could get more support, is through new forms of advice and guidance.

That is why the ABI was extremely pleased to see the Government and FCA propose both a targeted support regime and simplified advice regime as part of their ongoing Advice Guidance Boundary Review. The targeted support proposal would enable firms to use limited personal information about a customer and their circumstances to provide better support.

This regime is very similar to one that the ABI has been supportive of for a long time: personalised guidance, the focus of this report. A personalised guidance regime would enable providers to use information about their customers to tailor communications and product journeys to help those customers achieve better outcomes.

Under current rules, providers can't test the effectiveness of personalised guidance (or targeted support) because doing so would cross the boundary between what counts as regulated financial advice, which involves a personal recommendation, and guidance, which involves the provision of generic, factual information about the options available to a customer.

This research attempts to get around that barrier. We partnered with Thinks Insight and Strategy's Behavioural Team to test the impact of personalised guidance on decision making in an experimental environment. Our results prove our hypothesis that guidance tailored to an individual's circumstances can be very effective in helping people make better decisions, as long as it suggests a clear and relevant course of action.

These findings strengthen the consumer case for creating a targeted support regime via the Advice Guidance Boundary Review and offer lessons for how to execute it.

Dr Yvonne Braun, Director of Long-Term Savings at the ABI

1. Executive Summary

The problem

Customers are struggling to make critical decisions about their savings, investments and pensions without advice.

Pension providers, mutual societies and investment platforms want to help but are restricted by advice rules. This results in generic, purely factual guidance offered to non-advised customers and poorer outcomes for customers in later life than might otherwise be possible.

A solution: Personalised guidance

We partnered with Thinks Insight and Strategy's Behavioural Team to test a potential solution: personalised guidance.

But what is personalised guidance?

Personalised guidance means providing information and support tailored to an individual customer. They may have provided this data to the firm in a previous interaction or have shared it via open finance, or the firm may have requested it at the point immediately prior to giving guidance. The relevant data could include:

- Customer behaviour (e.g. usage patterns on an investment platform)
- Customer objectives, intentions and preferences.
- Financial circumstances (e.g. income, benefits, assets).
- Demographic information (e.g. age, gender).

The guidance helps explain the consequences of decisions the customer must take. It is not advice and does not involve a personal recommendation of the most suitable product or strategy for a customer.

Personalised guidance works

We wanted to test the efficacy of personalised guidance to improve financial decision making.

Our key insights are that personalised guidance can be effective as long as it:

- Reduces the amount of information put in front of the customer; and
- Suggests a course of action for the customer.

In our research, participants chose how much to withdraw from a hypothetical pension pot. When provided with generic guidance, **14%** of participants chose a financially advantageous option. When participants received personalised guidance highlighting a withdrawal option, this figure rose to **76%** of participants.

Our secondary findings include that personalised guidance:

- may increase customer's willingness to pay for guidance.
- does not appear to reduce perceptions of customer responsibility for financial decision making.
- is more likely to be sufficient to meet a customer's information needs for decision-making.

How did we figure out that it works?

Thinks spoke directly with twelve people aged between 45 – 66 and heard their call for more support:

> *"I want something that is tailored to my situation" – DC pension holder, aged 45.*

> *"I only found quite basic information from the [pension provider's] website. I'd like some more specific advice." – DC pension holder, aged 55.*

Thinks then ran an online randomised controlled trial (RCT) with over 3,000 participants aged 55-66. All were given a hypothetical scenario where 'they' wanted to withdraw a £20,000 pension pot in full to 1) repay £10,000 debt now and 2) gift the rest to a grandchild the following tax year.

Four different versions of guidance were then presented to each group of 750 participants:

1. **Generic**: This was information on the potential tax implications of withdrawals with tax bands detail offered to help the customer take the decision.
2. **Personalised**: This highlighted the amount of tax the customer would pay if they withdrew £20,000 in full based on their annual income and where they live. It explains to the customer that 'if you do not need to spend all this money' in the current tax year then you should consider withdrawing less to avoid the higher tax rate. Tax band details were offered.
3. **Personalised option:** as in (2) but specifically noting that the customer 'should consider withdrawing no more than' a maximum amount to avoid the higher income tax rate. Instead of tax band information, the customer is told how much they would pay in tax overall if they withdraw the maximum amount now and withdraw the rest in the subsequent tax year.
4. **Personalised option + choice architecture:** as in (3) except there is a button highlighted green which the customer can click to withdraw the suggested amount (as an alternative to them having to enter a specific custom amount to withdraw).

Participants then chose how much to withdraw. The correct answer was enough to pay off their debt immediately while simultaneously avoiding paying higher rate tax (42% in Scotland; 40% in England, Wales and Northern Ireland).

So what?

These findings are remarkable and very clear, strengthening the consumer case for financial service providers to offer personalised guidance that suggests a course of action.

HM Treasury and the Financial Conduct Authority's Advice Guidance Boundary Review provides an opportunity to change the rules so that savers can access personalised guidance and are enabled to achieve better financial outcomes.

2. Customers need more support

Customers are struggling

People generally don't like thinking about how to save and invest. 39% of all those contributing to a DC pension haven't considered how much they should be paying into it[1] and 33% of non-retired adults have never thought about how they will manage financially in retirement.[2]

Yet many people are left to make decisions about building up savings, investing and accessing their pensions on their own, with over half not receiving professional advice before making a decumulation decision.[3] For financial decisions more generally, only 11% of adults have taken financial advice in the past two years.[4] 23% state that they would not take financial advice even if it were free[5], perhaps not as surprising as it sounds given 60% of those with more than £10,000 of investable assets do not think they would benefit from advice.[6]

As a result, common problems arise with consumers ending up with too much of their savings in cash[7], remaining invested in funds selected at outset, not consolidating, or withdrawing their pensions at unsustainable rates[8]. They have inadequate savings[9] and inadequately diversified investment portfolios. And people know they are making bad choices - a third of respondents in a recent survey felt they had made poor financial decisions over the past two years[10]

All of these behaviours ultimately lead to lower resilience and living standards in later life when people rely on their savings to provide an income. This is particularly worrying problem for Generation DC (those relying on Defined Contribution pensions) who, unlike those with Defined Benefit pensions:

- Need to start saving more for their pension.
- Need to make active decisions about how to manage their pension pots at and in retirement.

Customers are asking for more support

Previous ABI research underscores that people need far more support than most are currently getting.[11]

In a recent study, 42% of respondents said they would value extra guidance and advice on their finances.[12] Consumers over 50 years of age with investable assets of over £20,000 were found to be interested in a personalised pensions support service.[13] More than a fifth of non-investors would be encouraged to invest if they were able to access some form of basic personalisation (compared to only 12% who would invest using generic guidance).[14]

But providers' ability to help is limited

The long-term savings industry is restricted in its ability to offer help to non-advised customers to avoid harm and realise the benefits of savings and investment products. Customers can access an array of information from their pension provider, mutual society and investment platform,[15] but this information must be generic and purely factual.

Many providers feel unable to:

- Use the personal circumstances of a customer[16]
- Supply information that will tend to influence a customer's decision or any information that may be considered as advice by the customer[17]

Doing so risks the provider crossing the 'advice guidance boundary'. In other words, the guidance may be deemed regulated financial advice with a personal recommendation, which risks regulatory sanction and adverse ruling issued by the Financial Ombudsman Service. Specifically, it is the Regulated Activity Order definition for 'Advising on investments' and the FCA's Perimeter Guidance Manual (Chapter 8 in particular) which leads to the concern.

The unintended consequence is that firms, pension trustees and employers feel inhibited in helping people to make decisions for themselves. The Government-backed services, MoneyHelper and Pension Wise, are limited in the same way.

It is important to note that there is disagreement in this area

[1] Pensions (accumulation and decumulation), FCA. (2023). Pp 33.
[2] Ibid, pp 43.
[3] Retirement Income Data, 12 months to March 2023, ABI. (2023).
[4] The Advice Gap Report 2023, Lang Cat, (2023). Pp 4.
[5] Future of Advice - State of Flux, AKG. (2023). Pp 23. Report can be downloaded at Canada Life.
[6] Financial Lives Survey: Consumer Investments and Financial Advice findings, FCA. (2023). Pp 59.
[7] Approximately 8.4 million UK consumers held the majority of their over £10,000 investable assets in cash. From: Broadening access to financial advice for mainstream investments, FCA (2022), pp 9.
[8] Retirement Income Data, 12 months to March 2023, ABI. (2023): Over 43% of regular partial withdrawals were made at a rate of 8+%.
[9] Midlifers face acute pension savings challenge needing £160K more on average for a moderate standard of living in retirement. From: Reimagining Roads to Retirement, Phoenix Insights. (2023). PR.
[10] Protecting the Vulnerable: Navigating the Evolving Regulatory Landscape in a Post-Pandemic World, AKG. (2023). Pp 9.
[11] Future proofing the freedoms, supporting customer decisions about pension withdrawals, ABI. (2021). Pp 25-27.
[12] Protecting the Vulnerable: Navigating the Evolving Regulatory Landscape in a Post-Pandemic World, AKG. (2023). Pp 25.
[13] This time it's personal, TISA. (2021). Pp 29.
[14] A little more personalisation, Savanta & PIMFA, (2023). Pp 24.
[15] Future proofing the freedoms, supporting customer decisions about pension withdrawals, ABI. (2021). Pp 20.
[16] Article 53, The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
[17] FCA's Perimeter Guidance, 8.28.5G and 8.28.8G.

between industry actors, with some providers feeling they can go 'closer to the boundary' than others. FCA's recently published examples usefully try to highlight the limits of guidance for FCA-authorised firms prior to that guidance straying into a personal recommendation.[18] But many firms remain uncertain given that this guidance does not amend the underlying rules. This lack of clarity is a problem in itself.

