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The psychology of super fund member segmentation

Simon Russell

Superannuation fund members are not all the same; but neither are they all entirely different. The more a fund can understand about its members, the more it can personalise its engagement to each of their needs and preferences. The question is how to recognise relevant differences between fund members while also accounting for the practical limits to how much about its members a fund can realistically know.

One current problem is that some very useful information about members is not being used enough by some funds. The funds that fail to sufficiently personalise their member engagement should not be surprised when their members ignore their communications.

On the flipside, there are some pieces of information that can lead funds to believe they understand their members better than they actually do. Attempts at personalisation that do not match a member's actual needs and preferences do not help either.

A member's age—a good start

If there is only one piece of information available about a member that would help to understand their needs, it would be their age. For a start, it would indicate how a bunch of important rules apply to that member, such as whether they were eligible to draw a pension.

A member's age also provides a guide to their likely retirement planning and broader financial requirements by giving a clue to their remaining life expectancy, their likely remaining period of employment, and their life stage and therefore, for example, the potential for them to have family commitments and/or a mortgage.

A member's age is also useful for understanding some of the key psychological issues that are likely to be most relevant when engaging with each member cohort about their superannuation. For example, how can a fund make the idea of retirement salient for younger members for whom it is, understandably, likely to feel very distant? And how can a fund engage with elderly members when some of them might be suffering from cognitive decline?

Unfortunately, some funds do not send different communications to different age groups, even when age is clearly a relevant consideration. This has resulted in 80-year-old members receiving fund communications about planning for retirement, when they are already retired, and to 30-year-old members being informed about the eligibility rules for contributing to superannuation in their 70s which is far from relevant for them. These funds should at least start the journey to personalisation by tailoring their communications for different age cohorts.

A member's account balance—becoming increasingly relevant

Similar to a member's age, their account balance can also be directly relevant in applying the law both for members with small accounts for whom fees might be capped, and for those with larger accounts who might approach limits on how much can be transferred into a retirement account. By segmenting based on account size, funds can communicate about these issues only to the members for whom they are relevant.

When combined with a member's age, their account balance also allows a fund to get an idea of each member's projected retirement income. Funds could use this information to compare against different measures of adequacy and to nudge those with lower projected retirement incomes to contribute more if they can, or potentially to invest more aggressively.

Of course, members with lower account balances might not be poor. They might have a second and larger superannuation account that their fund is unaware of, or an unusually large amount of non-superannuation assets. However, with increasing consolidation, the introduction of stapling, and superannuation projected to make up a larger proportion of people's retirement wealth for younger cohorts, these problem should diminish with time.

A member's contributions history—pretty good too

As with age and account balance, a member's contributions history speaks directly to the application of different superannuation-related laws that will be relevant for some members. Funds can use a member's contribution history to gauge whether they should be talking to each member about approaching or exceeding various contributions caps, or about the possibility of accessing a government co-contribution, or receiving a tax benefit.

There is no point in funds suggesting that their members take actions that the fund should have reasonable grounds, on the basis of each member's past contributions history, to believe the member would not benefit from or be in fact ineligible.

Informing members that 'eligibility conditions apply' might be factually correct and might satisfy a fund's lawyers, but leaves members wondering whether what the fund has suggested is even worth their trouble investigating.

While these types of disclaimers might be unavoidable, to prevent members throwing their hands in the air in exasperation, communications should be only sent to those members who it is believed would benefit, and explain to them why it is relevant for them.

Each of the three measures discussed earlier; a member's age, their account balance and their contributions history, is imperfect. While the inferences a fund can make about its members are likely to be right in most cases, it is easy to imagine exceptions; a younger member could have terminal cancer and, therefore, a shortened remaining life expectancy, while an older member could be starting a new family and need to top up their insurance.

Surely there is more to know about members than just their age, account balance and contributions history? Each member has their own personality, goals, aspirations and circumstances.

Can we do better? Maybe, but to do so is to enter the danger zone. When moving on from these easier-to-measure, relevant-for-most-people, big-ticket issues, we will need to tread carefully. There is a danger that our good intentions will actually making things worse.

A member's gender—men and women are different, sometimes

What if a member's gender is known? The good news is that this should allow a fund to refine some of the estimates they have made already based on the member's age, account balance and contributions history.

For example, women will have longer remaining life expectancies compared with men of the same age. On that basis, theoretically the fund should encourage a female member aged 40 to choose the same investment option as, say, an otherwise equivalent 36-year-old male.

