How to make consumer information effective?

Consumer insights and behavioral science can inspire and qualify future design of disclosure requirements and transparency initiatives. The DIA believes it is a shared responsibility between industry and legislators to ensure consumers transparency and understandable information. The “right” consumer information is key to empowering consumers to make informed financial decisions.
How to make consumer information effective?

The DIA has been pursuing a clear strategy to promote transparency in the Danish insurance and pension market since 2006. As a result the DIA has developed a wide range of transparency initiatives and consumer tools to achieve three key objectives:

- **Openness:** Full openness for the individual consumer and in the market into all relevant matters relating to insurance and pensions

- **Overview:** Every individual consumer must be able get a comprehensive overview of their pension situation in a clear and understandable manner

- **Comparability:** Customers must be able to compare pension schemes and providers.

In 2014 the DIA initiatives were evaluated by the British consultancy Towers Watson. The purpose was to assess if the initiatives benefit the consumers. The evaluation was carried out in agreement with the Danish Ministry of Business & Growth and it includes a technical assessment of the DIA Cost Recommendation. To this end Towers Watson developed a theoretical framework drawing on **behavioural insights** to describe consumers’ needs when it comes to the information required to make informed decisions. On this basis Towers Watson also summarized a checklist for design of consumer information in order for it to be effective and optimize the benefits to consumers.

The findings of Towers Watson’s evaluation of the DIA initiatives including the Consumer Needs Framework and the **checklist for design of information** requirements are summarized in this folder.

The full report and supporting documents are available in English on the website of the DIA: http://korturl.dk/2ao
Transparency is everyone’s business

The DIA continue to be committed to promote transparency and a high level of consumer protection. We believe that well information and empowered consumer are in the best long term interest of the Industry. We believe that effective information disclosure is key to facilitate consumer protection and a more competitive market. The increasing digitalisation must be kept in mind when designing disclosure requirements in order to make sure new rules are future-proof. We also believe that information overload and duplication must be avoided if information is to be effective and actually encourage the consumers to engage and process the information. Behavioural insights offer valuable knowledge in this regards.

The DIA believes that behavioural insights in general can contribute positively to ensure the effectiveness of consumer protection regulation and public policies which impact consumers’ decisions and actions. This is also one of the key messages in this folder.

Transparency is everyone’s business – and ensuring it is a shared responsibility between industry and policy makers – striking the right balance will go a long way to increasing innovation, competition and well-informed and engaged consumers.
Decisions relating to retirement planning have a major financial impact on both the everyday lives of consumers and their long-term financial situation. Therefore, it is essential that consumers are empowered to make informed decisions about pensions. This requires access to the right information and sufficient skills and knowledge to understand and make use of the information.

Long-term saving is based on trust

Saving for retirement is a long-term decision that requires the consumers to trust pension providers to make good on a promise 20-40 years ahead in the future. The promise to deliver an income in retirement when that time comes.

The DIA firmly believes that one of the prerequisites for such trust in the private pensions sector is transparency and openness about all relevant aspects of the different pension schemes, their performance and the pensions market in general. In turn, it is important to stress that pension providers’ ability to fulfil long-term pension commitments are highly dependant on a stable political and legislative landscape regulating the framework conditions under which the pension providers operates.

Regulation that affects the trust is not limited to specific insurance and pensions regulation. Much of the regulation in related areas, such as taxes, design of social benefits and means testing can have a significant impact on pension providers and the precondition under which the long-term pension commitments were made. Therefore changes in regulation of related areas can also affect consumers’ trust in the pension system. Thus, it is a shared responsibility to gain the long-term trust of consumers to ensure adequate pension provisions for the future.
Evaluation of DIA transparency initiatives – background & purpose

In the second half of 2013, consultants from the UK-based branch of Towers Watson carried out an extensive evaluation of the DIA’s transparency initiatives on pensions. The evaluation was a part of an agreement between the DIA and the Danish Ministry of Business and Growth.

The purpose...

of the evaluation was to assess whether the DIA transparency initiatives satisfy consumer needs with regard to information. In particular, to assess whether the information and transparency resulting from the initiatives do in fact offer Danish consumers openness, overview and comparability on pensions and across the pensions market.

Towers Watson also compared the range of DIA initiatives on transparency with the range of similar initiatives from industry associations in Germany, the Netherlands, Sweden and the UK. This comparison was made with the primary aim to investigate the role of the DIA as an industry association in promoting transparency in the Danish market. The comparison does not compare or evaluate the quality or coverage of the initiatives in the different markets.

