defaqto★

# Pension Service Review 2024

**February 2024**

# Contents

# Introduction

**Defaqto undertakes an annual satisfaction survey among financial advisers to establish the service levels of providers of wealth and protection products. This paper sets out the results for the pensions market.**

The online survey took place between August and September 2023 and canvassed the opinions of 385 financial advisers measuring the importance to them of seven categories of service:

**Provider strength and brand** – Consideration given to brand strength, financial strength, integrity and ease of doing business

**Provider staff** – Consideration given to account manager/business development manager capabilities, including their knowledge and relationship skills, administration staff competency, courtesy and effectiveness, and helpdesk capability

**Product and proposition** – Consideration given to product design and innovation, product marketing material, product training, investment options and value for money

**New business servicing** – Consideration given to quotation capabilities, sales support, processing timelines, transfer in assistance and processes, remuneration structure and the speed and accuracy of its payments

**Pension freedom servicing** – Consideration given to set-up timescales and efficiency, accuracy of transfers in or out, ad hoc or regular income payments, switching and cash management

**Existing business administration** – Consideration given to policy alterations, transfer out processes, valuations and switching capabilities

**Online services** – Consideration given to investment support tools, IT technical support, ease of online portfolio management, ease and speed of online transactions, system reliability and access, website content and website functionality

# Methodology

First, we asked advisers to tell us how important the seven service disciplines are to their businesses using a five-point scale from 'not at all important' through to 'very important'. From this we calculated a mean score out of five to determine the importance of each individual aspect of service.

Next, we identified which providers are being used regularly by advisers and asked them to rank them in order of preference.

Finally, we measured the advisers' satisfaction levels with the preferred providers, again using a five-point scale ranging from 'very dissatisfied' through to 'very satisfied'.

For the providers that qualify, we combine the 'satisfied' and 'very satisfied' responses to determine the 'total satisfaction score' for each individual aspect of service. These are weighted by the importance of each category and then aggregated to determine one overall satisfaction index for each preferred provider.

The satisfaction indices by category are available within Defaqto Engage (Centra for SimplyBiz users), our financial planning software solution. They are also the basis of Defaqto's Gold and Silver service ratings.

# Key findings

The study was conducted between August and September 2023 employing online fieldwork techniques. It measured the relative importance of seven satisfaction categories and identified the advisers' preferred providers of pension products.

The study measured how satisfied the advisers are with their preferred providers and identified where expectations were being met by cross-matching ranked importance with ranked satisfaction.

- Personal pensions, SIPPs and drawdown plans remain the most popular pension product options. But compared with the previous study there has been a renewed interest in other decumulation options, such as annuities and hybrid solutions.

- On average, advisers are placing business with 4.25 providers, an increase from 2022 when the average provider count was 3.9.

- On average, advisers are utilising 3.84 different pension products, an increase from 2022 when the average count was 3.2.

- In 2023, Royal London retains its top position as the most recommended pension provider ahead of Aviva Life & Pensions and Prudential.

- Royal London achieved the greatest number of top three positions – 30% – followed by Aviva and Quilter with 24% and 18% respectively.

- In the ranked order of importance, *Product and proposition* and *Pension freedom servicing* are once again the top two categories for advisers. All other categories received slightly lower scores than last time, but *Existing business administration* increased two ranked positions from fifth to third and *Online services* by one ranked position from sixth to fifth.

- Industry satisfaction has declined for all categories by an average of 8%, and for some by as much as 11%. This paints a picture of challenged service levels and general dissatisfaction with pension providers.

- InvestAcc achieved the top score for five of the seven categories of satisfaction. Royal London, Quilter and 7IM were also well represented in the top three for various categories,

- A cross-match of ranked unweighted satisfaction with ranked importance shows that the industry is failing to meet expectations for five out of the seven categories of service, although there is a good correlation for four of the categories where performance is just one or two percentage points short. Most concerning is *Existing business administration*, which is ranked as the third most important category but achieved the lowest unweighted performance scores.