Why now?

The industry has been calling for solutions to the advice gap since before the Retail Distribution Review. The most significant attempt at reform was the Financial Advice Market Review in 2016. But nothing as yet has significantly closed that gap.

But there are two major reasons to be optimistic now.

The first is the Consumer Duty. Firms are explicitly being asked to communicate and engage with customers so that they can make effective, timely and properly informed decisions about financial products and services.[19] They should avoid causing foreseeable harm to customers and enable them to pursue their financial objectives.[20] A recent Dear CEO letter to life insurers highlighted that the FCA 'expects firms to demonstrate that they provide effective support to customers throughout their journey'.[21] Generic, purely factual guidance simply doesn't cut it.

Second is the ongoing Advice Guidance Boundary Review jointly run by the Financial Conduct Authority (FCA) and HM Treasury. This is an exciting opportunity as Government has started with a 'blank canvas' and a laudable goal: for consumers to get the help they need, when they need it, and at a level that is affordable to them.

The ABI has been involved in the Industry Working Group set up by HMT and FCA to support the development of policy proposals as part of the review. We are supportive of both the simplified advice and targeted support proposals set out in their recently published policy paper.[22]

Indeed, the targeted support regime as described in the policy paper is very similar to personalised guidance as we envisage it.

3. What is personalised guidance?

Definition

Personalised guidance means providing information and support tailored to an individual customer. They may have provided this data to the firm in a previous interaction or have shared it via open finance, or the firm may have requested it at the point immediately prior to giving guidance. The relevant data could include:

- Customer behaviour (e.g. usage patterns on an investment platform)
- Customer objectives, intentions and preferences.
- Financial circumstances (e.g. income, benefits, assets).
- Demographic information (e.g. age, gender).

Guidance could be offered at any point within a product journey where the customer needs to take a decision.

Features

The goal of personalised guidance is not to tell customers the best decision based on their circumstances. It would not constitute a personal recommendation.

Rather it could:

- suggest what the customer ought to consider doing.
- highlight features of a product relevant to that customer's circumstances.
- reduce the range of options presented to a customer.
- steer a customer toward a course of action, including but not necessarily relating to a product purchase, switching of funds or transfer of assets from one product to another.
- help customers make effective use of an existing financial product they own.

Personalised guidance is all about providing support for customers that should be more useful to them than information available from alternative low-cost/free sources. And these alternatives are commonly used. For example, in the twelve months to May 2022, social media was used by 18% of investors to research investing, while 23% received information from family and friends.[23]

[18] Helping firms provide more support to customers making investment decisions, FCA. (2023). FCA webpage.
[19] FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty, FCA. (2022). Section 1.9
[20] Ibid, section 5.2.
[21] Dear CEO letter: Insurance Market Priorities 2023-25, FCA (2023). Pp 6.
[22] DP 23/5 Advice Guidance Boundary Review proposals for closing the advice gap, FCA & HMT. (2023). FCA webpage.
[23] Financial Lives Survey: Consumer Investments and Financial Advice findings, FCA. (2023). Pp 32.

A personalised guidance regime

Personalised guidance as a tool to support customers will need to be enabled via a change of legislation and rules, e.g. by introducing a new 'personalised guidance' activity in the Regulated Activities Order and an underlying regulatory regime. This regime would include rules to protect consumers and to empower them to take reasonable decisions depending on their circumstances.

Our research helps make the case for such a regime and improves understanding of how customers would interact with and interpret a personalised guidance regime. We make specific policy recommendations in relation to a future regime in section 7.

4. Research method

The hypothesis

We believed personalised guidance could increase the quality of financial decision making compared to generic guidance, and therefore lead to better customer outcomes. The theory being that information tailored to a customer's circumstances can be more engaging, timely and relevant.

Our members and other industry stakeholders have called for a personalised guidance regime for a long time. But the effectiveness of personalised guidance to improve decision making has not been tested by firms because they would be crossing the advice guidance boundary to provide this type of support for non-advised customers.

We commissioned the Behavioural Team at Thinks Insight and Strategy to test this hypothesis for the industry.

In this section we highlight the main aspects of their three project stages:

- Identify the key decision to apply personalised guidance to in the experiment.
- Explain how context may influence that decision.
- Influence the decision with personalised guidance in a rigorous experiment.

You can find the full 'trial protocol' – i.e. the step-by-step explanation of the research objectives, method and findings – on our website.

Identify

First, Thinks needed to identify a customer decision with which to test the hypothesis.

While many saving and investment decision points would be worth testing, the point at which a customer accesses their pension savings is an acute example of where regulation has not kept up with evolving customer needs following:

- The shift from DB to DC pensions (outside of the public sector).
- Demographic change toward an older population.
- Pension freedoms which increased the options available to customers, and the complexity of those options.

The latter means that every DC scheme member is faced with difficult choices at retirement, which many without a financial adviser will not be well equipped to make. Those choices include balancing short-term income needs against long-term income sustainability, managing longevity risk and recognising any knock-on effects on tax liability and benefits entitlement.

Thinks, in partnership with the ABI and its members, considered a number of decumulation decisions and chose two to model:

- Withdrawal rates in drawdown
- Withdrawing a lump sum.

Withdrawing a lump sum

We ended up choosing the latter because we know it is a common means of accessing smaller pension pots:

- Two-thirds (67%) of people who had accessed a DC pension since 2015 chose to take a lump sum from at least one pension.[24]
- Almost nine in ten of pots withdrawn in full by DC pension holders in the past four years were valued at less than £50,000.[25]

The motivation may be to meet short-term income and expenditure needs, to put the cash into a savings account,[26] or it may be because the policyholder has a longer-term retirement income strategy and has other pots that will be accessed in due course. But if a person of working age takes income in this form, then it can push a basic-rate taxpayer over the threshold into the higher-rate tax band for that tax year, or a non-taxpayer into basic-rate.

And we know that many people don't consider the tax implications – of those that did fully encash a DC pension in the past four years, only 26% considered the tax implications of their choices.[27]

Therefore, there is harm associated with the decision. And this potential for harm isn't going away. Recent research[28]

[24] Planning and Preparing for Later Life, DWP. (2022). Section 5.6.1
[25] Financial Lives Survey: Pensions (accumulation and decumulation), FCA. (2023). Pp 58.

[26] Planning and Preparing for Later Life, DWP. (2022). Section 5.6.1
[27] Ibid, pp 64.
[28] Planning for Retirement in the 2050s, WPI Economics, (2023). Pp 8.

found that 9% of retirees in 2050 would take their whole pension pot as cash (when presented with a scenario of a person with £225K at retirement). This would leave those customers with an additional tax bill equivalent to 15 years' worth of contributions.

While unsustainable withdrawal rates also have the potential for customer harm[29], we decided that it would be more difficult to test this decision in an experimental setting.

Explain

Thinks then conducted qualitative research with 12 people living around the UK, mostly aged between 55 – 65 with expected retirement wealth of between £30,000 and £120,000. They sought to understand their approach to making decisions about their retirement income.

The interviews were designed to understand how the target audience engages with existing guidance and how they might respond to personalised guidance. These insights informed experiment design.

Participants told us that pensions are confusing and complex. They identified four key sources of information they access to help demystify pensions:

- Internet sources.
- Peers.
- Workplace advice.
- Independent advice.

But they noted that often information can feel unspecific and some people more tailored support:

- "I want something that is **tailored to my situation**..." – DC pension holder, aged 45.
- "I only found quite basic information from the [pension provider's] website. I'd like some **more specific advice**." – DC pension holder, aged 55.

The key findings we took from this qualitative research into the experiment were that people wanted guidance to provide reassurance, direction and specificity – e.g. narrowing of options, and a personal touch.

Influence

Drawing on the previous two stages, Thinks and ABI designed four examples of guidance and constructed a hypothetical scenario based on a 62-year-old, non-advised, person still in employment looking to withdraw 100% of their pension pot.

Thinks then conducted an online randomised controlled trial (RCT) to test the hypothesis that the personalised guidance versions would have a positive impact on the decision quality of participants relative to the generic guidance.

Sample

Thinks recruited 3,105 DC pension holders aged 55-66 from the UK. The participants were therefore more likely to have either experienced this withdrawal decision in real life or will be considering this type of decision at a point in the near future.

Scenario

In our hypothetical scenario, the 62-year-old customer earns £40,271 per year and is looking to withdraw their £20,000 pension pot in full to:

1. pay off a £10,000 loan which needs to be paid asap.
2. help out their granddaughter with upcoming bills due October 2024. Using whatever is left over after paying back the loan.

This is a realistic scenario as around 20% of consumers who fully encash a DC pension do so to pay off debt, while 9% gift to family.[30]

The participants are also told that they have another pension which they do not want to access and would like to keep saving £4,000 into until they retire in four or five years' time. Therefore, if the customer triggers the Money Purchase Annual Allowance they won't be paying anywhere near the £10,000 limit into their pension pots.

Participants are then told to please look at the information the pension provider provides and to make a decision on how much they think they should withdraw from their pension in this scenario.

The 'correct' answer in our experiment if the participant is from England, Wales or Northern Ireland is to withdraw between £11,800 and £13,300 allowing them to pay off their debts now while avoiding the higher rate tax in the current tax year. If they are from Scotland (which has distinct tax bands) the correct answer is between £11,900 and £13,300.

