

Impact case study (REF3)

Institution: University of Oxford		
Unit of Assessment: 19 – Politics and International Studies		
Title of case study: Improving individual pension and investment outcomes through regulatory reform		
Period when the underpinning research was undertaken: 2015–2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): Dr Raymond Duch	Role(s) (e.g. job title): Director of Centre for Experimental Social Sciences, Nuffield College	Period(s) employed by submitting HEI: 2006 – present
Period when the claimed impact occurred: 2016 – January 2020		
Is this case study continued from a case study submitted in 2014? N		
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Duch's experiments to test the effectiveness of prompts in financial decision-making resulted in the implementation of new rules by the UK Financial Conduct Authority (FCA) in 2018 which require annuity providers to provide personalised information to customers which might prompt them to 'shop around' before purchasing an annuity. Duch's research also informed the FCA's 2019 rules and guidance requiring that customers with drawdown products be provided with personalised summaries of annual charges to help them compare products more easily. His research has helped the Financial Services Compensation Scheme (FSCS) to better understand the role of FSCS protection both in how consumers choose their retirement income products, and in whether they decide to obtain financial advice. This has led the FSCS to establish an industry best practice group to create a common approach to disclosure of the existence of the body and the protections it provides. Internationally, Duch's research has been used in Chile where regulatory reform intended to double the number of consumers selecting the most effective retirement investment fund was adopted in 2020.</p>		
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>Over the past decade Duch has published results from a number of experiments that identify how choice architecture or institutional design affects decision making. Recent lab and online experiments conducted by Duch and colleagues in the Centre for Experimental Social Sciences (CESS) identified how re-designing collective decision-making procedures can affect how average citizens and consumers respond to their decisions [R1]. Specifically, his experimental studies demonstrate how choices are shaped by particular institutional mechanisms and choice architecture. Through this work, he has developed an expertise on the design, implementation and analysis of online experiments [R2] including those designed to improve financial decision-making by average consumers [R3].</p> <p>The Retirement Income Market Study</p> <p>The FCA was concerned that consumers lacked awareness of their options at the point of retirement and tended not to shop around for annuities; 60% purchased an annuity from their current pension provider. The FCA was unsure what information at the quotation stage would encourage consumers to shop around for their annuity. In order to test this, in 2016 Duch and colleagues at CESS, including Dr. Aki Matsou, Dr. John Jensenius, and Dr Sonke Ehret, designed an innovative online field experiment for the FCA to test the effectiveness of information 'prompts' on the potential gains from shopping around. Duch's main findings were that:</p> <ul style="list-style-type: none"> • Consumers of retirement products could be encouraged to shop around by providing them with simple information prompts. 		

- Consumers who do shop around are more likely to switch providers and select annuities that better meet their circumstances.
- To encourage consumers to shop around, investment firms should provide a comparison showing the pension provider quote against the best available quote in the market, and personalised for the individual in question to achieve the highest rates of shopping around [R4].

Metrics to aid consumers in the income drawdown market

After the introduction of the 2015 pension reforms, more people shifted pension pots into income drawdown products before or at retirement, rather than buying annuities. Duch and the team at CESS conducted a behavioural experiment to assess the effectiveness of different summary cost metrics. The experiment showed two of the five personalised summary cost metrics ('pension savings available after costs' and 'average cost per year') resulted in participants making better product choices, selecting lower-cost products on average, and selecting the cheapest product [R5].

Choices for retirement income products and financial advice: The role of the Financial Services Compensation Scheme

After the 2015 pension reforms increased pension options, the Financial Services Compensation Scheme (FSCS) wanted to understand how FSCS protection affects the consumers' selection of retirement income products. Duch again designed and conducted an experiment to determine whether information on various retirement income products affected their comprehension of, and preferences over, the choices. The experiment's results demonstrated that awareness and perceived importance of the FSCS correlate with taking its advice and choosing retirement income products that are protected by the FSCS, and that when shown information about the FSCS at the point of decision, subjects exhibit less risky behaviour and fewer people choose to withdraw their pension pot to invest in stocks and shares [R6].

3. References to the research (indicative maximum of six references)

R1: Journal Article: Raymond M. Duch, Wojtek Przepiorka and Randy Stevenson. 'Responsibility Attribution for Collective Decision Makers.' *American Journal of Political Science* (2015) 59(2):372-389. <https://doi.org/10.1111/ajps.12140>.

R2: Journal Article: Duch, Raymond, Laroze, Denise, Robinson, Thomas, Beramendi, Pablo, 'Multi-modes for Detecting Experimental Measurement Error', *Political Analysis*, volume 28, issue 2, Cambridge University Press, 2020, pp. 263-283. <https://doi.org/10.1017/pan.2019.34>.