However, while this difference in life expectancy is important at a population level, at a member level this difference is arguably swamped by the uncertainty about how long each individual member will actually live. Women might live a few years longer on average, but there is a lot of variability around that average, for both men and women. Given this uncertainty, it seems unreasonable to expect a segmentation model to be so granular that a fund would communicate differently to 40- and 36-year-olds about their investment options simply on the basis of their different life expectancies.

The benefits of knowing a member's gender do not stop there. This knowledge might also enhance a fund's understanding of a member's likely future income. If women are more likely to have their income disrupted by family responsibilities, or tend to work in industries with less opportunity for income growth, then there is an increased risk of women with small account balances retiring with inadequate savings and financial security. Arguably, there is therefore more reason to encourage these women to contribute more to superannuation if they can, or to invest more aggressively for the long term.

To be clear, this gender overlay is a refinement rather than a replacement to the segmentation model based on age, contributions history and account balance. If it is known that a member is a high-income-earning 50-year-old with a large account balance, the fact that she is also a woman is likely to be less relevant to her future financial security.

What about the fact that women have different personalities? Or that women are less confident managing their finances? Or that women tend to have lower financial literacy than men?

Sure, each of these things is correct on some measures, in some contexts, to some extent. The problem is that while these types of differences are measurable at a population level, there tends to be a large overlap between the genders. While women might be less confident financially overall, there are plenty of men who lack confidence in managing their financial affairs, or who have

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low financial literacy. Some women have higher financial literacy than most men.

While there is more to gender differences than just the factors mentioned earlier, when it comes to superannuation, the fact is that most people have limited knowledge, regardless of whether they are male or female.

If all members are engaged using good behavioural principles, including using simple language, clear visual representations, appropriate layering and chunking of information, designing good choice architectures, and creating frictionless processes with just-in-time action-oriented financial education, then all members can benefit.

A member's risk aversion—important, but often too unreliable

Unfortunately, while a member's risk aversion is theoretically fundamental to their investment choice, it is practically difficult to measure. For a variety of reasons, even many of the risk-profiling questionnaires used in face-to-face financial advice conversations are inadequate. Across the broader industry, there is no shortage of ways to improve how we understand and communicate risk.

A member's risk tolerance can be thought of like a personality trait. Even when each of the members' personalities is known, for instance if each member had completed a personality profiling questionnaire, the correlation between the personality attributes and those members' behaviours would still be modest. As Kahneman, Sibony & Sunstein point out in their recent book *Noise: A Flaw in Human Judgment* of May 2021:

The validity of broad traits for predicting specific behaviours is quite limited; a correlation of 0.30 would be considered high.

Decision-making research demonstrates that in the face of unreliable information we should be hesitant in moving away from what is likely to be best for most members, sometimes referred to as *'statistical base rates'*. When it comes to risk, generally speaking, younger members should invest more aggressively, older members less so. Given that the consequences of deviating from this maxim can be extremely dangerous, only on the basis of reliable information, preferably in the context of a financial advice conversation, should it be comfortable to suggest otherwise.

Communication preferences—still need to give options

What if some members have visited the fund's website, some have contacted the call centre, and some others have clicked on a link in the most recent email sent them? Can this information be used to communicate with members via their preferred channel?

Yes, it can. However, we would also have to recognise that people's preferences are likely to vary at different times, for different types of information, in different circumstances. Put differently, people's preferences and behaviour are often context-dependent and, as psychologists would say, *'unstable'*.

Rather than preferring one channel or another per se, perhaps a member likes doing some online research via a fund's website before giving the fund a call if and when needed. Despite noticing that this member rarely calls them, it would be prudent for their fund to still offer them both online and in-person engagement options.

But what if some members had not engaged with their fund via any channels at all? Perhaps it could be assumed that these members feel overwhelmed and so to reduce this feeling give them only one thing to think about at a time, and make things simple to understand and easy to do. This sounds reasonable; should we do that with all members anyway?

Retention risk—not as obvious as it might seem

Finally, what if a fund has noticed a cluster of member activity that has historically tended to precede those members rolling into a new fund? Should the fund then identify other members who display a similar set of activity, anticipate that these members might be thinking of rolling out also, and give them a call? Perhaps these members falsely believe that they need to change funds in order to switch their investment options, for example, a false belief that a call could disabuse them of, thereby preventing their move.

Maybe, but it depends on:

- How reliable is the prediction that the member will roll into a new fund? Will 90% of the members who are identified as a retention risk change funds in the near future? Or will it be only 10%? While 10% is a lot higher than the chance of a randomly selected member changing funds, it would still mean that 90% of the calls the fund made were to members who were not actually going to change funds at all.
- How effective are the calls at preventing members who would otherwise change funds from doing so? Conversely, how often does a call to a member who was not going to change funds actually lead them to do so by prompting them to make a decision and take action, or by making them feel uneasy or suspicious about their fund 'stalking' their online activity?