Towers Watson evaluated the initiatives by...

- Evaluating the DIA initiatives against a theoretical framework of consumers’ need for information
- Evaluating Danish consumers knowledge of their pensions
- Evaluating how consumers assess the information they receive about pension.
Towers Watson’s key conclusions on DIA efforts

Valuable input on how to improve...

The DIA is naturally happy to note the positive evaluation from Towers Watson on the DIA transparency work and initiatives. However, even more importantly the evaluation has provided us with valuable knowledge and insights into consumer needs and how consumer information and tools can be designed and presented to optimise the effects and benefits to the consumers. Some of these insights are presented in the following pages.

Going forward, DIA will use this knowledge to improve our initiatives and generally in our continued work to ensure consumer transparency.

"The DIA has been very active in the field of openness and transparency with a comprehensive set of initiatives”

TOWERS WATSON (PAGE 6)

The initiatives meet consumer needs

“Overall, the coverage of the DIA initiatives against the consumer needs framework is comprehensive. We were able to map all of the existing initiatives to steps in the consumer needs framework. This indicates that all initiatives are playing a positive supporting role in addressing consumer needs.”

TOWERS WATSON (PAGE 6)
The Consumer Needs Framework

To be able to evaluate initiatives against the needs of consumers, Towers Watson developed a theoretical model based on expert knowledge in behavioural theory that maps the “consumer journey” in the ideal world.

In the development of the model, Towers Watson considered a wide range of relevant academic literature regarding consumer decision-making and behavioural economics theories. Towers Watson also met with leading experts within these fields to ensure the validity and soundness of the framework.

The Consumer Needs Framework gives a comprehensive understanding of consumers’ different needs for information through their decision-making processes regarding financial decisions. Both when the consumer is making an actual purchase and when consumer is in the process of evaluating and optimising existing product choices.

In the DIA’s view the insights from the framework can also be used more broadly to generally consider if new legislation creates actual value for the consumer. The value to consumers should in turn be balanced against potential costs.
**Consumer needs framework**

**Step 1:** Awareness of a need
- **Dimension 1:** Decision making process
- **Dimension 2:** Desired consumer behaviour
- **Dimension 3:** Information to enable desired consumer behaviour
- **Dimension 4:** Requirements for presenting information

**Step 2:** Identify the functional requirements
- **Information to increase understanding of personal situation**
  - Financial education
  - Evidence of legitimacy of the system
  - Prompt to take action

**Step 3:** Choose an appropriate type of product/solution
- **High level type of product/solution information**
  - High level information on relevant product types
  - Comparison of different product types

**Step 4:** Evaluate specific products/solutions
- **Detailed product/solution information**
  - Detailed information on products
  - Comparison of products

**Step 5:** Post-commitment evaluation
- **Continual assessment of decision**
  - Confirm ongoing appropriateness
  - Management of product
  - Modify where required

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**Pre-conditions**

- **Trust in the system:** Consumers need to believe the pension and insurance system will meet its commitments
- **Financial literacy:** A basic level of financial literacy is required to ensure the consumer moves between steps and to increase engagement
- **Consumer motivation:** Sufficient interest in pensions and insurance issues to engage in making active decisions
Design information to increase the effect

Based on the Consumer Needs Framework, Towers Watson extracts a checklist that highlights the critical topics to be considered when designing consumer information and regulating disclosure requirements.

According to the checklist, it is key to consider if and how the information encourages consumers’ to take appropriate action and proceed to the next step in the decision-making process.

The checklist gives input on how the information should be designed, presented and framed in order to optimise the likelihood of being effective and understandable to the consumer.

The checklist for design of information requirements

**Ensure a clear purpose – consider:**
- Does the information have behavioural purpose?
- Does the information have personal relevance?
- Does the information have context?

**Ensure the quality of the content – consider:**
- Is the information up to date, factually accurate, and sufficiently complete to enable the consumer to complete the decision step?
- Is the message of the information clear to the user?

**Ensure the right presentation – consider:**
- Is the information presented in an aesthetically pleasing manner?
- Is the information structured – both in terms of complexity and importance?
- Is the information correctly framed to engender action?
The DIA Cost Recommendation
- total costs in a single figure

Following years of challenging work and technical discussions, the DIA published a comprehensive recommendation on costs in 2010. The recommendation sets out the methodology for how the providers must calculate and show customers the total annual costs of the pension scheme the previous year. The Cost Recommendation also has specific requirements for auditing and reporting. The Recommendation is mandatory for all DIA members and therefore covers virtually all pension companies in the Danish market.

