Digital Disruptions that will Transform the Retirement Industry

Abstract

People globally are living longer -- in fact global average life expectancy increased by 5.5 years between 2000 and 2016, the fastest increase since the 1960s[1]. This is primarily due to factors such as medical advances and healthier lifestyles. This, in turn, might result in a longer life span after retirement, which underscores the need for retirement planning to ensure that people have sufficient income to last for, and can continue with their current standards of living, even after retirement. In addition to increased life expectancy, a key factor changing the retirement planning picture is that employers are moving away from Defined Benefit (DB -- guaranteed pensions provided by employers) to Defined Contributions (DCs), wherein employees take on the onus of planning for their retirements. While defined contribution-based retirement solutions provide flexibility to savers, they also put an enormous amount of responsibility on them to plan for retirement. In terms of numbers, while DC Assets accounted to USD 3.4 trillion in the

early 2000s, it (almost) doubled to USD 7.0 trillion by end of year 2016[2] and this figure reached a whopping USD 8.2 trillion by end of Q1 2019[3]. DB plans have reduced to half over the past 40 years (32% in 2018 vs 67% in 1976).[4] To ensure that people save more, employers are trying to drive more engagement with the retirement planning process for their employees, with tactics such as enhancing participant portals to make them more intuitive and introducing financial wellness programs. There is a growing expectation that retirement providers will enable new capabilities related to financial wellness in their offerings to employers and their employees. This paper discusses the digital enhancements that retirement providers can adopt to handle the shift from DB to DC, changing customer preferences, and the evolving regulatory environment – and ultimately become Business 4.0™ organizations that are able to leverage a framework of business behaviours, which optimize the digital advantage to create customer value.

Need for Digitalization in the Retirement Industry

The retirement industry is evolving as never before, both because of demographic changes (participants are living longer and hence the need for planning for their retirements for more years), as well as a transition in the retirement industry from Defined Benefits Plans to Defined Contribution Plans. This puts a lot of responsibility on the Plan Participants themselves to plan for their retirements in a focused manner.

One way or another these developments provide better flexibility and, at the same time, shift responsibility for financial planning to consumers. But, they can't really do this in the current complex, opaque and paper-based financial services environment. Therefore, there is a very strong need to introduce digital disruptions into this industry. These capabilities also are directly related to the Business 4.0 themes such as delivering mass personalization, leveraging ecosystems, embracing risk and creating exponential value for our customers, comprising four technology pillars: Agile, Automation, Intelligent and Cloud. Here are the seven most promising technologies that providers must explore.

1. Conversational experience

Retirement providers must consider introducing conversational platforms such as chatbots, which enable webchats to facilitate conversations between participants and retirement providers fairly easily, to enable participants to plan for their retirements from the comfort of their homes. These chatbots must be equipped to handle all queries about workplace retirement plans, individual plans and investment portfolios around the clock. This can help avoid the long hold times that these participants often face when they need to call participant helpline numbers. Well-known chatbots such as Apple Inc.'s Siri, Google Assistant and Amazon Alexa can be incorporated into the retirement process. Chatbots can be trained to handle simple queries about changes in contribution, withdrawals (including hardship withdrawal and non-hardship withdrawal), permissible loans and repayment plans, rules pertaining to required minimum distributions (RMDs), transferring from one fund to another, and so on. Complex queries can automatically be routed to a retirement advisor; this would improve the experience by eliminating the need to contact the busy helpline numbers, and will lead to speedy address of queries from plan participants.

2. Digital financial wellness solution

Research has found that poor financial wellness impacts the productivity of employees and leads to absenteeism. Employers increasingly are looking at retirement plans that include a financial wellness program to demonstrate their concern for employees' financial well-being and to help enhance employee productivity and retention. Retirement providers must therefore launch digital financial wellness solutions to address participants' personal finance issues, increase engagement, and help employers improve employee productivity and, ultimately, the bottom line. Digitally engaging questions can be asked to collect information about participants' financial stresses, and the insights gained can be leveraged to help resolve them, as well as to help participants achieve their retirement goals.