The guidance presented to participants

Four different versions of guidance were then presented to each group of 750+ participants. Each is intended to prompt the participant to consider the potential negative implications of their decision to withdraw the hypothetical pot in full.

The guidance is kept short and simple, presented in a single screen (see figures 2-5).

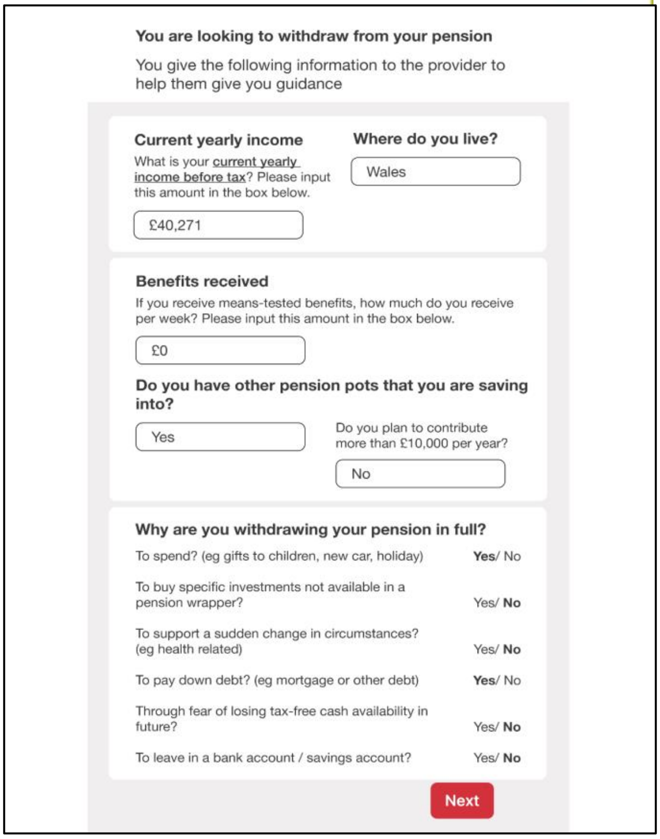
[29] Future proofing the freedoms, supporting customer decisions about pension withdrawals, ABI. (2021). Pp 13-15.

[30] Financial Lives Survey: Pensions (accumulation and decumulation), FCA. (2023). Pp 58.

1. **Generic**: This was information on the potential tax implications of withdrawals with tax bands offered to help the customer take the decision.
2. **Personalised**: This guidance highlighted the amount of tax the customer would pay if they withdrew £20,000. It explains to the customer that 'if you do not need to spend all this money' in the current tax year then they should consider withdrawing less to avoid the higher tax rate. Tax bands were offered to help the customer. The guidance is personalised based on the following customer data:
    - Annual income.
    - Geographic location.
    - Stated purpose of the withdrawal (e.g. to put the money in a savings account, or to pay off debt).
    - Whether they received benefits.
    - Whether they were paying into another pension and how much.
3. **Personalised option:** as in (2) but specifically noting that the customer 'should consider withdrawing up to a maximum' amount to avoid the higher income tax rate. Instead of tax band information, the customer is informed how much they would pay in tax overall if they only took the maximum amount now and took the rest in subsequent tax years.
4. **Personalised option + choice architecture:** as in (3) except there is a button highlighted green which the customer can click to withdraw the suggested maximum amount (as an alternative to entering a specific custom amount to withdraw).

You can see that personalised guidance is given without full information about a customer's circumstances (remember it is point-in-time and is not intended to replace financial advice). Instead, it uses limited personal information about a customer and their circumstances to provide more targeted support.

For the purposes of the test, the information used to personalise the guidance is assumed to already be known by the provider (and was presented to participants on a preceding screen, see figure 1).


You are looking to withdraw from your pension

You give the following information to the provider to help them give you guidance

Current yearly income

What is your current yearly income before tax? Please input this amount in the box below.

£40,271

Where do you live?

Wales

Benefits received

If you receive means-tested benefits, how much do you receive per week? Please input this amount in the box below.

£0

Do you have other pension pots that you are saving into?

Yes

Do you plan to contribute more than £10,000 per year?

No

Why are you withdrawing your pension in full?

To spend? (eg gifts to children, new car, holiday)	**Yes**/ No
To buy specific investments not available in a pension wrapper?	Yes/ **No**
To support a sudden change in circumstances? (eg health related)	Yes/ **No**
To pay down debt? (eg mortgage or other debt)	**Yes**/ No
Through fear of losing tax-free cash availability in future?	Yes/ **No**
To leave in a bank account / savings account?	Yes/ **No**

Next

Figure 1: Screen viewed by participants receiving personalised guidance options (2), (3) and (4).

Advice Guidance Boundary

We wanted to test both guidance that firms can offer under the current rules, and guidance that goes beyond the advice guidance boundary. However, there is a lack of clarity around where the existing boundary falls.

Our view is that it lies somewhere between guidance versions (1) Generic which contains purely factual information and (2) Personalised which could be interpreted as advice under the FCA's Perimeter Guidance Manual given that it 1) has a significant element of evaluation or persuasion (PERG 8.28.6G), may be objectively likely to influence the customer's decision to buy or sell (PERG 8.28.2G(3)) and could lead an impartial observer to conclude that the information could reasonably have been perceived as advice by the customer (PERG 8.28.5G)

The message 'if you do not need to spend all this money before 6 April 2024, you should consider withdrawing less' may be interpreted as a personal recommendation under the advising on investments activity in the RAO, given that it suggests the customer not redeem all their holdings based on a consideration of that person's circumstances. The boundary is even more likely to be crossed by guidance versions (3) and (4) which highlight a specific withdrawal amount which could be interpreted as suitable for the customer.

