BROKERS IRELAND

In association with AVIVA

MEET THE Market Day 2020

Thursday 22 October 2020

Total Visitors at the Event 336
Total Number of Booth Visits 5659
Total Number of Unique Booth Visits 3403
Total Number of Documents Downloaded on the Day 6552

Brokers Ireland would like to thank all our Broker members who attended our first ever Virtual Meet the Market Day. A new concept within this 'new' normal working environment we are operating in, Brokers had the opportunity to view and engage with 33 exhibiting companies from the Insurance and Financial broking market. A sincere thank you to Sean Boyle, Head of Sales and his team at Aviva Insurance , in particular Maeve Bambrick for all the hard work and support that they provided over the last few months leading up to this event.

Furthermore, the event would not have been possible without the support of all the exhibiting companies below who put in a tremendous effort to showcase their products and services through their booths design, documents, and videos.

The event page and exhibition hall are open to Registered Brokers for the next 3 months to visit booths that they may not have got around to on the day or indeed revisit booths to download documents of interest. Simply visit **brokermarketday20.vfairs.com**

We also ran two webinars on the day of the event which received some excellent feedback from those who attended on the day. A big thank you to Robert Smyth, Investigates and Fraud Management at Aviva Insurance and his team for delivering an insightful and extremely thought-provoking presentation on "Delivering excellence in Claims investigations and Fraud Management". Our second webinar of the day was thanks to KPMG who provided a panel discussion on Succession & Continuity Planning in the Insurance Broker Sector. The interactive session was very well received and provided some very interesting and key take-home advice in relation to this topic. Thank you to Liam Lynch, Partner and Head of Private Clients, Neil Collins, Director Corporate Clients and Gavin Sheehan, Director Transaction Services at KPMG.

Exhibitors at the 2020 Virtual Meet the Market Day

360 Search, acturis, AIG, Applied, Aviva, Brady Underwriting, Capital Insurance Markets, Close Brothers Premium Finance, Ecclesiastical, greenman, fintech OS, BIS Platform, KennCo, Liberty Insurance, Lloyd's, HSB, MIC MapCover, Irish Life, Munich RE, open gi, Premium Credit, Retirement Planning Council of Ireland, Royal London, BCP, Plum Underwriting, sedgwick, Specialist Underwriting Services, The Insurance Institute, Travelers, Wealth Options, Zurich

We will be issuing updates and reminders about the Meet the Market Day on demand facility here in the Irish Broker magazine over the coming months.

Volatility in Members' Funds
Lessons from 2020

Outside of the public sector, most Irish workers in an occupational pension plan are saving into a defined contribution arrangement. Such members will see the value of their accumulated funds rise and fall according to the underlying markets in which they invest.

Technology now allows for many members to be able to access details of their pension pots on a daily basis, reflecting the day to day fluctuations of markets. This additional daily information carries with it the danger that members react to short term movements. This article by **John Grant of Fitzgerald Actuarial Limited** looks at how members have responded to market events of 2020 and what lessons may be learnt.

Background

Trustees of defined contribution pension plans have responsibility for members' investments and for providing individual members the key tools needed in order to be able to take appropriate decisions, including:

- A suitable range of funds (reflecting the different risks that an individual will face, along with each member having their own personal risk tolerances)
- A default strategy for members who do not select an option
- Sufficient and appropriate communication

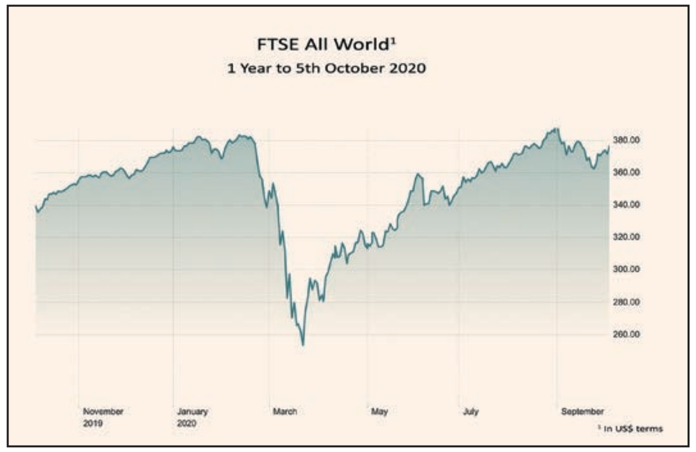
Particular attention is drawn to the 10 Years preceding retirement, the implications being that as a member draws closer to retirement it is no longer appropriate to simply take a long-term investment view and investment risk should be reduced. In 2008 the Irish Association for Pension Funds (IAPF) introduced 'Investment Guidelines' for Trustees which emphasized these points, as well as an investment guide for defined contribution pension plan members.