# Individual pension products

**Q** **Which types of pension products have you recommended in the past 12 months?**

Chart 1 shows the types of pension products advisers have been recommending in the last 12 months.

**Chart 1: Pension products recommended in the past 12 months**
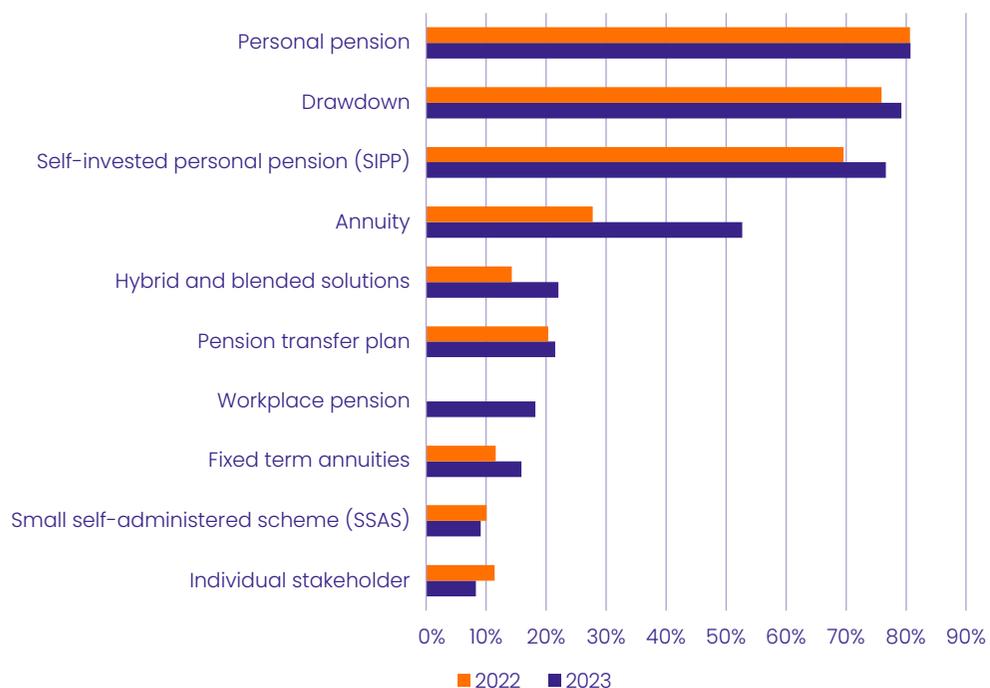


Economic and regulatory changes have resulted in significant shifts in the pension market over the last two years.

## Economy

Limited stock market growth and stagnant dividend yields against a backdrop of high inflation has made the secure inflation linked income provided by annuities much more popular.

# Individual pension products (continued)

## Regulation

The Consumer Duty and the FCA thematic review of retirement income advice have increased the pressure on advisers to justify their advice and prove their value.

We have seen a 7% increase in SIPPs, up to 79%, and a decrease in SSAS, we suspect as a result of the proposed £10,000 levy on SSAS.

Decumulation has also been a winner. Some 3% more advisers said they recommended drawdown and 25% more said they recommended annuities including conventional non-profit, enhanced, impaired products.

The use of hybrid and blended solutions (combination of annuity and drawdown) also jumped from 14% in 2022 to 22% in 2023.

We asked about workplace pensions for the first time in this year's study and 18% of advisers said they were recommending them.

In 2022, advisers were recommending 3.2 different types of pension products, which rose to 3.84 this time (or 3.6 if you discount workplace recommendations). This represents a significant increase, again driven by the increased interest in decumulation products.

