Customers’ expectations from savings products

Stanislav Dimitrov* A

A VUZF University, 1, Gusla str., Sofia, 1618, Bulgaria

Received: April 22, 2021 | Revised: May 28, 2021 | Accepted: June 12, 2021

JEL Classification: G51, G52, G41.

DOI: 10.38188/2534-9228.21.2.01

Abstract
Customers expect certain characteristics from long-term savings products. Providers are not able to supply all of these characteristics in one product at the same time. In addition, there are changing attitudes of the savers and the requirements to the financial institutions are evolving. The paper is analyzing the customers’ expectations from the long-term savings products. The manuscript is searching answer which are the most important characteristics of the savings products from the point of view of the client. The research is focused on three main areas: which are the customers’ expectations; what is the current environment in the market of savings products and what developments can we expect in the coming years. One of the conclusions is that the providers have to adapt their products to the customers’ expectations in order to succeed and to reach further development of the markets. Another conclusion is that customer centric products will gain greater trust among potential savers. We believe that the successful saving product has to be simple, transparent and cost-efficient. This reflects the surrounding environment of low interest rates, ageing population, increased informational flow, digitalization and alternative products development. To support the savers and the providers it is needed public help, targeting good coverage and constant efforts for active role of the stakeholders in the savings process.

Keywords: customers’ expectations, behavioural science in savings products, trade-off between risk and reward in long-term products.

Introduction
The research is motivated by desire for detailed analysis of the customers’ expectations and the real possibilities to meet these desires by the financial institutions and the regulators. The theme is very interesting in the light of the tendencies in the market of the savings products. These tendencies include increased flow of information, higher capital requirements for the providers, ageing population, increased career uncertainty, fintech development, low interest rate environment and others. The paper searches answer where is the balance between the interests of the savers and the product providers.

Material and methods
The aims of the research are reached through the following methodology: analysis of the customers’ expectations; description of the current environment in the savings markets; review of the policy in the sphere from the European Union (EU); exploration of the literature on the topic; discussion of the probable trends in the savings markets.

Results and discussion
Based on the analysis reached is the conclusion that saving products providers have...
to adapt their products to the customers’ expectations in order to have success and to develop the markets.

Customer centric products will gain greater trust among potential savers. The successful saving product has to be simple, transparent and cost-efficient. The challenges are in the contradictory forces: simple product versus long term nature of the product and complex business model; standardized features and the discretionarity of the providers; transparency and the decision power changing within the saver; cost efficiency versus good quality product and service; low risk and high return and others.

CUSTOMERS’ EXPECTATIONS
Different factors influence the decision of a potential saver to buy a saving product. Some of these factors are security of the product, risk profile, costs, expected investment return, trust, income, propensity to save, alternatives, public attitude and others.

The following figure presents the most important characteristics of a saving product for the potential saver.

Figure 1.

The main conclusion from the figure above is that the security of the saving is the most important factor that influences the customers decision when choosing a product for pension saving. More than 67% pointed this factor versus the investment return, the level of risk and the price of the product. The second most important factor is the investment return with 22.40% from the respondents. The level of risk and the price are with close results – around 5.20% – 5.30%.

The guarantee is wide spread in banks and life insurance products (EIOPA, 2020). Guarantees in products of private pensions are developing taking into account the big social impact of these supplementary pensions. Some of the guarantees take the form of guarantee for the paid contributions, minimum investment return for certain period of time, guaranteed amount of pension and others.

It is well known that the four most important characteristics of a saving product are the expected capital at the end of the contract, the incurred costs, the affiliated risks and the incorporated guarantees. In other words, the saver is influenced by the product related safety, costs and profitability.

The next question is why savings products are so important nowadays. Part of the answer is in the gap between the required income replacement ration and the resources of the public pension systems. Figure 2 presents the expected income replacement ratio from pensions.

Figure 2.