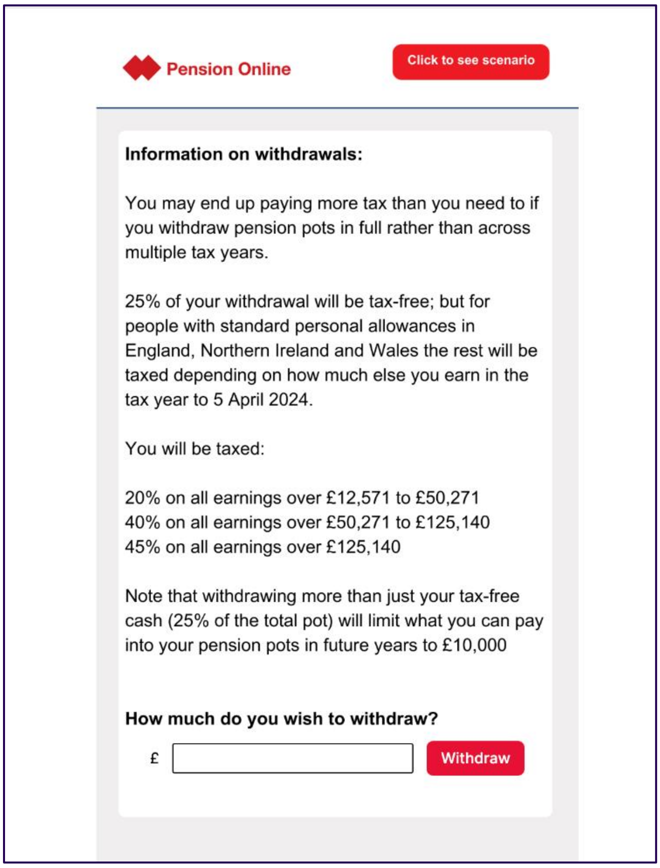


Figure 2: Generic guidance

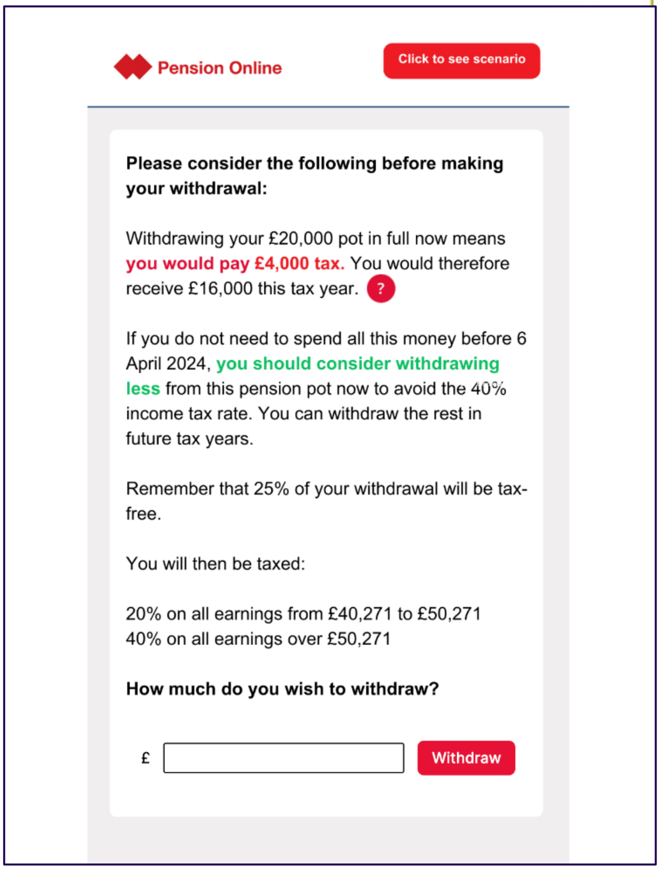


Figure 3: Personalised guidance

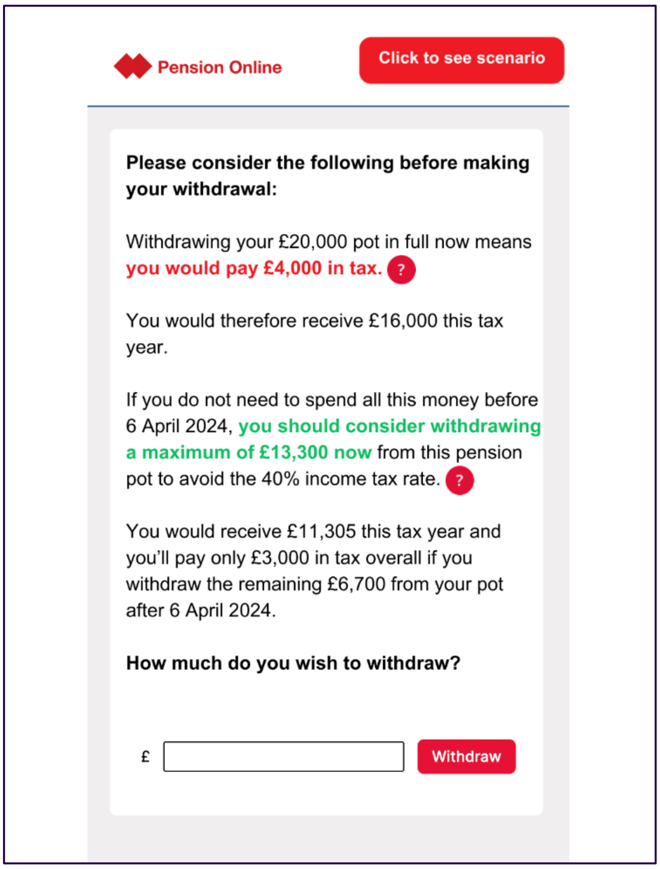


Figure 4: Personalised option

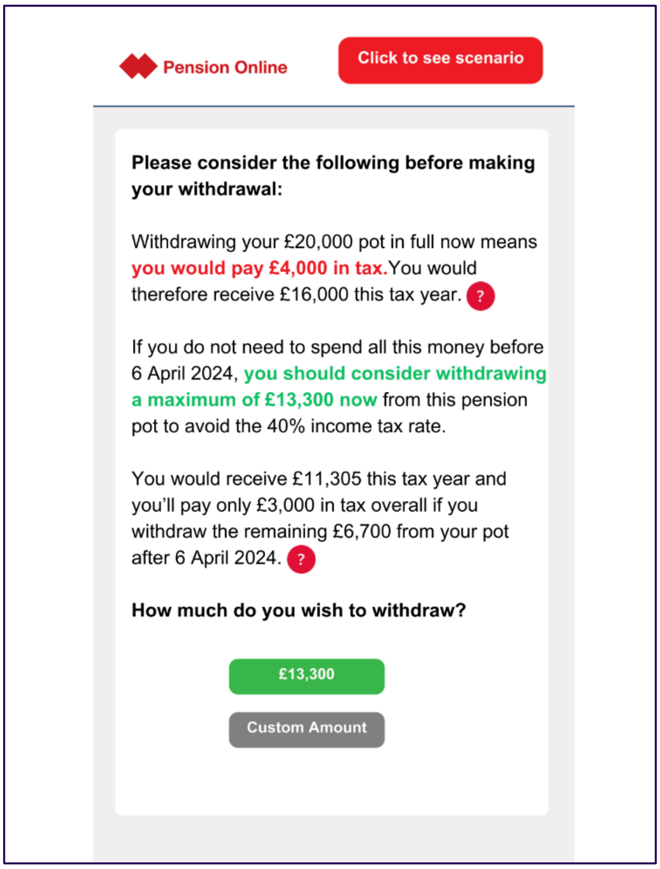


Figure 3: Personalised option + choice architecture

5. Headline findings

Personalised guidance can work

Personalised guidance versions (3) & (4) helped significantly more participants to choose the correct answer in the experiment relative to generic guidance (1).

Personalised guidance version (2) reduced the number of participants choosing correctly.

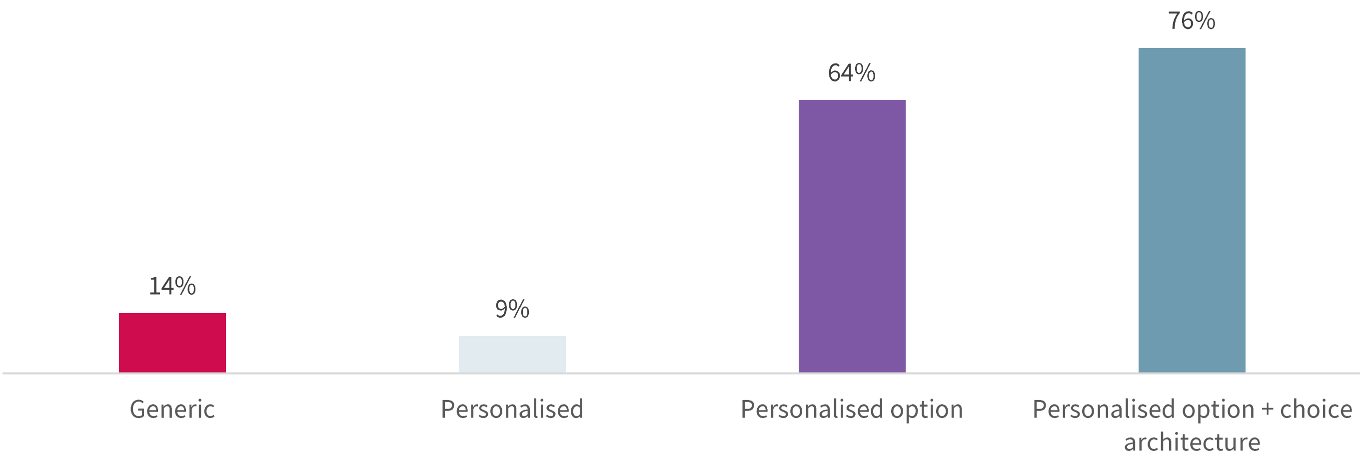


Figure 6: Percentage of participants choosing a withdrawal between £11,800 - £13,300 (£11,900 for Scottish participants).

These differences were statistically significant. In other words, if Thinks (or anyone) repeated the experiment again, we would expect to see similar results.

Our key takeaways are that personalised guidance can be very effective as long as it:

- Reduces the amount of information that needs to be put in front of the customer; and
- Suggests a course of action for the customer, in this case highlighting a clear and relevant withdrawal option.

Personalised option (3) and Personalised option + choice architecture (4) involve layering so that the specific information that can help to improve financial outcomes is presented first and saliently, without restricting access to other information. This approach is supported by Financial Capability Lab research which suggests that consumers often rely more heavily on the first piece of information they encounter when making decisions.[31]

Upon seeing the results, Mike Ellicock, Chief Executive, Plain Numbers, noted that they were a 'classic example of… an element of the Plain Numbers approach, which involves doing the math for people wherever that is possible'. He was not surprised that it was only once you did the math for people that you saw a significant jump in the percentage of participants making a sensible choice, which is 'wholly in keeping with [Plain Numbers'] own Randomised Controlled Trials'[32]

Differences across demographics

Prior to entering the experiment, all participants answered self-report questions on their demographics and on literacy and numeracy. Thinks additionally adapted questions from the FCA Financial Lives Survey to identify vulnerability characteristics of participants. We did not set up to specifically test hypotheses about the impact of personalised guidance on participants with vulnerabilities, different self-reported levels of literacy/numeracy or demographic information (such as age, ethnicity) but on exploratory analysis Thinks also did not form any new hypotheses about any differential impact of personalised guidance on these groups.

[31] FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty, FCA. (2022). Section 8.13
[32] Plain Numbers Research Report, Plain Numbers. (2021). Accessible at Plain Numbers.

Under and over withdrawals

Participants took the decision twice within our experiment. The first time, Thinks asked participants 'what would you do' if you were in this position. Participants were then asked to take the decision again but were told that there is a correct answer and that they would receive an extra £1 if they were able to work this answer out. This monetary incentive aimed to give participants a financial stake in the decision they were taking; clearly not the same magnitude as if they were making the decision about their actual pensions, but it increased the stakes beyond what is normal for this type of online research. Prior to the experiment we decided to base our results on the second attempt given our hypothesis that this better reflected a real world decision. You will see the values in Figure 6 above reflected in the percentages in blue on the right-hand side of the bar graph in Figure 7.