3. Analytical frameworks

Analytics could be introduced to generate insights from the wide variety of participant data that is already sitting with the retirement providers. Retirement providers are sitting on huge mines of participant data. This data, if analyzed, can yield rich insights into the needs and problems faced by participants. The most common problem revolves around withdrawals -- withdrawing from a 401(k) plan is a complex process with a long turnaround time (TAT), and participants are often frustrated, leading to a poor experience. Retirement providers must adopt analytics frameworks to gain insights into specific pain areas and plan how to tackle them to bring down the TAT and improve the experience.

4. Tie ups with e-notaries

In case participants have to take distributions from their 401(k) accounts, they need to have a spouse's consent notarized in the form. The participant, along with spouse, must visit a notary office to get the spouse's signature notarized. This process causes a lot of delay in getting the distribution to be paid out to the participant. Instead, retirement providers can look at having tie ups with digital notaries who can facilitate this process in a single sitting over webcam and then send the notarized form over email. This could drastically bring down the TAT for the retirement distribution. As of May 2019, 21 states (including Arizona, Michigan and Minnesota) had passed and/or enacted Remote Online Notarization laws. More states are initiating legislation to allow online notarization[5].

5. Blockchain

Blockchain also could be introduced to streamline the plan documentation process. Retirement providers could start to realize some benefits by building small prototypes to showcase a blockchain solution. Retirement providers are required to prepare, retain, and store plan documents for four or five decades, on average, for each participant. Creating plan documents is a complex process, as granular details will need to be included. Retirement providers must adopt blockchain technologies to automate the document management processes. Since blockchain does not allow deletion of records, data authenticity is assured.

6. DIY robo advisory

To cater to the tech-savvy millennial generation, retirement providers must consider building Do It Yourself (DIY) portals with on-demand robo-advisory features to enable millennial participants to plan their investments. A portal that provides a complete view of all the investments and aggregated retirement portfolios will give participants a better picture of their financial situations. The portal must provide 24/7 access to plan information and enable participants to transact 24/7. Retirement providers also should consider partnering with well-established robo-advisory firms for retirement portfolio services. Since millennials want to try out everything by themselves rather than being guided every moment, these DIY portals will give them a lot of independence to try out the different features. And, of course, for further assistance, help is just round the corner.

7. Gamification

Another digital advance could be through gamified channels, where participants are encouraged to go for auto enrollments and increase their retirement kitties. Gaming techniques can be used to educate participants about the various aspects of retirement planning and processes, which will help them understand their importance and what to expect from their portfolios. Gaming techniques can be employed to demonstrate how participants can auto-enroll and enhance their retirement kitties. Retirement providers must consider offering tools such as gamified videos, pension calculators, and quizzes to educate plan participants about the importance of saving for retirement. Videos can be used to demonstrate how participants can build up their retirement kitties year to year by transferring money to their 401(k) accounts. Gamified videos can be used to show the different withdrawal options (such as hardship withdrawal, non-hardship withdrawal or loan) available, the process to be followed, and the long-term impact of such withdrawals.

Looking Ahead

The retirement space is evolving as never before and is ripe for digitalization. The US government's auto enrollments initiative (Pension Protection Act of 2006) has mandated that employees start participating in employer-sponsored retirement plans as soon as they are on-boarded. Now is the time to undertake digital transformations that will give providers a true competitive advantage. While participants can reap the benefits of these digital disruptions to plan for sound retirements, digitalization will also give a boost to retirement providers in terms of keeping participants motivated to invest for their golden years.

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About The Author

Shalini Joshi

Shalini Joshi is a Domain Consultant with TCS' Banking, Financial Services and Insurance Platforms business unit. She has worked with leading financial services firms and multinational banks, over a span of 20 years in the capital markets space. Joshi has a bachelor's degree in Commerce (Honors) from Sri Venkateswara College, Delhi University, India, and a master's degree in Business Administration, with a specialization in Finance and Marketing, from Jaipuria Institute of Management, Lucknow, India. She also has Series 6 and Series 63 certifications from the Financial Industry Regulatory Authority, Inc. (FINRA), USA.

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