The information from the figure shows that 61.5% from the respondents say that 80% is the target income replacement ratio from pensions. It has to be taken in mind that at the moment (2019 figures) the value of the coefficient is 39.8% in Bulgaria. It is 58% average for the EU. As a consequence, to the 40% from the public pension system (PAYG system) have to be added additional pensions to match the other 40%. The supplementary pensions are mostly regarded as the best appropriate additional income (European Commission, EIOPA, OECD, World Bank, IMF and others) for the pensioners.
The next figure shows how much money the savers are ready to pay in order to reach the required income replacement ratio.

Figure 3.

Contributions between 5% and 10% from the monthly income is the most preferred option when speaking for the readiness to pay for voluntary pension. 62.20% from the respondents express readiness to pay this size of contributions in order to secure additional income after retirement.

As a conclusion people are ready to pay enough for supplementary pensions. They expect very realistic income replacement ratio. The potential savers are saying that security is the most important characteristic that they require from a saving product.

**CURRENT ENVIRONMENT**

Let’s analyze what is the current environment in the savings markets taking account the customers’ expectations. The information in the following figure presents that more than 84% of the respondents feel that they need to save for voluntary pension. The result is good news for the savings product providers.

Figure 4.

It is interesting to compare the information with the results from the 2018’s study. Figure 5 presents the answers of the respondents.

Figure 5.

The figure above shows that the “yes” answers are very close in the two studies conducted in different years – around 84%. The structure of the “yes” answers inclines that people prefer to dispose with personal assets and that they are aware the pension from the public system will not be enough to match their expectations for income after retirement.

As a conclusion the majority of people feel need to save for voluntary pension. The Pan-European personal pension product (PEPP) is one potential product for retirement saving. The next figure presents the people’s expectation whether the PEPP will increase the retirement savings.

Figure 6.

The results from the first look is a surprise - the answers “yes” and “no” are divided 50:50. It is valuable to see the reasons behind the answers. Because of lack of trust 28% are not
seeing PEPP as a driver for saving. We stress that here the key word is “trust”. The second reason for negative answers is the low income received from the people. Low-income levels lead to increased difficulty to save for future retirement. The main reason for the positive answers is the expectation for security to be inherent to the PEPP.

The figure below displays information about the answers two years ago – 2018 survey.

**Figure 7.**

The information in the figure shows that security again is behind the main expectation of a customer from personal saving product (improved supervision).

It is interesting to see in which group of financial institution people have higher trust with reference of a potential savings product provider.

**Figure 8.**

Pensions’ institutions come first with 40.50% of the respondents. This result is logical because the question implies “retirement product”. Second are banks with close to 30%. Life insurers are third with close to 19% and the last are asset management companies with little above 11%. These results vary depending on the country. The different results are explained with the local specifics, history of financial institutions development, structure of the financial markets and others.

The next figure displays information about the preferred product for accumulating capital for income after retirement. The results again could be explained with the specifics of the local markets in a given country.

**Figure 9.**

The highest result is for real estate with 37% of the respondents. Second is saving in pension fund with 25%. The results imply that people want to have control over the saving and also, they are inclined to trust a product that has positive history.

The historical results are linked with the gained trust. Standardised features could be a way to increase the trust in personal pensions savings. Part of this is the standardised informational documents. Information is very important element of the transparency. The long-term nature of the savings products requires transparency in order to convince the potential saver to buy. At the same time there is a risk of information overload. Too much information or delivered in improper way can
confuse or raise some doubts in the potential client. That is why you need simple disclosures. The disclosures depend on the characteristics of the product. It means product that is easy to understand and to process the information. The business model behind the product has to be simple.

Personal savings products are retail products. The results of personal sales depend on what answer will be given to the questions: how well the products are known; whether active means of contact with consumers are used; how convincing are the arguments of the offering pension product; what are his/her reactions and business behavior; how much financial and intellectual resources will be used for personal sales (Misheva Ir., 2016).