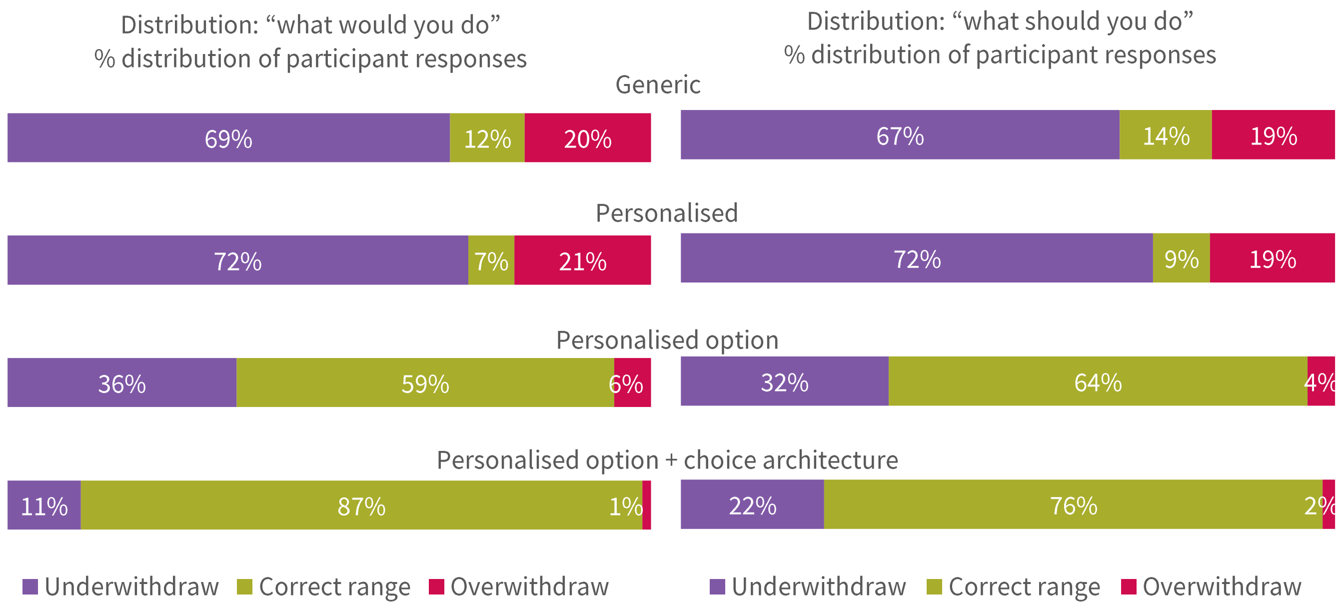


Figure 7: Distribution of answers across participants first attempt 'what would you do' (left) vs. second attempt 'what should you do' (right)

Thinks did not see any clear difference between the two attempts that participants made. Generally, under withdrawing was more common than over withdrawing in our experiment. While this does not detract from the impact of personalised guidance with salient options to help participants reach the better financial outcome, under withdrawing is less of a concern given that customers can always withdraw more from their pension pots to meet expenditure needs. A caveat is that many retirees are reluctant to draw their pension assets in other countries (such as the USA[33]), and this under withdrawing behaviour can reduce living standards in retirement.

6. Secondary findings

Once participants had completed the decision about how much to withdraw for the second time, they were asked a number of survey questions designed to help us test secondary outcomes, including:

- Whether or not participants were willing to pay for the guidance.
- Whether or not participants were willing to pay for professional advice after seeing the guidance.
- The expectation around liability if guidance 'goes wrong,' i.e. whether liability sits with providers of guidance or customers.
- Participant comprehension of pension-related concepts as a result of seeing guidance.
- Stated need for further support/help to make the decision.

The section goes through each finding and highlights results of interest. Tables with regression outputs can be found in the trial protocol on our dedicated ABI personalised guidance research webpage.

[33]What can the UK learn about other countries' approaches to accessing DC savings? PPI. (2023). Pp 10.

Willingness to pay for guidance

More participants indicated a willingness to pay for (4) Personalised Option + Choice Architecture guidance compared to (1) Generic guidance. There was no statistically significant difference for participants who saw versions (2) and (3) of personalised guidance compared to the participants who saw generic guidance.

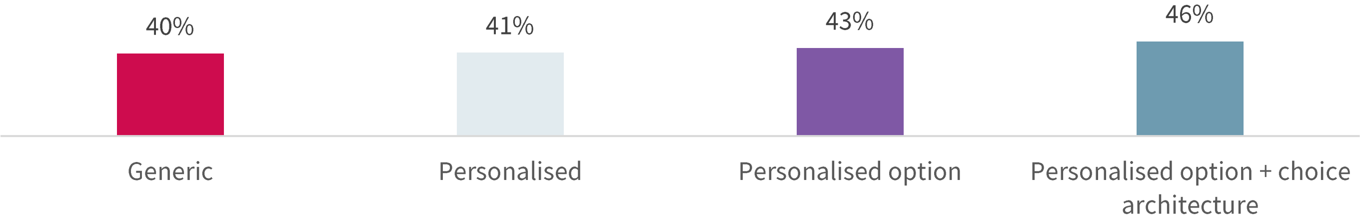


Figure 8: Percentage of participants expressing a willingness to pay for guidance (i.e. those who chose a value above '£0 – I wouldn't pay' when asked: 'thinking about your own pension, if guidance like you saw here was available, but you had to pay for it, what is the most you would pay?'

Of those willing to pay, Thinks also asked how they would prefer to pay for the guidance. There was no difference between those who saw personalised guidance versions and generic guidance, but across all, the preference was to pay a fixed fee up front.

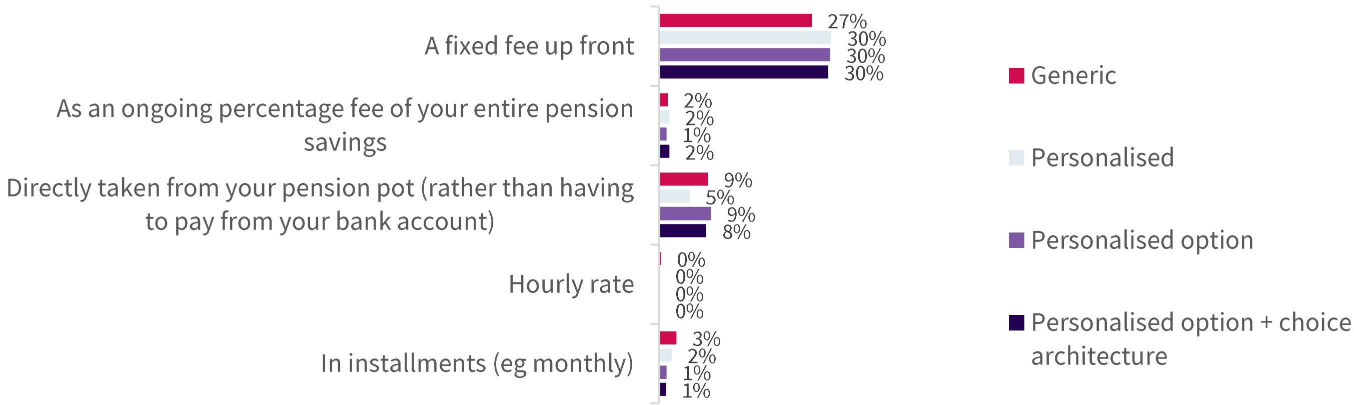


Figure 9: Percentage of participants expressing a willingness to pay and their preference for how when asked.

Willingness to pay for advice

We wanted to see whether, at least in this scenario, participants would have been inclined to pay for financial advice to help them take the decision set out in the experiment. Thinks asked participants 'if you had to take a decision like this for your own pension(s), what is the most you would pay for further support from someone who would tell you the best decision to take?'

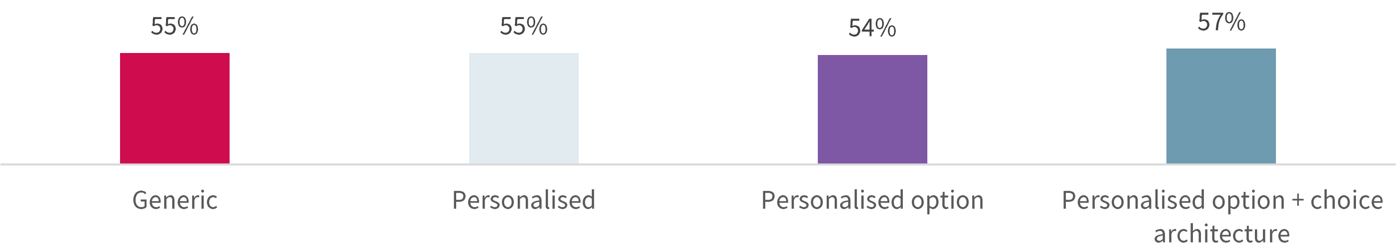


Figure 10: Percentage of participants expressing a willingness to pay for financial advice.

Thinks did not detect any statistically significant differences for those that had received personalised guidance relative to generic guidance but saw over 50% in each group say that they would be willing to pay something above £0.

Stated need for further support/help to take the decision

Participants who saw the generic guidance felt they would need to look for more information elsewhere to take this type of decision in real life, which tracks with our headline findings that personalised guidance was generally more helpful for decision making. These differences were statistically significant.

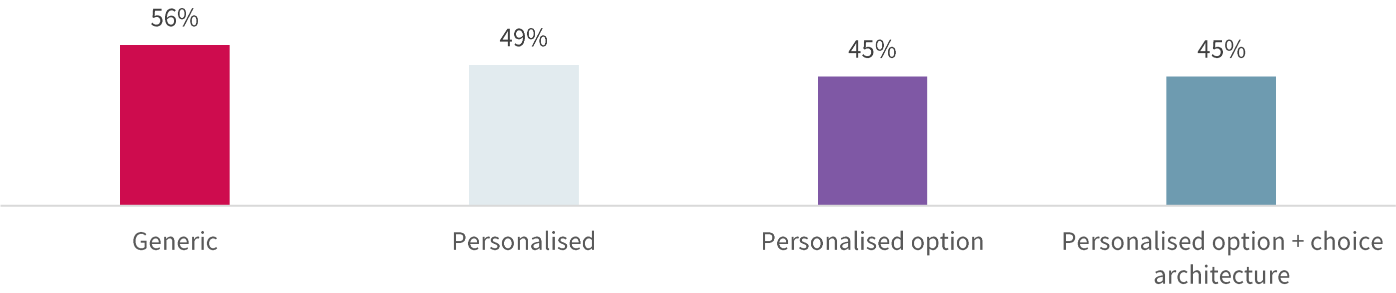


Figure 11: Percentage of participants expressing that they would have looked for more information rather than the guidance being sufficient.