Subject to meeting specific criteria, defined contribution plan members have since been given further choice through the use of Approved Retirement Funds (ARFs) upon retirement. This additional option allows ongoing investment past a member's retirement date, thereby extending the time horizon of the investment portfolio. This reinforces the need for communication, education and expert financial advice.

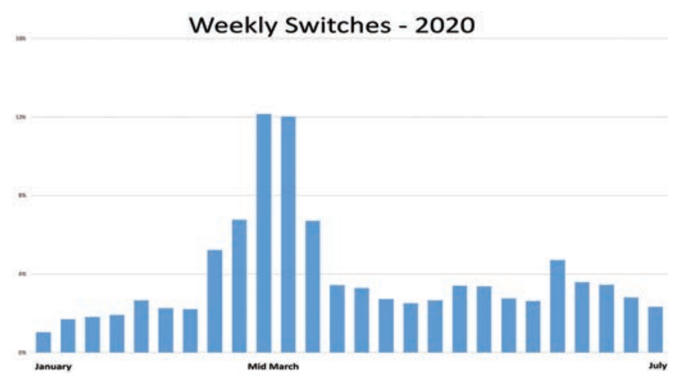
Over the years the choice of core multi-asset funds has improved, offering funds of differing risk levels and better diversification, while multiple lifestyle strategies allow for individual risk tolerances, different options at retirement and changing risk priorities as a member nears retirement. This may address the first two points of the above, but what of 'communication'?

2020 Market Volatility

In 2020 markets continue to be volatile, as is demonstrated in the chart here showing the performance of the global equity market over the last 12 months. Over the course of February and March global equity markets fell by more than 30% from previous highs, surpassing the definition of a "bear market" (which requires a fall of at least 20%).



At the September 2020 IAPF Defined Contribution conference, Irish Life reported a five-fold increase in the number of member queries relative to the same period in the previous year and saw a large increase in members switching to cash. Likewise, Zurich reported a notable increase in switches in mid-March as a result of the steep market declines. This is highlighted by the graph[1] below showing the number of weekly switches being made, the peak numbers being made in the two middle weeks of March, accounting for c.25% of all switches made up to 3rd July 2020.



It was noted by both Irish Life and Zurich that very few of the switches came from members following the default strategy. 70% of those members switching to cash remained in the cash fund option as of September 2020[2], giving rise to concern at the appropriateness of this behaviour given the immature nature of defined contribution plans; a cash fund is primarily designed to allow members to reduce exposure to investment risk as they approach retirement. However, a cash fund can also be used by members for short term tactical moves and provides protection against further market falls. Short term tactical asset allocation decisions by members are not encouraged as it brings additional risk for long term investors.

In the following table the impact of making switches is highlighted by the returns that would have been achieved over the first nine months of 2020 by:

1. being invested in a Cash Fund for the entire period
2. being invested in a Core Growth Fund for the entire period
3. starting off in a Core Growth Fund and undertaking a single switch to a Cash Fund with this switch taking place on:
   a. Friday 13th March
   b. Friday 20th March
   c. Monday 23rd March (this date marking the low point to date for 2020)

Investment Policy	9 months return to end September 2020
In Cash Fund for full 9 months	-0.7%
In Core growth fund for full 9 months	-5.6%
At start of year investment in Growth Fund, single switch to a Cash Fund on:	
a. 13th March	-12.3%
b. 20th March	-17.6%
c. 23rd March	-19.1%

Note: Over the last five years it can be noted that the Cash Fund would have returned –4.7% (-0.8% per annum) and the Core Growth Fund 26.9% (4.9% per annum)

"As we progress through the fourth quarter of 2020 markets are likely to continue to be volatile given the US presidential election, the lead up to Brexit and the continuing fight against Covid-19. However, the numbers for the first nine months of 2020 indicate that those members that have fared best are those that have simply stayed invested in the same fund, be it a cash fund or a multi-asset core growth fund."

John Grant, Pensions Business Development Manager, Fitzgerald Actuarial Limited

The flight to cash in response to market falls may be seen as an instinctive move. However, such a move may have negative impact for members investing for the long term as they are now faced with the decision of when to return to the market. Most members will not have significant investment expertise to undertake this.

As we progress through the fourth quarter of 2020 markets are likely to continue to be volatile given the US presidential election, the lead up to Brexit and the continuing fight against Covid-19. However, the numbers for the first nine months of 2020 in the table here indicate that those members that have fared best are those that have simply stayed invested in the same fund, be it a cash fund or a multi-asset core growth fund. Members that switched from a core growth fund to a cash fund in mid-March may be worse off by in excess of 10% when compared to members that simply stayed invested in the core growth fund over this timespan.