The positive influence of the consumers’ expectations in the product design and informational documents content is proved from the carried-out testing among consumers (London School of Economics and Political Science, Open Evidence and BDI Research, 2020) for PEPP of the key informational document (KID) and the benefit statement (BS) mock-ups. It is a necessity in the process of product design to take into account the communication design, behavioural studies and consumer testing. Valuable information from this testing is the influence of particular factors in both ways alone each other and in combination: security guarantee; annual cost (1%); risk profile (low or high); quality assurance (EU flag); social nudge and reward projection.

WHAT TO EXPECT

Based on the analysis above we can conclude that the successful savings products need to have high protection, to be simple and cost-effective. The low costs are connected with the performed services, the coverage of the insurance, the active role of the state, the targeted investment return and the associated risk-profile.

When referring to the risk appetite the majority of the respondents prefers balanced risk investment portfolio – 69.20%. The information is presented in the following figure.

Figure 10.

The second preferred option, with very big difference to the first one, is low risk portfolio with 18.90% from the respondents. High risk portfolio in searching high investment return attracts 7%. Close to 5% of the people will rely on the default option.

Elements of the active role of the state are the detailed regulations, the effective supervision, the informational campaigns, the long-term policy in the sector, the granted tax advantages and others.

The following figure displays information at what extent the tax reliefs are factor in saving for retirement (buying PEPP).

Figure 11.

More than 67% are saying that the tax relief is a factor in buying personal saving product. It is interesting that the two stated reasons attract high number of votes. 39.80% are saying that the saved tax through the product is of great importance. 27.30% refer to the tax relief as a sign that the state is encouraging the saving.

Another milestone for successful saving product is that there is a need of balance.
between detailed legislation/requirements and enough room for healthy competition. One element of the healthy competition is the flexibility. Example of flexibility is the option that is behind the preferred out-payment in retirement namely a combination between lump sum and life annuity. The following figure presents this information.

Figure 12.

![PREFERRED OUT PAYMENT IN RETIREMENT](image)

This combined option gathers 51.70% from the voices. Second is the life annuity with 25.20%. Term pension, as an example is shown period of 12 years, is preferred variant from 11.90%. Lump sum collects very big percent from the votes – 11.20%.

Conclusions

The analysis above shows that customers’ expectations have to be taken into account when developing pension policy and framing the design of the savings products. The potential savers expect from the retirement products security, transparency, cost-efficiency and value for money. In order to achieve these in product design, it is needed public support, good coverage and constant efforts for active role of the stakeholders: the state, the providers and the savers.

References


EIOPA (2020). Proposal for Commission Delegated Regulation supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap

The digital sale of savings products creates room for decrease in the costs. The following figure displays information about the attitude of the customers to buy personal savings product through Internet.

Figure 13.

![Will you buy PEPP through Internet](image)

Source: VUZF study of savers’ expectations (2020).

The results shown in the above figure leads to another surprise in the study - people who are saying that they will not buy personal saving product through Internet are more than those who will do it – 59% versus 41%. Nevertheless, the reasons for the negative answers create opportunities to overcome the threats: the lack of personal contact (advice, service) and the complexity of the savings product.
and on risk-mitigation techniques for the pan-European Personal Pension Product, Available at: https://www.eiopa.europa.eu/content/eiopa-finalises-regulation-pan-european-personal-pension-product_en


London School of Economics and Political Science, Open Evidence and BDI Research, (2020). “Consumer testing and communication design work specifying the details of the pan-European Personal Pension Product (PEPP) Key Information Document (KID) and Benefit Statement (PEPP BS)”, Available at: https://www.eiopa.europa.eu/content/eiopa-finalises-regulation-pan-european-personal-pension-product_en

Марева, Н. (2018). Капиталовите пенсионни фондове в България – развитие, състояние и перспективи, Годишник на ВУАРР, том 6, pp. 79 – 121, ISSN 1314-9113; (Mareva, N. (2018). The Capital pension funds in Bulgaria – development, current situation and perspectives, Annual edition VUARR, v. 6, pp. 79 – 121.)