Expectations of responsibility for decision taken

We wanted to understand the impact on participants' perceptions of who is responsible for decisions made on the basis of personalised guidance relative to generic guidance. We thought that guidance which points participants in a particular direction, especially those highlighting salient options, might lead participants to feel the firm providing guidance has played a more active role in the decision and therefore should take responsibility if that ended up being the wrong decision for the hypothetical customer.

Thinks tested this by explaining to participants that: 'Earlier in this survey, you received a scenario, and some information from a pension provider, and were asked to make a decision about how much money to withdraw from your pension pot. Now imagine that in the future you hire the services of a professional financial advisor. This advisor notices that you made the wrong decision, and you paid more in tax than you needed to as a result.' We then asked who do you think should be liable (e.g. take responsibility) for you paying more tax than you needed to?

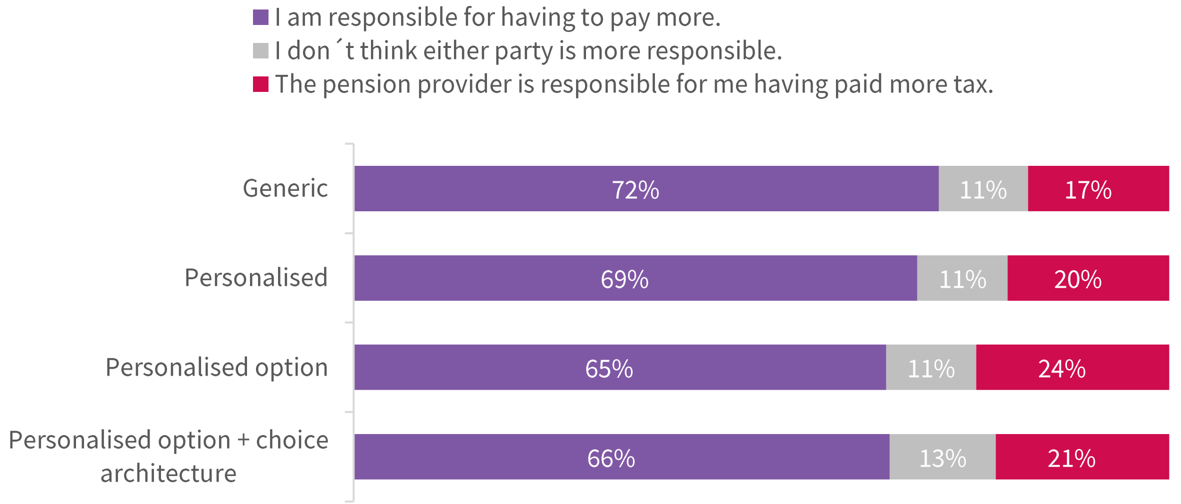


Figure 12: Percentage of participants responding to the question: Who do you think should be liable (e.g. take responsibility) for you paying more tax than you needed to?

Thinks then asked participants what statement best describes the situation:

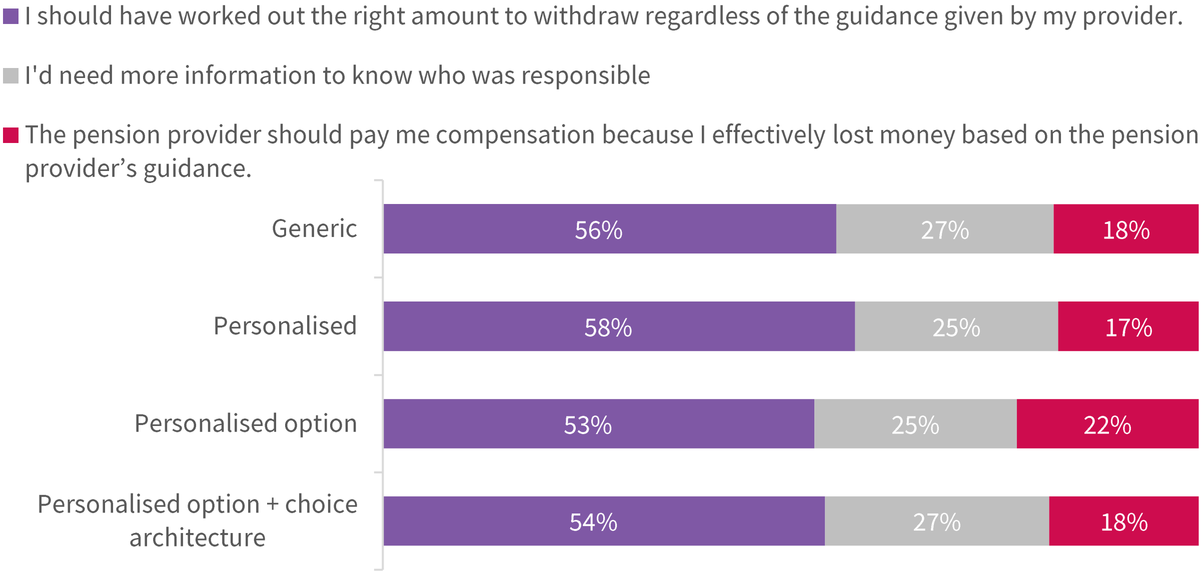


Figure 13: Percentage of participants responding to the question: which of the following [statements] best describes this situation?

The results suggest that participants generally expect to be financially responsible for the decision taken in the scenario that was presented. A majority of participants also did not feel there should be compensation from the provider for them having taken a decision that turns out not to be the best one for their circumstances. In the first question there is a statistically significant difference in responses, with participants who had received (3) Personalised Option guidance being more likely to blame the pension provider for them having paid more tax. But this was not replicated when Thinks asked the follow up question around compensation, nor does Personalised Option + Choice Architecture (4) see the same result. Therefore, there is limited evidence that personalised guidance has an impact on the perception that pension providers should take responsibility for sub-optimal decisions taken by customers.

Unsurprisingly, when we presented a simple form of disclosure noting that the decision is the responsibility of the participant, and asked participants the first question again, we saw fewer participants across all groups considering the firm to be responsible.

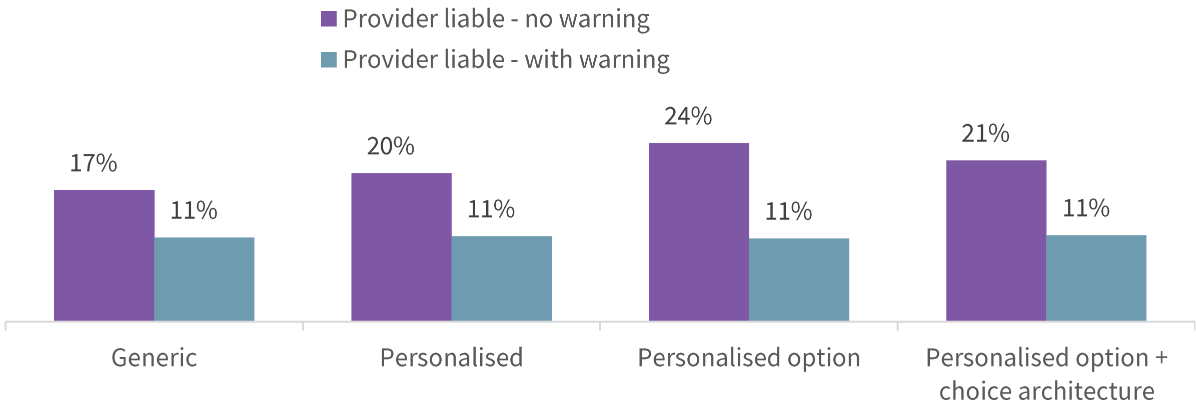


Figure 14: Percentage of participants responding to the question: Who do you think should be liable (e.g. take responsibility) in this situation for you paying more tax than you needed to?

Comprehension of pensions concepts

Personalised guidance options as we designed them here did not improve participant understanding of pension concepts that were referred to in the scenario. This is not surprising given that the guidance in all scenarios was very focused on the tax implications of withdrawal.