# Pension providers

**Q** **Which of the following providers have you placed business with in the last 12 months?**

**Chart 2: Pension providers recommended in the past 12 months**



Legend: ■ 2022  ■ 2023

Providers listed (top to bottom):
Royal London, Aviva Life & Pensions, Prudential, AJ Bell, Quilter, Fidelity Adviser Solutions, Transact, Aegon Retirement Choices (ARC), abrdn (for Wrap), Canada Life, abrdn Elevate, Aegon Platform, Scottish Widows (Retirement Account), M&G Wealth, Standard Life, Nucleus, 7IM, Novia Financial, LV=, Advance by Embark, James Hay Partnership, Embark Pensions, InvestAcc, Fundment, Talbot and Muir
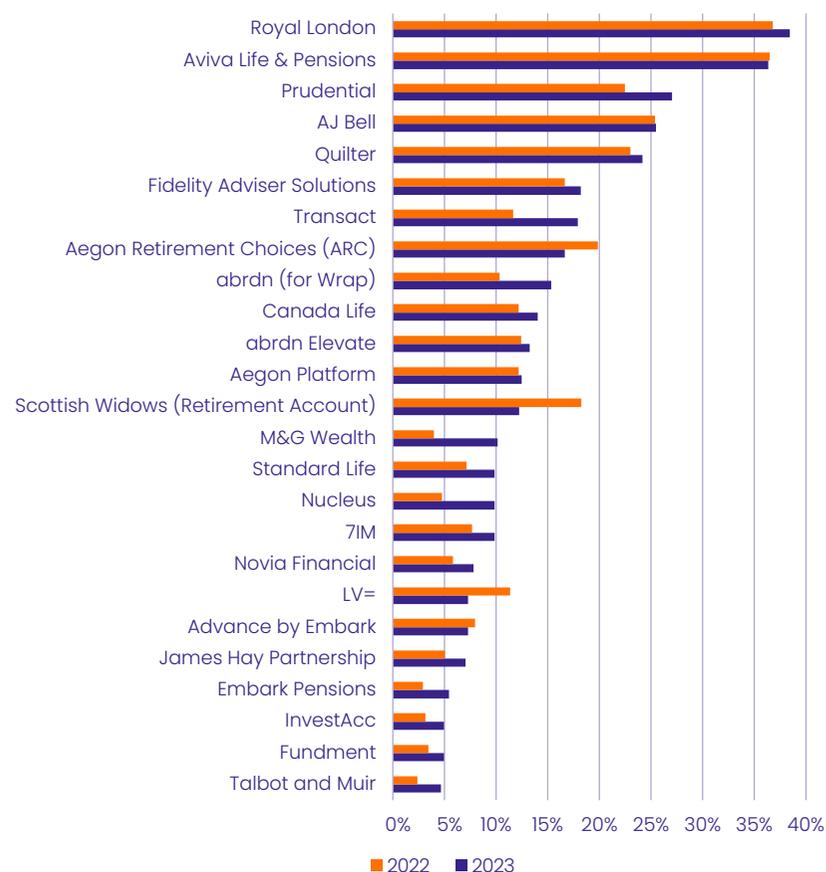
Chart 2 shows the different providers used by advisers in the last 12 months.

Royal London retains its top position as the most recommended pension provider in 2023 and has increased its lead slightly ahead of Aviva Life & Pensions compared with 2022. Both firms have the support of in excess of 35% of advisers.

Prudential has also increased support from advisers, this time moving it into third place ahead of AJ Bell and Quilter.

The remaining providers have south of 20% support from advisers.

On average, advisers are placing business with 4.25 providers, an increase from 2022 when the average provider count was 3.9. This may be the result of increased use of in-retirement products this time, which necessarily may involve different providers from those usually selected for pensions.

# Preferred providers (continued)

Where advisers said they recommend more than one provider for pensions products, we asked them to rank the providers they use in order of preference.