Modelling cannot be simply relied upon to answer these questions. By its nature, modelling is likely to 'over-fit' to match historical patterns of member behaviour. This means that to some extent it is actually less able to predict future member behaviour than it seems. The fact that a member ultimately did not switch funds could be the result of the call the fund made to the member, or it could be the result of the model misidentifying the member as a retention risk in the first place.

To determine if the retention strategy was effective requires calling a sample of members, not calling other members who display a similar pattern of behaviour, and comparing the results. In short, a controlled study needs to be run.

Drawing from experience in other financial services domains such as with financial advice clients and mortgage clients, the uncertainties related to identifying churning clients, and the cost and limited efficacy of the retention initiative can easily result in them causing more harm than good. As counterintuitive as it might seem, sometimes it is better to do nothing.

Alternatively, rather than doing nothing at all, funds could choose to call only those members for whom the quality of the prediction and the efficacy of the initiative are both high. At the extreme, this could involve responding to members who request information about changing funds. Analysing the text of member conversations could help to provide the richness of insight needed to boost the reliability of the predictions.

By providing member engagement that is relevant for each member's needs and preferences more generally, funds can reduce the likelihood of members wanting to change funds in the first place.

The broad conclusion from each of these measures, beyond member age, account balance and contributions history is that they probably offer some benefits, but that each presents risks. There is a risk that they lead a fund to believe that they know more about each member than they actually do, and make unwarranted assumptions based on increasingly less reliable information.

More detailed segmentation models that incorporate a greater number of factors are not necessarily better. In fact, when talking about predictive models more generally, research shows that simple models are often the best. As Kahneman et al. state in *Noise: A Flaw in Human Judgment:*

Complex rules will often give you only the illusion of validity and in fact harm the quality of your judgments.

It is not just that simplicity is a virtue, it is that simple models are often more accurate. Partly this is because, according to Kahneman et al.

The advantages of true subtlety are quickly drowned in measurement error.

Asking a member's age is easy, whereas measuring their individual preferences is tricky. Explaining to a member a complex set of factors that underpin an assumption that has been made about them might be trickier still.

Once these limitations are recognised, what else can funds do?

Just-in-time behavioural segmentation

If member behaviour is context-dependent, perhaps the most reliable approach is to engage with them in the specific contexts in which their funds see them behaving. For example, if a fund sees a member failing to complete a process, that fund could ask what support they could give to help the member succeed.

It might be difficult to predict whether a specific member has a mortgage and family and, therefore, might need more insurance. However, if a fund sees a member attempt but fail to complete an insurance application form, then the fund can make a strong prediction that the member has unmet insurance needs. Given that they are often a conduit to satisfying a member's needs, the design of forms and the engagement around them rarely gets the attention they deserve.

Alternatively, if a fund sees one of its members attempting to switch their investment options via the fund's website, the fund could ask what nudges or frictions it could apply to help the member to avoid making a rash choice which could potentially cause adverse long-term consequences. The 25-year-old who is trying to switch to cash, for example, could be prompted to call the fund or to seek advice.

In each of these cases, members pop in and out of micro-segments in which they can benefit from targeted assistance. Because that assistance aligns with the Design and Distribution Obligations, it is something that funds should already be at least preparing to implement.

Self-selection

Another approach that recognises the difficultly in knowing members' individual circumstances, preferences and needs, is to make it easier for them to self-select the types of engagement that suit them. Members can be guided through choices with decision-trees, whereby their responses to simple questions help them to navigate through complexity.

However, too often funds provide their members with lists of features or lists of considerations, and leave the member to discern how to assimilate those disparate pieces of information into a decision that is relevant for them. When funds formulate this type of engagement, a subtle but important mindset shift is required from just giving members the information required to make a decision, to helping members actually make the decision.

Conclusion

The broad conclusion from all this is that some funds have not gone far enough with segmenting and personalising their engagement, while others have potentially gone further than their knowledge of their members warrant.

By focusing on the things that are more certain, funds can maximise the benefit for the majority and reduce the risk of making unwarranted assumptions. Where gaps in a fund's understanding of their members inevitably persist, by being transparent about it, by giving members options, and by helping them to exercise choices that suit their individual needs and preferences, members are allowed to add the nuance that the segmentation lacks. **FS**