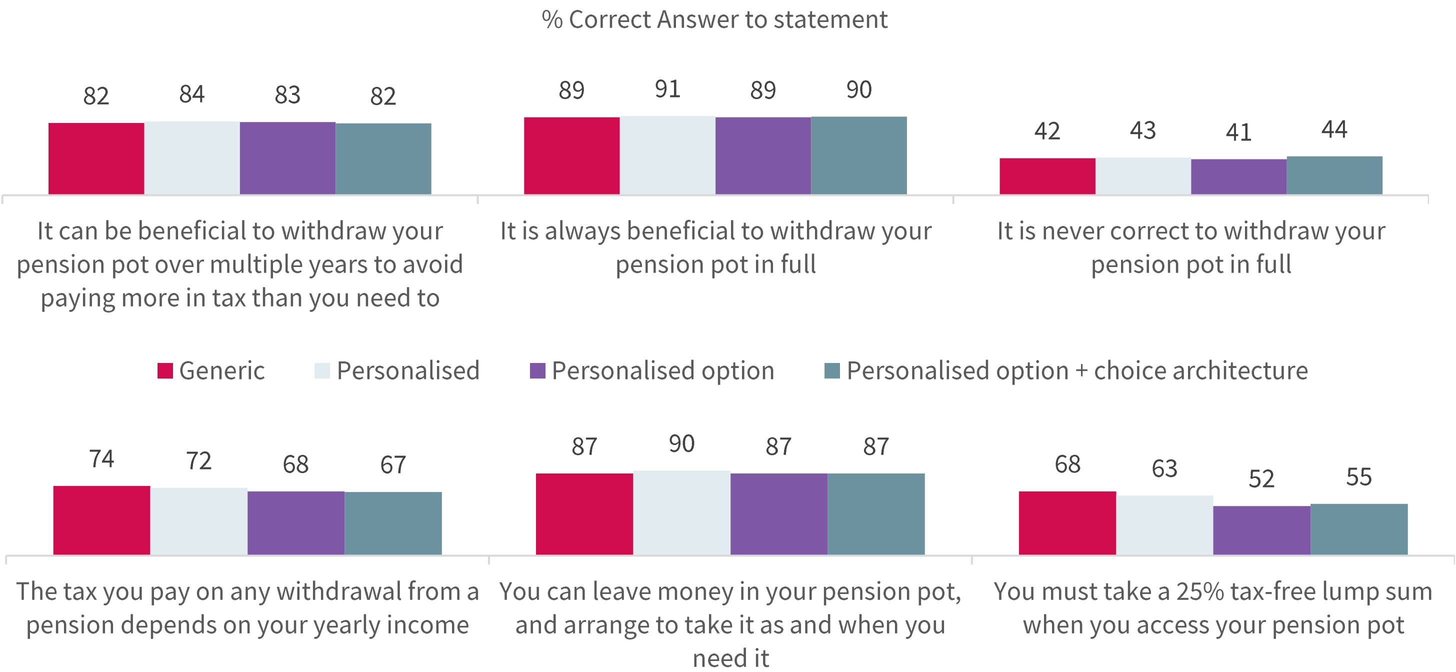


Figure 15: Percentage of correct responses to each comprehension question when told: 'here are some statements about pensions. Some of these statements are true and some are false. For each, please state whether you think this is true or false or don't know.

Preferred way to research pension decisions

Thinks also asked participants what sources of advice they would find helpful to consult before making decisions about their pension. Impartial advice websites were the preferred option, with pension providers in second place.

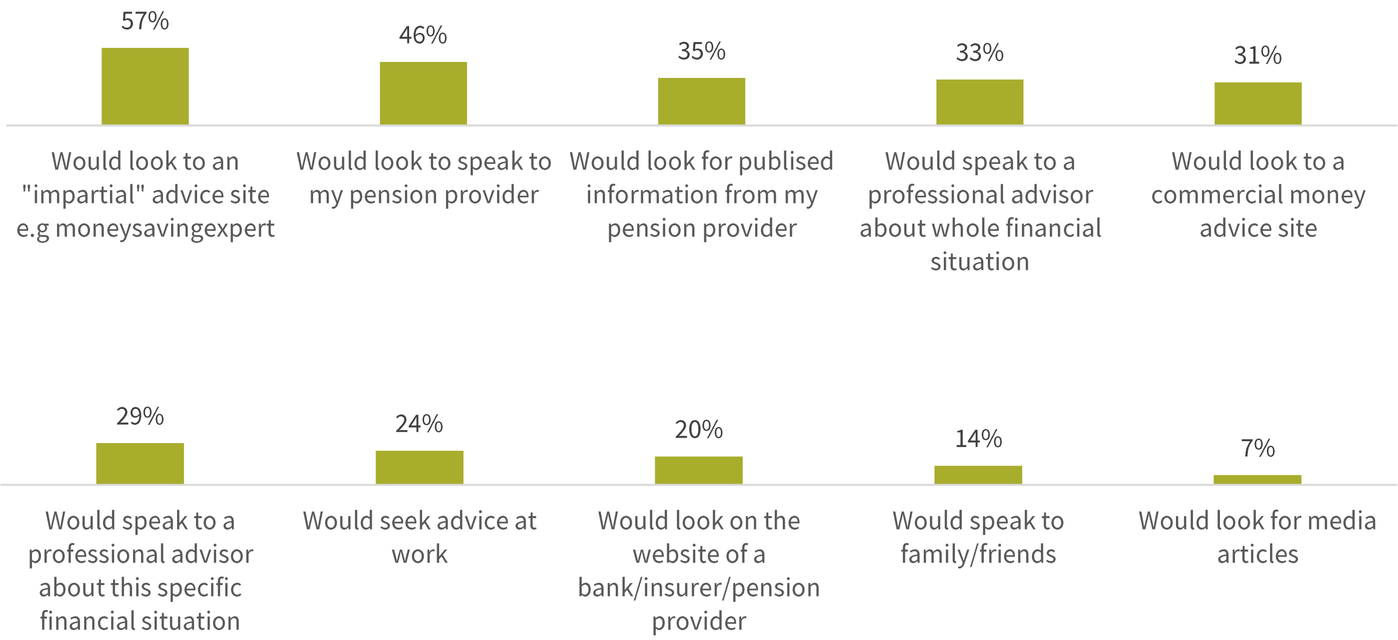


Figure 16: Percentage of participants who selected each type of source, when asked: 'which of the following (if any) sources of advice would you find it helpful to consult before making decisions about your pension?

7. Policy implications

The headline findings are clear, strengthening the consumer case for the use of personalised guidance by financial services providers. If firms are focused on customer outcomes, then generic guidance (and even personalised guidance that is unable to suggest a course of action) just doesn't cut it.

Our secondary findings bolster this case. Participants were more willing to pay for personalised guidance option with choice architecture than generic guidance suggesting that there is potential 'consumer surplus' available in a world where customers receive this guidance cheaply wrapped into product or platform fees. Participants were also more likely to find personalised guidance to be sufficient to meet their information needs to take an informed decision.

Advice Guidance Boundary Review

HM Treasury and the FCA's Advice Guidance Boundary Review provides an opportunity to change the advice rules so that savers can access personalised guidance and are empowered to achieve better financial outcomes. These rules stem from the EU Markets in Financial Instruments Directive (MiFID), and guidance from the European Securities and Markets Authority (ESMA), replicated in UK legislation and FCA rulebooks. But the UK is no longer bound by this EU framework. The FCA can change its existing rules and guidance, and the government can legislate to create new regulated activities, allowing the FCA to create new rules for firms conducting those activities.

Policy recommendation: Government should legislate for a new regulated activity permission for 'Personalised Guidance' within the Regulated Activities Order (RAO) 2001 allowing firms to take personal circumstances into account when issuing communications to customers. The FCA could then create the underlying regulatory regime. Alternatively, FCA-authorised firms could be enabled to deliver personalised guidance within existing permissions, disapplying conflicting PERG rules to ensure clarity for firms.

Our research validates a few of the key features of a personalised guidance regime partially outlined in section 3. Personalised guidance should be able to:

- suggest what the customer ought to consider.
- highlight salient options/a course of action for the customer.
- be cheaply available, without explicit charges.
- be based on information the provider already holds on the customer or information the customer additionally provides.
- be available across telephone and digital channels, and to enable flexibility it shouldn't need to be offered in a durable medium.

Consumer protection

Personalised guidance is not designed to offer a personal recommendation, nor does it claim to be suitable for the circumstances of the customer receiving it.

However, the clear risk of personalised guidance is that it might lead people toward taking an action that is not suitable for their circumstances. In some cases, this will be because the guidance is based on erroneous information about the customer – perhaps the customer was rushing through a product journey, or the information was previously accurate but is no longer (for example, if Pensions Dashboards did not update in real time). But more often it will be because the provider is giving guidance without full information about the customer.

This requires the customer to take responsibility for the decisions that they take following receipt of personalised guidance.

Our findings suggest that consumers may be willing to do that. We didn't receive any strong indication that personalised guidance leads to higher expectations of the pension provider's responsibility following a sub-optimal financial decision taken by a customer. Results suggested that a simple disclosure statement could further help customers understand that they are responsible for the decisions taken.

But we are not suggesting the firm has no responsibility for guidance given. Existing rules require firms to reduce the risk of detriment, such as:

- The Consumer Duty – firms will need to ensure customers understand the services they are receiving, receive value for money and avoid foreseeable harm.
- COBS 4 – ensuring communications are fair, clear and not misleading,
- PROD – firms will need to design products for target market needs.

The requirements under the Consumer Duty to test communications make it imperative to reformulate advice rules so that this consumer testing can occur, with firms iteratively improving their in-product guidance, communications and disclosure over time.

Any new regime will need to build on these rules, striking the right balance between the customer taking responsibility for their decisions and the firm being liable for poorly executed personalised guidance.

Policy recommendation: Within a new personalised guidance regime:

- Firms will need to disclose that the support provided is based on limited information and not a full assessment of the individuals' circumstances.
- The extent of information to be collected from the customer to deliver personalised guidance will need to be determined.
- If guidance is unclear, unfair or misleading, the customer should be able to complain to the firm and to the FOS. But there would need to be a clear understanding of the limits and boundaries for FOS decisions. Providers would need to have comfort in knowing how claims would be assessed.
- Customers would not win compensation on the basis that the guidance suggested or highlighted a course of action that was not the best option given the customer's holistic circumstances. I.e. providers wouldn't be liable for not having established suitability.

