#LogYourLoAPain
thepensionlab.co.uk/logloa

WHAT LIES BENEATH

LETTERS OF AUTHORITY

An exposé in numbers

The Pension Lab & Justine Pattullo

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WHAT IS A LETTER OF AUTHORITY?

A Letter of Authority (LoA) is a legal document that authorises a third party (e.g. a financial adviser, or pension firm) to correspond with service providers (e.g. investment and pension providers) on behalf of the authorising individual.

Without a LoA, third parties cannot fulfil the individual's (client/member) requests or access information for providing advice, including conducting a comprehensive fact-find/review, or instructing changes like a transfer.

The typical LoA experience causes delays to the advice and transfer process, taking months to complete after repetitive chasing. As such it is one of the biggest barriers to timely service, and at worst can result in lost business. Research from the lang cat (Oct 2023) states the average worst time delay as 59 days.

SCOTT PHILLIPS
CEO & FOUNDER – THE PENSION LAB

The Letter of Authority (LoA) process is one we first experienced during our journey to becoming a pensions dashboard technology supplier. Quickly, it became evident that this outdated, yet prevalent process was THE bottleneck for all involved parties. To this day, The Pension Lab handles thousands of LoAs on behalf of our clients and their customers, so we acutely feel the pain of the LoA process.

Beyond reams of paper and wet signatures, I know from my experience that the LoA process is intrinsically inefficient, often involving unnecessary back-and-forth between digital and physical mediums - a cycle I refer to as digitisation, de-digitisation and re-digitisation. Furthermore, there are challenges with data formats, ID verification, and data security risks – all resulting in delays and frustrations.

Previous studies show that the inefficiencies of the LoA process continue to persist unchecked, with frustrations echoing into the void without a solve-all solution.

The #LogYourLoAPain campaign fills this void. By articulating the sheer volume of LoAs processed and their corresponding costs in terms of time, financial resources, risks, and environmental impact, we aim to catalyse change within our industry. This paper serves not only to inform regulators but also to galvanise the industry towards action.

Fuelled by the unwavering support of our partners, paraplanners, and advisers, we collectively declare "enough is enough." By recognising the ingrained flaws and costs of current processes, we can agree there is an urgency for reform.

The numbers presented here are not mere statistics; they are a clarion call for transformation.

I look forward to working as a collective, taking actionable steps in creating and harnessing innovative solutions that will improve the LoA process for all.

With regards,

Scott Phillips

CEO & Founder - The Pension Lab

GET IN TOUCH

EXECUTIVE SUMMARY

#LogYourLoAPain is a collaborative initiative supported by 10 organisations aiming to quantify the volumes and associated costs of the Letter of Authority (LoA) process. Launched in January 2024, the initiative generated 59 entries, representing 880 financial advisers, planners, and paraplanners. Additional inputs were provided from Direct-to-Consumer (D2C) platforms and pensions consolidators.

The findings underscore the substantial impact of LoA volumes and costs, emphasising the unquantifiable effect on consumers and reinforcing the need for change. To ensure successful change that delivers a more efficient and secure process benefiting both industry and consumers, a collective effort is vital.

Key Findings

1. LoA Volumes

A staggering 3.9 million LoAs are sent every year. Financial advisers contribute significantly to this volume, with an average of 6.5 LoAs sent per month, per adviser.

2. Time & Resources

The LoA process consumes a significant amount of time, equivalent to 985 years annually, requiring an estimated 5,541 full-time equivalent human resources. This represents a substantial cost to the industry.

3. Environmental Impact

The LoA process contributes to environmental concerns, generating 56 tonnes of CO_2 emissions annually. To mitigate this impact, 2,800 trees need planting every year.

4. Signatures & Cyber Security

The insistence on wet signatures, especially as a form of ID verification, not only adds inconvenience and cost to the LoA process but also heightens security and fraud risks. With a high volume of LoA emails containing sensitive information, there's a significant threat of data breaches, highlighting the pressing need for improved security measures across the industry.

5. Financial Impact

The annual cost of the LoA process is estimated at £442 million p/a, almost double the losses incurred by the issue of deferred small pension pots which is under Government consultation.