Total costs in a single figure
The Cost Recommendation provides the consumer with a single figure comprising all the costs incurred under his or her pension scheme the previous year i.e. the historical actual costs.

The total annual costs are expressed as both ACK (Annual Costs in Kroner) and ACP (Annual Costs in Percentage). In the next layer of information, the costs are split into administration costs and investments costs.

Comparable cost outlook in cost calculators
The cost initiative also dictates that all pension companies must make a cost calculator available to the consumers.

The cost calculator is a cost outlook for the different products the companies provide based on common assumptions for projected returns and company specific investment costs identical to those of the preceding year. The cost calculations are based on the individual consumer’s age, contribution and existing savings.
Towers Watson’s assessment of the Cost Recommendation is based on a thorough technical review:

“We believe that the DIA Recommendation underlying the cost initiative is comprehensive and addresses the significant cost elements that we would expect, given the available data on the financial markets.”

TOWERS WATSON (PAGE 10)

“The initiative is innovative and the underlying cost information is not commonly available in other markets. In our survey of selected European markets we only identified a similar initiative in the Netherlands.”

TOWERS WATSON (PAGE 10)
Effective consumer regulation

Consumers in focus

- useful consumer insights and learnings from the report

Transparency and effective consumer information - a joint responsibility between industry and legislators

The DIA firmly believes in transparency for consumers. We believe that full transparency on insurance and a pension scheme is one of the key building blocks for the foundation to ensure long-term trust in the insurance and pensions industry. Transparency is also key to empowering consumers to make informed decisions about pensions. We acknowledge that the industry plays a huge role in offering all consumers the right and understandable information at the right time. However, regulators deciding on and designing disclosure requirements also share the responsibility in this regard.

Information is good - useful, relevant and timely information is better

The legislative framework and requirements lay down rules for much of the content and timing of the information pension providers are required by law to give to the consumer. This goes both for the information prior to entering into a contract and on an on-going basis for the duration and termination of a pension scheme.

Therefore we urge legislators to pay close attention to the needs of consumers and expert knowledge about how consumer information should be designed to optimise the effect and bring real benefits to consumers when designing future disclosure requirements. The findings stress the importance of meeting consumer needs, which is not necessarily equivalent to more information - but to the right information presented in the right way and at the right time.
Insights on design of effective consumer information

The Towers Watson evaluation has generated valuable insights for the DIA into consumers’ needs for information through Towers Watson’s development of the Consumer Needs Framework and the checklist for design of disclosure requirements.

Insights can qualify on-going work on consumer protection regulation like IDD and PRIIPs level 2

Looking ahead, the DIA hopes that the insights will qualify and bring focus on consumer needs in the future work, nationally in Denmark as well as at the European level in relation to the design of disclosure requirements in general.

In particular, the DIA hopes the insights and experience can help qualify the on-going discussions in the EU on all aspects of requirements on disclosure and in the contexts of PRIIPs and IDD and in the implementing measures at level 2. Also, the DIA believes that it is essential that new rules on conflicts of interests are focused strictly on the needs of consumers.

The DIA is happy to share our experience and the insights from the report on consumer needs and design of disclosure requirements with interested parties and European decision-makers.
DIA openness and transparency initiatives

PensionsInfo
A combined and understandable overview

PensionsInfo is an online portal where the consumers can gain a complete overview of all their pensions and associated insurance entitlements from all their pension providers. This provides an overview for the consumer about his or her personal situation at retirement or in the case of early retirement (lost ability to work), critical illness or death. PensionsInfo covers all three pillars: public pensions including the statutory Labour Market Supplementary Pension (ATP) in pillar one, occupational pensions in pillar two and personal pensions in pillar three.

PensionsInfo is a collaboration between pension funds, life insurance companies, banks, ATP and the public authorities. All pension providers deliver data to the site.

In the end of 2014 the site was re-launched with an entire new design. Generally, Towers Watsons recommendations and the insights from the report have been incorporated in the redesign. In order to give the consumers an even better overview and increase usability the number of the individual calculated pension prognoses has been expanded. The prognosis can now be shown from the age of 60 to 70. Overall the website’s visual effects stands even sharper and in a responsive design. The site has been adopted to use also on tablets.