Further use cases for personalised guidance

There is potential for the approach to personalised guidance we tested to be applied beyond decisions surrounding pension withdrawal.

Personalised guidance can help customers make effective use of an existing financial product they already own, like helping them avoid unnecessary tax liability when withdrawing lump sums from their existing pension pots. Personalisation of guidance can help 'pull' these customers away from foreseeable harm. There are many use cases:

- Explaining the impact of a high withdrawal rate on their income in drawdown – and showing them what a sustainable income could look like.
- Provide more details on risk within investment pathways such as withdrawal rates not matching the investment pathway objective.
- Warn customers about scams and dubious investments.
- Explaining the impact of drawdown on welfare benefits.

This guidance could also lead or 'push' customers to purchase a new product or switch funds or transfer assets from one product to another. This would reflect a sale for the firm. For example, personalised guidance could be used to suggest that the particular customer may benefit from:

- Pension pot consolidation.
- Increasing contributions into their workplace pension.
- Using a particular ISA wrapper (for example, a LISA if they are saving for a first home; or a S&S JISA rather than a cash JISA for longer term investing).
- Developing an investment habit, especially if they have excess cash savings.
- Diversification of investments for customers overweight in particular asset classes given their age and attitude to risk.
- Moving to a cheaper or better performing fund.
- A particular pension decumulation option.

To highlight the distinction, let's take the example of a customer withdrawing an unsustainable amount from their pension, at around 8% per annum. Pull guidance might explain the impact of a high withdrawal rate on a customer's income in later life and suggest the customer consider lowering the rate of withdrawal. Push guidance might do the same but additionally suggest they explore guaranteed income products to help resolve this problem. The latter may do a better job of preventing a customer from running out of money in retirement but involves a potential new sale.

Policy recommendation: The regulator should enable both push and pull guidance within a personalised guidance regime, because both have clear benefits to consumers. In any case it would be difficult to distinguish between push and pull categories of guidance in regulation, as the line can become blurred. For example, entering drawdown is a variation of a contract in COBS rules but is often considered as sale.

Framing personalised guidance

One way to present these messages to customers would be the use of 'people like you' statements. This could help the customer understand that the suggestion is not necessarily the best option given their circumstances.

But there are a number of ways to present or frame personalised guidance. 'People like you' might be most appropriate in some settings; but in others, guidance like that tested in our research might be more effective. In other scenarios, warnings, interactive tools like calculators and graphs, or personalised rules of thumb might be the most powerful.

Policy recommendation: Flexibility should be retained for personalised guidance to be offered in a variety of ways, for distinct target markets.

PensionWise

Nearly nine in ten 'stronger nudged' customers were satisfied with their Pension Wise appointment but amongst those who did not find the appointment useful, the main reason given was that the guidance was too scripted and general.

For example:

> *"I expected it to be more personal – "this would be your best option"" – female, under 55.*[34]
>
> *"[I expected it to be] less of an information dump and more a little bit of advice but it was just basically "this is what you can do". Just information." – female, over 55.*[35]

Policy recommendation: MaPS should be able to tailor Pension Wise appointments according to customers' specific circumstances (as recommended by Behavioural Insights Team in the Stronger Nudge II report)[36]. Essentially, MaPS should be able to offer personalised guidance too.

Technological innovation

The expansion of Open Finance and initiatives such as Pensions Dashboards will make it easier for providers to offer this type of support. Personalised guidance could be offered via chatbots and videos to make it as engaging as possible for customers.

Policy recommendation: Ensure a personalised guidance regime is channel agnostic and facilitates technological innovation in the delivery of guidance with customers.

Connecting guidance to advice

A personalised guidance regime does not take away the need for advice. Many decisions are complex, and customer circumstances even more so. While personalised guidance attempts to fill the advice gap from the guidance side of the boundary, there are other solutions needed to make some gains on the advice side.

While we didn't find that participants would be more willing to pay for advice services following personalised guidance (relative to generic), many of our members see the potential for personalised guidance to help less confident customers realise that they need further help to take difficult decisions. Therefore, personalised guidance may be the first stage of a longer process which includes simplified or existing regulated financial advice.

Policy recommendation: The FCA should pursue a simplified advice regime as part of the AGBR. This simplified advice regime should enable firms to use data collected as part of personalised guidance journeys within the advice process, to shorten the fact-find and improve the customer experience.

Beyond the Advice Guidance Boundary Review

Personalised guidance can have a wider impact too. The Government is currently undertaking various changes to pension and ISA rules. Personalised guidance can help turbocharge these reforms:

- **Decumulation reform** – personalised guidance can help Trust-based schemes more effectively guide their members to the decumulation services they will be duty-bound to provide[37]. Additionally, it can help industry live up to TPR's nascent five principles for 'good decumulation'.[38]
- **Small deferred pots** – if the value of consolidation can be made clear to customers, then we can see greater consolidation of small pots.
- **Investment in UK plc** – if the value of pension saving and ISA investing can be articulated more clearly with customers then we may see savers actively increasing their contributions or investing for the first time. This will help grow the pool of domestic capital available to be invested in UK equities.
- **ISA reform** – improved guidance to help customers choose appropriate ISA wrappers and investments within them can simplify ISAs for customers, increasing uptake.
- **Future Disclosure Framework** – the FCA is designing a leaner framework to replace the prescriptive, oft-ignored PRIIPs Key Information Document (KID). Disclosure tailored to the customer's circumstances will be more engaging and effective.
- **Mid-life MOT** – helping this DWP service become more relevant to the customers that use it.
- **Value for Money** – enabling greater personalisation of support can improve the quality of service provided by firms, raising standards across the industry.

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[34] Stronger Nudge II, MaPS & Behavioural Insights Team. (2023). Pp 15.
[35] Ibid, pp 19.
[36] Ibid, pp 20.
[37] Helping savers understand their pension choices: supporting individuals at the point of access, DWP. (2023). DWP website.
[38] Assessing DC pension savings: what does good look like? TPR. (2023). TPR website.

8. Real world application

With actual customers, providers will present the guidance differently to the guidance we designed for the experimental setting. Not least because firms will have their own views on the best way to communicate with their target market. But also because…

Tax isn't that simple

Upon withdrawing from a pension pot, many savers experience unexpected tax charges, which creates financial problems for these savers. For example, many will initially pay a higher rate due to the application of an emergency tax code by pension providers who do not have the correct tax code for their customer. Individuals can then reclaim the overpaid tax mid-way through the tax year - in Q3 2023, HMRC returned more than £61m in overpaid tax to savers who accessed their pensions.[39] To keep our experiment simple, we removed the emergency tax code factor. In future we hope this issue can be resolved to spare customers from this additional burden and confusion.

Disclosure will feature

Our experiment purposely excluded disclosure. This is because we wanted to understand participant views on firm liability for guidance received (if something went wrong) without any interference. But disclosure would be a key part of any personalised guidance regime.

Customers will have varying reasons for withdrawal

Built into the personalised guidance we created were questions for the hypothetical customer about their intentions for the withdrawn money (refer to figure 1 on page 8). The guidance we presented assumed that the customer self-reports that they are looking to use the withdrawal to pay off debt and to spend it.

But if the customer were to instead report that the only reason they wanted to withdraw the money was to pay-off debt then the provider may not offer the personalised guidance with a specific option because paying off a debt can be a very good reason to withdraw a pension pot in full (especially if high interest rates are involved).

Alternatively, a real world customer might indicate that they want to put the money into a savings account. If so, then the language in the guidance could be amended to inform the customer of the potential for better returns within their pension pot relative to cash accounts (especially in a low interest rate environment).

While in this scenario it was a reasonable decision for the person to withdraw between £11,800 and £13,300 the provider is never going to have the level of detail about a customer to know that this is the best option for their circumstances. Indeed, the 'best' option for our hypothetical customer may have been to withdraw £10,000 via tax free lump sums (£5,000 from the known pension pot and £5,000 from the other mentioned pension pot that they did not want to touch) to pay off their debt. But personalised guidance is not intended to achieve the best outcome for customers, it is designed to help them reach better outcomes.

Telephone vs online customer journeys

Some of the major issues around the boundary come up in telephone conversations rather than via online channels. The risk in a real time situation of the call handler crossing the boundary leads to a risk averse approach taken and poor customer outcomes. While our findings present less relevant evidence for this channel (given that our test replicates an online journey) we would anticipate customer service staff using scripted personalised guidance to more successfully navigate questions posed by customers.

Passive v active guidance

We were limited to 'passive guidance' in this experiment, where the customer was about to take a decision and the provider had only that opportunity to intervene. But personalised guidance can be more active. For example, if a customer has withdrawn at a rate of 8% p.a. in their drawdown product for six months running, the provider could then intervene and suggest the customer reduces their frequency or quantity of withdrawal once they've established that the sub-optimal behaviour has taken hold.

Generalisability

This research was based on a hypothetical scenario with participants not taking decisions on their own pension pots. Given that providers cannot test personalised guidance on their customers, this experiment represents our best attempt to deliver evidence for the impact of an approach that could not be tested in the field.

Thinks created a realistic simulation of a pension withdrawal interface based on screenshots of an actual customer facing interface, making the decision feel more real. The sample of 55-66 year olds with at least one DC pension pot ensured that we only involved participants who are in the category of people taking this withdrawal decision. Nevertheless, we recognise the limitations on external validity that such an approach will always have.

[39] Overpaid tax on pensions almost doubles as savers dip into pots, FT Adviser. (2023). Accessed at FT Adviser.