**Table 1: Percentage of top three preferences by provider**

| Provider | First or only choice | Second choice | Third choice | Total (rounded) | Provider | First or only choice | Second choice | Third choice | Total (rounded) |
|---|---|---|---|---|---|---|---|---|---|
| Royal London | 15% | 11% | 4% | 30% | Nucleus | 5% | 2% | 1% | 8% |
| Aviva Life & Pensions | 9% | 10% | 5% | 24% | Scottish Widows (Retirement Acc) | 1% | 3% | 3% | 6% |
| Quilter | 10% | 5% | 3% | 18% | 7IM | 4% | 2% | 1% | 6% |
| Prudential | 4% | 6% | 7% | 17% | M&G Wealth | 2% | 1% | 2% | 5% |
| AJ Bell | 6% | 6% | 4% | 16% | Novia Financial | 2% | 2% | 1% | 5% |
| Transact | 6% | 4% | 3% | 14% | Aegon Platform | 1% | 2% | 2% | 5% |
| Fidelity Adviser Solutions | 4% | 4% | 2% | 10% | Canada Life | 1% | 1% | 2% | 5% |
| Aegon Retirement Choices (ARC) | 3% | 3% | 3% | 9% | Standard Life | 1% | 1% | 2% | 4% |
| abrdn (for Wrap) | 5% | 2% | 2% | 9% | Wealthtime | 3% | 1% | 0% | 4% |
| abrdn Elevate | 4% | 3% | 2% | 9% | InvestAcc | 1% | 2% | 1% | 4% |

# Preferred providers (continued)

**Table 1: Percentage of top three preferences by provider (continued)**

| Provider | First or only choice | Second choice | Third choice | Total (rounded) |
|---|---|---|---|---|
| Fundment | 1% | 2% | 1% | 3% |
| LV= | 0% | 1% | 2% | 3% |
| Advance by Embark | 1% | 1% | 1% | 3% |
| James Hay Partnership | 1% | 1% | 2% | 3% |
| Embark Pensions | 0% | 1% | 2% | 3% |

Royal London achieved the greatest number of top three positions and the greatest number of first place positions. The firm was the first choice of 15% of advisers and the first, second or third choice of 30% of advisers.

A total of 24% of advisers placed Aviva Life & Pensions in their top three selection, but the firm was the first choice for only 9% of them, behind Quilter which was the first choice for 10% of advisers.

# Importance

**Q** **How important are the following factors when it comes to the service provided by pension providers?**

In this study, the providers were measured against seven categories of service weighted according to the level of importance that advisers attach to each of them.

We asked the respondents to say how important each of these categories of service is to their business, ranging from 1 'not at all important' to 5 'very important'. From the range of responses, we are able to calculate an average score and rank the categories in order of importance; see Table 2.

**Table 2: Ranked importance**

| Year | 2023 | 2022 |
|---|---|---|
| Product and proposition | 4.66 (1) | 4.61 (2) |
| Pension freedom servicing | 4.63 (2) | 4.64 (1) |
| Existing business administration | 4.50 (3) | 4.52 (5) |
| New business servicing | 4.49 (4) | 4.58 (3) |
| Online services | 4.48 (5) | 4.49 (6) |
| Provider strength and brand | 4.42 (6) | 4.55 (4) |
| Provider staff | 4.39 (7) | 4.48 (7) |

*Product and proposition* and *Pension freedom servicing* are once again the top two categories for advisers, with the former now in pole position with a slightly increased average importance score. All other categories received slightly lower scores than last time, but the relevant ranked order is possibly more significant.

*Existing business administration* increased two ranked positions from fifth to third and *Online services* by one ranked position from sixth to fifth.

*Provider staff* was deemed the least important category, being ranked seventh this year and last year.

# Satisfaction

Satisfaction is calculated with reference to scores awarded to the providers for each of the seven aspects of service in the range 1 – 5, where 1 equates to 'very dissatisfied' and 5 equates to 'very satisfied'.

Table 3 shows the satisfaction indices for each service category for the industry as a whole. The indices are weighted by the importance scores the advisers gave each category.

The first thing to note is that industry satisfaction has declined for all categories by on average of 8%, with *Existing business administration*, *New business servicing* and *Online services* having dropped by a concerning 11%.

What is clear is that advisers are increasingly dissatisfied with pension providers across all measurements. Perhaps this is an indication that their propositions have not kept pace with the evolving regulatory environment.

Whatever the reason, it is a clear message that advisers expect better.