R3: Journal Article: Duch, R. M., & Ehret, S. (2018). Nudgen für die Rentenentscheidung im Vereinigten Königreich: Implikationen für die Privatisierung der Rentenpolitik. *Vierteljahrshefte zur Wirtschaftsforschung/Quarterly Journal of Economic Research*, 87(2), 65-75. <http://doi.org/10.3790/vjh.87.2.65>

R4: Research Report, External Body: Technical report Prepared for the Financial Conduct Authority. Citation: Oxera and Nuffield CESS (2016): Increasing consumer engagement in the annuities market: Can prompts raise shopping around? <https://www.fca.org.uk/publication/research/consumer%20engagement%20in%20annuities%20market.pdf>

R5: Research Report, External Body: Technical report prepared for the Financial Conduct Authority. Citation: Oxera and Nuffield CESS (2017): Identifying metrics to aid consumer choice in the income drawdown market. <https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report-annex5.pdf>

R6: Research Report, External Body: Technical report prepared for the FSCS. Citation: Oxera and Nuffield CESS (2018): Choices for retirement income products and financial advice: The role of the Financial Services Compensation scheme.

<https://www.oxera.com/publications/choices-for-retirement-income-products-and-financial-advice/>

4. Details of the impact (indicative maximum 750 words)

Following the UK's 'pension freedom' reform of April 2015, UK policy makers wanted consumers to receive information in a user-friendly fashion so they could make optimal retirement investment decisions. The Financial Conduct Authority (FCA) and Financial Services Compensation Scheme (FSCS) approached Duch to help them identify which regulatory initiatives would most likely lead citizens to make better investment and saving decisions. The subsequent research, published in collaboration with the consultancy firm Oxera, looked at whether prompts could increase shopping around [R4], how to identify metrics to aid consumer choice in the income drawdown market [R5] and the role of the FSCS [R6]. These technical reports have been used extensively by the FCA and the FSCS as the basis for guidance and to change regulation.

Development of personalised comparisons of pension quotes across the market

The FCA incorporated Duch's research findings [R4] in their recommendation that consumers should receive personalised information prompts from their annuity providers, containing not only their quote but also the best quote available elsewhere on the market, as a way to encourage consumers to shop around for competitive providers [C1]. In November 2016, based on the findings in R4 that "a comparison showing the pension provider quote against the best available quote in the market, and personalised for the individual in question, led to the highest rates of shopping around", the FCA announced that annuity providers "will be required to deliver information in a personalised form in a format set out by the FCA. This prompt will have to show the difference between the provider's own quote and the highest quote available to the consumer from all other providers on the open market. There will also be a prompt to help the customer access the best quote – this will be a link contained in the information prompt" [C2].

The FCA published policy statement PS17/12 in May 2017, defining the new regulations for providers which came into force in March 2018 [C3]. This statement directly references [R4] as a key reason for implementing this policy and the information prompts: "Two conclusions from the research were of particular relevance to the rules we are making in this [Policy Statement]: Firstly, the research suggested that an information prompt comparing available quotes would significantly increase shopping around. This conclusion was robust across different (including different socio-economic) groups. Secondly, the research suggested that a specific form of information prompt was most effective. The largest increase in shopping around occurred when consumers were shown a personalised communication that showed the amount" [C3]. Commenting on the changes, a senior analyst at investment firm AJ Bell said that "Arming people with information about annuity deals available elsewhere should help redress the competitive balance in the annuity market and hold insurers' feet to the fire when it comes to pricing" [C4] while the MD of Legal & General Retail Retirement said that he 'welcomes the FCA's PS17/12 rules as they are ultimately focused on generating better outcomes for customers.' [C5]

Clearer communication of costs and charges in the income drawdown market

In their June 2018 report on 'Retirement Outcomes Review: Proposed changes to our rules and guidance', the FCA directly cited the findings in R5 that "that a charge figure presented in pounds and pence helped consumers the most in assessing the cost of drawdown". The proposals subsequently concluded that "Given these findings, we sought to develop a similarly presented charge alongside existing information used [within a Key Features Illustration]" [C6]. This was followed by a Policy Statement in July 2019 requiring that "Pension providers must give consumers in decumulation annual information on the costs and charges they have paid on their pension pot, expressed as a single pounds and pence figure. This includes both advised and non-advised consumers who are either in drawdown or who have withdrawn at least 1 uncrystallised fund pension lump sum (UFPLS) payment" [C7].

The Technical Specialist at the FCA's Behavioural Economics and Design Unit confirmed that Duch's research *"directly informed the FCA's final policy guidance, issued in July 2019, which focused on the importance of accessibility for consumers and stated that annual information on costs and charges needed to be communicated to consumers 'as a single pounds and pence figure'"* They also note that *"it is striking that income draw-down products, which are more complex, is a growing market for pensioners or those reaching retirement [...] it is well known that people in their 50s and 60s tend to be worse at evaluating and comparing financial products in comparison with other age groups. It is important to note that the policy changes have also enabled consumers to switch to another provider relatively easily"* [C8].