Future direction

The report highlights seven drivers for change in the LoA process, emphasising the need for reform to address the tsunami of increasing LoAs due to auto-enrolment, transfers and notably the delivery of Pensions Dashboards, likely in 2026, projecting an eight-fold increase from current volumes. The report also identifies five readily available enablers for change, including standards, technology, digital signatures & ID verification, business case analysis, and collaboration among industry stakeholders.

ABOUT THE #LogYourLoAPain CAMPAIGN

Despite widespread frustrations surrounding a critical advisory process, the industry has lacked validated data on LoA volumes, individual and aggregate time, and cost implications - until the release of this paper.

By presenting the substantiated data – the cost impact – we believe it will motivate action for resolution.

Launched in January 2024, the initiative was primarily targeted at financial advisers, planners (intermediaries), and their administrators due to their challenges faced at the forefront of the LoA process. As a result of the campaign's success, we also acquired, and incorporated into our calculations, LoA numbers from D2C platforms, providers, and pensions consolidators.

1. To define the scale of LoA volumes.

2. To present the scale of the LoA problem to regulators (FCA and TPR), providing evidence for justified attention.

3. Galvanise key stakeholders to prioritise fixing the LoA process – initially through a roundtable (see next steps).

Given the intricacies of the LoA process, which entails complex request and response interactions and data exchange between multiple parties, we recognise its extensive impact throughout its lifecycle. By collaborating in tackling these complexities, we underscore the importance of working together. Collaboration remains pivotal as we move forward with implementing solutions – and our close collaboration with supporters has played a key role in producing this paper.

The #LogYourLoAPain survey received 59 entries, representing approximately 880 financial advisers. Using the data from these entries together with LoA volumes supplied by D2C platforms and pension consolidators, we're delighted to present you with the initial impact review of the LoA process.

LoA BY NUMBERS: THE VOLUME

TOTAL NUMBER OF LoAs SENT EVERY YEAR

3,918,000

At a staggering 3.9 million, we attribute this number to our direct research as part of the #LogYourLoAPain campaign.

We suspect, however, that this figure is just the tip of the iceberg – and, as our first substantiated marker in the sand, this figure is likely to increase as more parties continue to audit their LoA processes.

LoA BY NUMBERS: THE VOLUME

There are two key LoA request sources:

(1) advice professionals and
(2) non-advised platforms and/or pensions consolidators.

LoAs SENT BY ADVICE PROFESSIONALS EVERY YEAR

2,418,000

From the entries gained from the #LogYourLoAPain campaign, the average number of LoAs sent by an advice professional, including advisers and paraplanners, ranges from **4.8 to 10** per month (or mean average of **6.5**), translating to an annual range of **58 to 120**. With an estimated 31,000 UK advisers, this signifies a considerable volume of LoAs being requested by advice professionals.

LoAs SENT BY NON-ADVISED PLATFORMS & PENSIONS CONSOLIDATORS EVERY YEAR

1,500,000

There are approximately 15 prominent Direct-to-Consumer (D2C) platforms handling LoAs on behalf of their customers. With volumes ranging between 600 to 10,000+ per month, this averaged at **6,000**, equating to **1,080,000** LoAs sent.

A long-tail of c. 20 small specialist firms and robo-advisors contribute to this volume, averaging **1,750** LoAs per month, adding a further **420,000** LoAs, creating a grand total of 1.5m LoAs sent every year.

It's important to note that for every LoA sent, a response or multiples thereof, are returned from providers and schemes.

THE TIME

The staggering figure of 985 years, equivalent to **517,530,000 minutes** or roughly **1.2 million working days annually**, reflects the total time dedicated to processing LoAs, including requesting and responding. It's a journey back in time to the year 1039 AD!

Drawing from a 2021 study, which analysed the time invested by advice professionals in completing LoAs, it was found that on average, each LoA necessitates 2.4 follow-up communications. In addition, received information must be re-keyed into systems, which is time-consuming and manual. Adding this together leads us to a per-LoA processing time, ranging from 35 minutes to 94 minutes.

Consequently, the average total time spent per LoA stands at **65 minutes** on the advice (or requesting) side.