**Table 3: Weighted satisfaction by category and order by ranked importance**

| Satisfactory category | Importance | Weighted satisfaction 2023 | Weighted satisfaction 2022 |
|---|---|---|---|
| Product and proposition | 1 | 81% | 85% |
| Pension freedom servicing | 2 | 78% | 85% |
| Existing business administration | 3 | 69% | 80% |
| New business servicing | 4 | 72% | 83% |
| Online services | 5 | 69% | 80% |
| Provider strength and brand | 6 | 79% | 86% |
| Provider staff | 7 | 71% | 78% |
| **Overall** | | **74%** | **82%** |

# Best performing providers

Based on the weighted satisfaction indices for each provider, we can identify the top performers in each of the seven categories of service.

Those placed first, second and third for performance are show in Table 4.

**Table 4: Best performing pension providers by category**

| Satisfactory category | 1st place | 2nd place | 3rd place |
|---|---|---|---|
| Provider strength and brand | 7IM<br>LV=<br>Royal London | Prudential | Quilter |
| Provider staff | InvestAcc | Nucleus | Royal London |
| Product and proposition | InvestAcc | Royal London | 7IM |
| New business servicing | InvestAcc | 7IM | Royal London |
| Pension freedom servicing | InvestAcc<br>Wealthtime | AJ Bell | Quilter |
| Existing business administration | InvestAcc | Wealthtime | Canada Life |
| Online services | Fundment | Quilter | Nucleus |

InvestAcc makes the most top three appearances and placed first for performance for five of the seven categories of satisfaction. Royal London was also well represented with four top three places, but only one first place.

Quilter and 7IM achieved three top three positions and Wealthtime two. Fundment received the highest performance scores for *Online services*.

# Expectations

Ranked order of unweighted satisfaction plotted against ranked order of importance is shown in Chart 3 and demonstrates where expectations are being met.
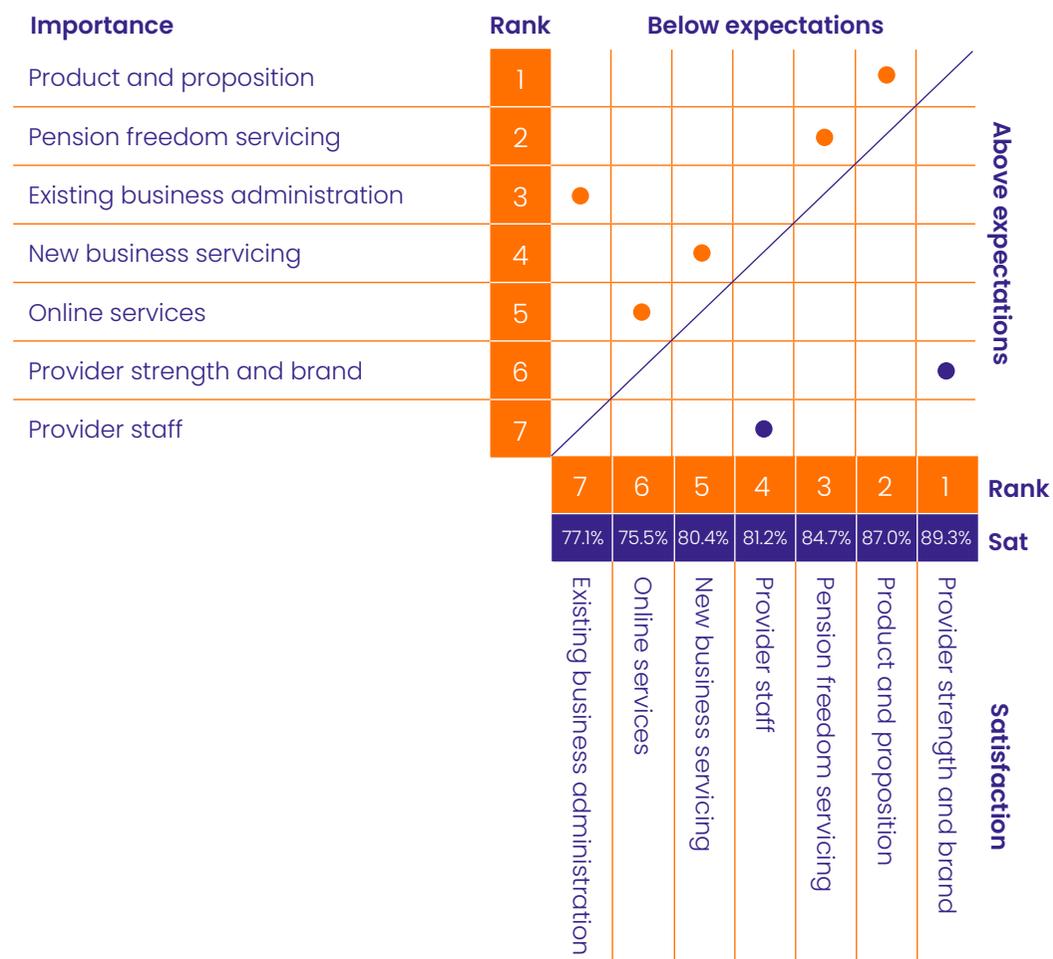
A cross-match of ranked unweighted satisfaction with ranked importance shows where expectations are being met or where the industry is falling short.