The Technical Specialist similarly noted how Duch's research has also informed the way that the FCA develops its own policies and research: *"There is increasing use of online experiments. The CESS-Oxera research [R4, R5] provides a strong case study of how replicating a real-world environment, that would be difficult to test in the field, can lead to clear, transparent policy recommendations that can be implemented. The research effectively created a pipeline for [my] team at the FCA and provided a template of how to successfully run online experiments"* [C8]. This has resulted in a FCA Occasional paper on 'using online experiments for behaviourally informed consumer policy' which references [R5] and has enabled knowledge exchange with other regulators and policy making creators in the field [C9].

Better informing customers about the Financial Services Compensation Scheme

Duch's research [R6] has helped the FSCS to better understand how greater awareness of FSCS protection increases the likelihood of consumers choosing better pension products, and in whether they decide to obtain financial advice. In March 2018 the FSCS published a white paper with recommendations for actions to ensure that customers are better informed. The white paper emphasised that these recommendations were heavily based on R6, which demonstrated *"clear correlation between providing information about the compensation scheme and the choices people make. And it highlights that this information increases their trust in the financial services sector"* and consequently the FSCS accepted the report's recognition that there was a *"need to build awareness of the protection FSCS provides"*. [C10].

The findings of Duch's FCSC study [R6] have led the FSCS to establish an industry best practice group to create a common approach to informing consumers of the existence of the body and the protections it gives. FSCS Chief Executive Mark Neale has publicly acknowledged the significance of the research findings and directly linked this to the creation of the industry best practice group: *"This research shows that awareness of the FSCS makes people think twice about the decisions they make with their pension products... It is key that providers and advisers make retirees aware of FSCS protection. I am therefore pleased to announce that a group representing leading industry firms has agreed to work together to look at developing an industry best practice standard for disclosure, which will offer a benchmark on how life and pensions product providers convey information about FSCS to consumers."* [C11]. FSCS also included a commitment in their 2019/20 annual report to *"target FSCS badge adoption within life and pension providers so that consumers can make choices knowing they are protected."* [C12]

Superintendencia de Pensiones, Chile

Duch's research in the UK has attracted international attention. Chile has a retirement system that shares many of the same features as the UK: most Chileans are required to select a private pension provider from authorized providers of retirement annuities, and the Superintendencia de Pensiones (SP) regulates how information regarding the different providers is presented to consumers. In 2018, Duch and CESS were commissioned by SP to design and conduct online experiments, similar to those conducted for the FCA [R4, R5], to help SP regulate the format and content of the information provided to near-retirees about each eligible provider. Duch designed and implemented these online pension experiments in Chile in 2019. The results identified the most effective format for presenting this information to consumers, which could double the number of consumers selecting the best retirement investment funds. The Head of Research at SP confirms that these changes were permanently implemented in January 2020 and that *"Dr. Duch's team was key at bringing the consumers, or pre-pensioner,*

perspective...[and his] research helped us to quantify how the design of information given to individuals can affect decision making” [C13].

5. Sources to corroborate the impact (indicative maximum of 10 references)

C1: Financial Conduct Authority ‘Retirement Outcomes Review Final report’, June 2018.

C2: Financial Conduct Authority press release, ‘Customers to be shown how much they could gain from shopping around for an annuity’, 25 November 2016.

C3: FCA, ‘Implementing information prompts in the annuity market: Feedback on CP16/37 and final rules’, PS17/12, May 2017. <https://www.fca.org.uk/publication/policy/ps17-12.pdf>

C4: ‘FCA to impose shopping around requirements on annuity providers’, 25 November 2016. <https://www.ajbell.co.uk/news/fca-impose-shopping-around-requirements-annuity-providers>

C5: Financial Reporter, ‘In the Spotlight with Chris Knight, L&G Retail Retirement’, 13 October 2017. <https://www.financialreporter.co.uk/in-the-spotlight/in-the-spotlight-with-chris-knight-landg-retail-retirement.html>

C6: Financial Conduct Authority, ‘Retirement Outcomes Review: Proposed changes to our rules and guidance’, Consultation Paper CP18/17 June 2018.

C7: Financial Conduct Authority Policy Statement PS19/21, July 2019, ‘Retirement Outcomes Review: feedback on CP19/5 and our final rules and guidance’.

C8: Factual statement by Technical Specialist in the Behavioural Economics and Design Unit at the Financial Conduct Authority.

C9: ‘Using online experiments for behaviourally informed consumer policy’, FCA Occasional Paper, 51 (February 2020)

C10: Financial Services Compensation Scheme ‘The need to know: FSCS protection makes a difference’, March 2018, pp. 5-6.

C11: ‘FSCS awareness changes behaviour major research project shows’, *Corporate Advisor*, 21 March 2018.

C12: FSCS, ‘Annual Report and Accounts 2019/20’, July 2020, p.19. <https://www.fscs.org.uk/globalassets/annual-reports-and-class-statements/fscs-annual-report-2019-20.pdf>

C13: Factual statement from Head of Research Department, Superintendence of Pensions, Chile, August 2020.