This analysis was applied to responding providers and schemes, where there is a blend of operational scale efficiencies against a backdrop of more labour-intensive tasks such as communication routing, identity verification, and response finalisations. These insights underscore the substantial efforts and resources consumed annually by the LoA process.

985 years

TOTAL TIME SPENT PROCESSING LoAs EVERY YEAR

THE PEOPLE

Based on the total time spent, we estimate that between **4,750 – 6,333 full-time equivalent (FTE) human resources** are consistently employed across our sector to process LoAs every hour of every working day. To put that into context, the Phoenix Group has 6,800 employees, Schroders 6,434 and abrdn has 5,130.

The average salary of an administrator is c. £27k p/a, with salaries increasing for roles such as paraplanners and advisers who may be processing their own LoAs. Each FTE incurs an additional actual cost to business of 45% annually, inclusive of benefits and expenses.

5,541 FTEs

TOTAL FTEs/PEOPLE PROCESSING LoAs EVERY YEAR

THE ENVIRONMENT

To mitigate the total environmental impact of LoA processes, **2,800** trees would need planting every year.

This calculation is based on our research indicating an average paper-to-email ratio of 25% (1m) for LoA responses only.

Paper consumption has a significantly higher environmental cost compared to email, at a ratio of 7:1. With approximately 7 million LoA-related emails exchanged annually, the cumulative environmental impact equates to **56 tonnes of CO2**, equivalent to the emissions from driving around the world six times.

2,800 trees

CO2 EMISSIONS

THE RISKS

The insistence on wet signatures, based on an average of 10% of LoA requests, as a form of identification adds a considerable layer of risk and exacerbates inefficiencies within the LoA process.

As many financial services move to and/or have fully embraced digital experiences, insisting that the individual print a letter, sign and scan it, then return documents is a notably poor experience. While digital signatures offer advantages, the lack of clarity surrounding legal definitions undermines their effectiveness.

391,800

Wet Signatures

In contrast to Open Banking, where authentication processes are robust and data transmitted securely, relying on wet signatures for identification and email for responses seems antiquated and introduces significant risks. For instance, in auto-enrolled workplace pensions, the absence of a signature on file means the process of manual comparison is redundant, increasing the risk of forgery and unauthorised access. Moreover, the use of email exposes additional vulnerabilities.

Studies reveal alarming statistics: between 4% and 10% of internet traffic is intercepted, and 70% of small businesses experiencing major data losses close within a year. Despite these risks, only a small fraction of advice firms have cyber insurance.

Furthermore, non-compliance with regulations can result in severe penalties from regulatory bodies such as the Information Commissioner's Office (ICO), underscoring the critical importance of prioritising cyber security measures within the financial industry.

THE MONEY

Taking all the above volumes and factors into account, the LoA process is costing our pensions and investment sector an estimated **£442m** every year.

That's an eye-watering amount that easily surpasses the losses (£225m p/a) incurred by deferred small pension pots – a problem currently under Government consultation and for which several radical changes are being considered by way of address.

At an average cost of £55.51 for each request and response, totalling 7,962,000 LoA interactions and activities, including a percentage charge for paper and post, the total cost is **£441,970,620 per annum**.

£442m p/a

TOTAL ANNUAL COST TO INDUSTRY

THE FUTURE:
THIS IS JUST THE TIP OF THE ICEBERG

The LoA process is a significant problem today and it will become bigger tomorrow.

This outdated process has been allowed to fester unnoticed for decades. But its time is up.

A growing list of various and complex industry factors are now sloshing around, creating increased friction and igniting an urgency for reform and demand for a better, more efficient way. Here are the reasons why the LoA process must change:

THE SEVEN LOA DRIVERS FOR CHANGE

1. VOLUMES

The implementation of automatic enrolment since 2012 has resulted in a remarkable tenfold surge in the overall membership of defined contribution occupational schemes, soaring from 2.1 million in 2011 to 21 million in 2019, and now 22.6 million in 2021. This means there are more pension pots that need to be uncovered and served through the LoA process.

2. COSTS

Every year, the LoA process is costing our sector £442m. This equates to 5,541 FTEs processing LoAs, all day, every working day.