The chart shows that the industry is failing to meet expectations for five out of the seven categories of service, although there is a good correlation for four of the categories where performance is just one or two percentage points short.

Most concerning is *Existing business administration*, which is ranked as the third most important category but achieved the lowest unweighted performance scores. The industry needs to apply more resource to improving this area of support.

*Provider strength and brand* is the highest performing category but ranked only sixth. *Provider staff* achieved an unweighted satisfaction score in excess of 80% but is ranked seventh for importance.

**Chart 3: Expectations – cross-match of satisfaction versus importance**



| Importance | Rank | Below expectations | | | | | | Above expectations |
|---|---|---|---|---|---|---|---|---|
| Product and proposition | 1 | | | | | | ● | |
| Pension freedom servicing | 2 | | | | | ● | | |
| Existing business administration | 3 | ● | | | | | | |
| New business servicing | 4 | | | ● | | | | |
| Online services | 5 | | ● | | | | | |
| Provider strength and brand | 6 | | | | | | | ● |
| Provider staff | 7 | | | | ● | | | |
| Rank | | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| Sat | | 77.1% | 75.5% | 80.4% | 81.2% | 84.7% | 87.0% | 89.3% |
| Satisfaction | | Existing business administration | Online services | New business servicing | Provider staff | Pension freedom servicing | Product and proposition | Provider strength and brand |

# Service and due diligence

The results and insights in this document have been collated from a survey among financial advisers and reflect the service and levels of satisfaction those advisers have experienced.

While there is not a direct relationship with the service experience of consumers, there should be a good correlation for clients of adviser firms. It stands to reason that where the adviser is receiving good service, they can be more confident and better equipped to meet client requirements.

This high-level commentary is supported by the detailed scores for each provider listed by service satisfaction category in Defaqto Engage (Centra for SimplyBiz users). We do not anticipate that advisers use service scores as the sole measure of suitability, but rather that service scores may feature as one of a number of selection criteria. Advisers should continue to conduct their own research and document their findings before recommending any suitable solutions.

# Defaqto Engage

Defaqto Engage (Centra from SimplyBiz) is our financial planning software solution enabling advisers to manage their financial planning process all in one place.

Our software contains a wealth of product and proposition information to help advisers select a product that is suitable for their clients' needs and evidence their due diligence for compliance purposes. You can see more at **defaqto.com/ advisers/solutions/engage**

The satisfaction results, by category, are available within Engage (Centra for SimplyBiz users). Advisers can use the individual category satisfaction scores (for example, new business services, existing business administration, online services) during the research process, as one of a number of selection criteria. They can also be added to comparison tables.

Advisers should note that not all providers are rated. To qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

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