

Why Does the Pensions Industry Need Member Focussed “STP”?

James Markham explains the mechanics of a technology taking pensions by storm

What is straight through processing (STP)?

A good way to explain STP is by using the example of online car insurance. I can complete that kind of transaction online in about three minutes. In that transaction, I, as a purchaser of car insurance, can find a provider, request a quote, have my claim history/legal compliance/eligibility/etc checked on various insurer and government databases, receive an offer, and buy – and I can do all of that in very short order. That is straight through. The transaction is complete, and I don't need to make any phone calls or send an email or letter to buy the car insurance. STP describes the initiation and completion of a specified complex transaction, involving a number of interconnected systems and procedures, for a specified set of users.

How does this apply to the pensions industry?

The pensions industry has never been particularly focussed on what members want to know about or do with their pension scheme. The movement to DC pensions, with its implied need for more member participation, has made this gap all the more apparent. The capabilities that the pension industry now mostly provides online empower the user to do things that the user has not shown much interest in doing – for example fund switching, and fund choice. The industry needs to take more time to consider what the user actually wants to know or do, and how that differs according to age, earnings, and various other factors. Experience elsewhere in industry shows that user take-up of goods and services is heavily influenced by the relevance of the communications and the ease with which the user can carry out the transactions they desire. Investment in STP would support this objective and help get away from the existing disjointed

technology solutions, high levels of manual handling, and high cost.

How is this changing?

The industry has not moved very far down that path yet, but it is beginning to turn. The most likely technology strategy that is emerging is the building of middleware technology hubs that enable straight-through processing of relevant transactions by connecting the users – any kind of user, be it an employee, IFA, administrator, consultant, or customer service adviser – to the existing legacy systems in this industry, avoiding the need to change those existing systems, many of which just can't be changed, because they're too old and the investments too substantial.

What should the pensions industry bear in mind when implementing STP?

There are three major considerations. First of all, we all need to think more broadly about what the user actually needs to be able to do/transact, rather than simply assuming, for example, that they should want to make choices about their funds. We also need to start making better choices regarding the right technology to build a cost effective straight through engine that will enable those transactions the user wishes to do. Finally, we need to implement the right procedures within our organisations to be sure of appropriate data input quality to the transactions – the Achilles heel of STP is that if you put rubbish in, you get rubbish out. The likelihood is that if we don't deliver this pensions equivalent of Amazon, someone else will!