Communication & Education

The IAPF guidelines for trustees highlight the importance of communication to successful member outcomes. Unfortunately, in this technology driven world, investors are often subject to information overload.

If members are reacting in ways that are less than optimal, the best way to address this is through education and targeted communication. At this point it is worth considering two quotes from the Pensions Authority, "The better that people understand risk, the more likely they are to be comfortable with it", and "In general, over the longer term, the lower the risk, the lower the investment return that can be expected."

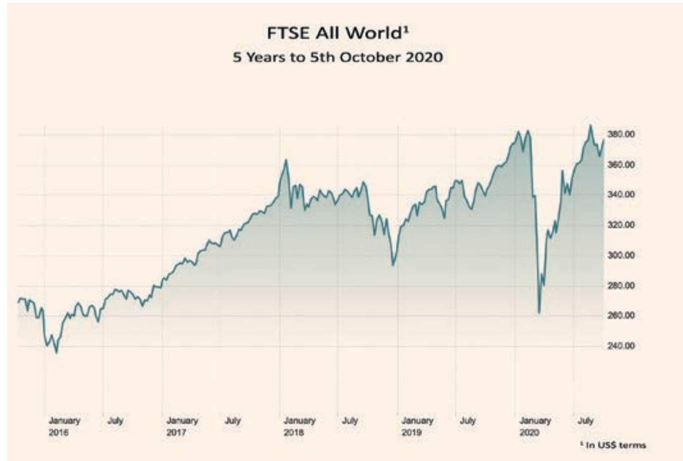
Communication for members will often concentrate on the impact that a small difference in return will make due to the impact of compounding, the positive element of taking a long-term view. Maybe it is time for equal, or higher, emphasis to be placed on educating members on risk, arguably the driving force behind members' actions in 2020.

The Pensions Authority emphasises that with the introduction of the Institutions for Occupational Retirement Provision (IORP) II legislation, trustees are required to take a forward looking, risk-based approach with a successful audit not being based on a lack of breaches but based on having the right processes in place and being actively followed through. It would be logical to apply this same approach for members of defined contribution schemes, they are ultimately the ones selecting their investment options, by default or active selection, from those options provided by the trustees. Placing more focus on risk education for members may allow for a better acceptance of risk where required and an understanding of when to seek to reduce certain risks.

Taking this year's market movements and setting it into context with a slightly longer timescale, we use the same equity market movements as above, but over 5 years. This helps to underline the sharp recovery in markets since the February / March bear market and the difficulty of 'timing' major switches.

Bear Markets

Since 1900 there have been over 30 bear markets in US equities, so in saving for a pension over a long term of 30 to 50 years, each member will inevitably experience several bear markets. In my own working lifetime I've seen:



- Black Monday in October 1987 (when I was one month into my first full time job)
- The bursting of the dot com bubble in March 2000
- Planes fly into the Twin Towers as I set off for a trustee meeting in 2001
- The unravelling of markets in 2008 as a result of the global financial crisis
- The effect of economic slowdown and a global pandemic in 2020

We should not be shocked at bear markets, they are part of investing over the longer term when seeking to provide higher returns. Interestingly it seems that under investment defaults, members are less likely to take action themselves and are more prepared to leave it to 'the experts', though, this may simply be due to inertia.

For trustees and sponsors of defined contribution and additional voluntary contribution pension plans, there are key lessons to be learnt from 2020:

- The default strategy is the backbone of most defined contribution schemes and should be reviewed regularly to ensure that it is fit for purpose;
- Education, with an emphasis on risk, is a key part of the communication process in assisting members to reach better outcomes;
- A scheme is as good as its weakest link, be it investment, communication (including education) or administration
- Risk, as measured by volatility, is an important element of investment, particularly when investing for the long term
- Members need professional financial advice

Fitzgerald Actuarial Limited can assist in providing sponsoring companies and trustees with expert advice in these areas, call John on +353 89 4735229 or email, john.grant@fitzgeraldactuarial.ie

Notes & Sources:
1. data courtesy of Zurich
2. as provided by Irish Life
3. The core growth fund and cash fund used for this analysis is from a single provider and used for illustration purposes only
4. The FTSE All World Index (in US$ terms) has been used to illustrate the volatility of equity markets in 2020
5. Unless indicated, all quotes attributed to the Pensions Authority are taken from its 2016 publication 'Investment Guidelines for Trustees of defined contribution schemes'

Photo of author courtesy of Allie Glynn