“This initiative is a testament to the collaboration and openness of the pensions industry in Denmark. The comprehensiveness and accessibility of the information available as a result of the initiative is unique to Denmark.”

TOWERS WATSON (PAGE 6)
Pensions Calculator
Consumers can test their pension

The Pensions Calculator is a web-based tool that can give consumers an indication of whether their pension savings are on the right track.

Consumers calculate their expected income at retirement and compare it to their present salary. The tool can also be used to calculate the effects of later retirement, increased contributions, etc. The tool can to some extent include public pension if desired.

www.pensionsmaaler.dk

“Pensions Calculator provides a clear and simple way for consumers to gauge how much income they can expect to receive in retirement.”

TOWERS WATSON (PAGE 98)
DIA openeness and transparency initiatives

Pensions Overview
Six key figures create an overview

The core of the Pensions Overview is the six central key figures on each of the consumer’s pension schemes. They are shown to the consumer in an easily accessible and clear manner in the annual statements or continuously on the web-based pension statement.

Consumers can see:
- How much have I contributed?
- What benefits can I receive and how much am I entitled to?
- How much have I received in return/interest?
- How much have I paid for insurances?
- How much have I paid in costs (ACK/ACP)?
- What is the value of my pension scheme at year end?

The Pensions Overview was launched at the end of 2010.

“The six key pieces of information that Pensions Overview requires provide the consumer with a simple and good overview of their provision and its management, increasing their understanding of the provisions that they have in place.”

TOWERS WATSON (PAGE 93)
Comparing Pensions
The entire scheme can be compared

Comparing Pensions is the pensions industry’s comparison tool. The companies deliver data that enables consumers to compare different schemes across the different companies. Comparing Pensions compares the typical scheme in each company, i.e. the scheme in which the majority of the customers are enrolled. The companies are compared on the following parameters:
- Interest and return – how has the company performed?
- Costs – How much does the scheme cost, broken down into administration- and investment costs?
- Insurances – which insurances are typically included in the pension scheme
- Savings – does the scheme offer a market return product, a with profit product or both?
- Options - which choices are available on for example investment types and insurance cover?
- Service and advice – what level of self-service is available on the companies web platform.

“A unique tool which we have not seen outside of Denmark.”

TOWERS WATSON (PAGE 7)
Prompt: Contact your insurance company in case of illness

Many consumers are not aware of their entitlements and the help they can receive in case of illness.

When consumers are diagnosed with a critical illness or are on sick-leave, they receive a letter encouraging them to contact their insurance or pension provider. The letter briefly explains that the consumer may be entitled to an insurance payment, guidance or other types of assistance.

Action is made easy by naming the specific company to be contacted and adding contact information.

The system is a cooperation between Danish authorities and the DIA based on a matching of social security numbers between public and company databases.

The system is in accordance with data protection legislation.

“This model of co-operation may be worth further exploration and development”

TOWERS WATSON (PAGE 12)
Background on the Danish pension market and Danish consumers

In Denmark more than 90% of the workforce are covered by compulsory occupational pension schemes. These schemes are either company-specific schemes decided upon by the employer, or schemes based on the collective agreements between the social partners in the labour market.

The high level of mandatory schemes means that there is an inbuilt safety net for most consumers. Even if consumers are not actively engaged in questions of old age retirement provisions and risk covers, the system will pick them up via automatic enrolment as part of their employment and provide sensible default cover.

The social partners or the employer ensures that the scheme meets the needs of the typical member of the group of employees through the selection of defaults. But there are still choices for the individual consumer to make. And ways to influence the scheme directly, e.g. in regard to the type of pension product or the level of insurance cover desired.

Consumers can also indirectly influence their schemes via their representatives or social partners to adapt the schemes to better meet the employee’s needs. This can be a powerful way to ensure that optimal collective choices for consumers are made. Transparency is essential to enable this and give individual consumers confidence that their representatives or social partners are acting in their best interests.

There are therefore important decisions in both occupational and individual pensions that require consumer engagement and decisions to achieve optimal outcomes. To this end transparency and the right consumer information are essential.
Who is the DIA?

The Danish Insurance Association is the trade association of Danish insurance companies and industry-wide pensions funds.

The Danish Insurance Association represents the interests of the Danish insurance and pension industry. It is our vision that the industry is recognized as a significant player that contributes positively to the general sense of security and to solving the challengers of the welfare society.