3. TRANSFER TIMES & VOLUMES

Transfer times measured by STAR and through the Origo Transfer Index do not include the time to respond to LoAs which based on The Pension Lab's direct experience, can be a requirement for up to 50% of transfers. From a consumer perspective, this is a key measurement of service that forms part of their transfer experience. Considering the variability of LoA delays averaging 59 days at worst, transfer times and consumer outcomes are negatively affected.

Moreover, transfer volumes are on the rise, with reports of 22% increase in the last year (DC pensions). LoAs and transfers are interconnected processes. This surge in volumes, partially due to auto-enrolment, will inevitably exacerbate the challenges associated with transfers and LoAs.

4. PENSIONS DASHBOARDS

The limitations in functionality and information provided by Pensions Dashboards are poised to trigger an additional surge in LoA volumes. Rather than just an increase, we anticipate a potential tsunami effect. As millions of individuals review their pension pots through their dashboards, many will likely seek advice or consolidation services. Anecdotally, **one provider has already forecast a staggering eight-fold increase in LoA volumes directly attributable to Pensions Dashboards.**

5. SIGNATURES, ID, RISKS & CYBER SECURITY

The insistence on wet signatures as a method of identity verification presents a significant risk, not to mention inconvenience for the individual. Alternative and more efficient means of verifying identity are available and well-used for other services.

Other risks incurred in the LoA process include the volume of emails associated with the 4m LoA requests, posing a substantial risk of data breaches and potential fines. The overreliance on unsecured email as a primary form of LoA communication underscores the urgent need for change.

6. CONSUMER DUTY

The most notable rules that the LoA process can rub up against are “Avoid Causing Foreseeable Harm” and “Enable and Support Customers to Pursue Their Financial Objectives” if not handled in a timely manner or if a response is incomplete. The rules also apply throughout the full distribution chain, exerting significant pressure on all parties, including those with indirect relationships.

7. CUSTOMER EXPERIENCE

Overall, the customer is at the receiving end of the entire LoA experience, noting the manual process, requirement for wet signatures, chasing time and delays. Delivering to customer expectations, particularly for what will be for many an early stage of engagement and first-time direct experience of our sector, must be a key driver for LoA process improvement.

THE NEXT STEPS: ACTION

It has been said that far too much complaining and not enough action is being taken to address the LoA process. We want to change that.

Set out below are significant enablers that are available and/or set in motion:

THE FIVE LOA ENABLERS FOR CHANGE

1. CRITERION STANDARDS

LoA Standards are available through Criterion and licenced holders gain automatic access to their use. Working collaboratively with the industry, Criterion defined a repeatable, standardised approach to LoA processes for request and fulfilment for DC Pensions, Investments and Protection products that can be implemented using either APIs, CSV or XML integrations. This enables a reliable, easy-to-navigate experience that increases consistency; reduces time, effort, and costs; and critically, supports better outcomes for customers.

2. ID VERIFICATION & DIGITAL SIGNATURES

Since September 2019, digital/electronic signatures can be used to execute documents, including where there is a statutory requirement for a signature. Commercial and Common Law Commissioner, Stephen Lewis, said: “Electronic signatures can offer quicker and easier transactions for businesses and consumers.”

The reliance on wet signatures is outdated and unnecessary, particularly for workplace pension providers where no signature is held on file for comparison. Agreement and improved clarity on required standards for electronic signatures is important, along with digital ID verification methods, such as mypensionID’s offering, which means consumers can safely and easily authenticate that their data be shared.

3. TECHNOLOGY

Throughout the lifecycle of a LoA, there is a raft of technologies that can come into play, including adviser CRM systems, secure email services like Beyond Encryption, and back-end provider registry services as well as specific LoA solutions. Connectivity between these different systems is key to driving efficiency through the LoA process and to keeping adviser re-keying of data to a minimum. Standards will assist in keeping integration costs down. It's now a case of collectively agreeing on the order of improvements.

4. BUSINESS CASE

Access to various cost calculations is provided in this paper for industry stakeholders to use as they audit their current LoA-related resources and performance to formulate their individual business case for process improvement.

Notably, prompted by the #LogYourLoAPain campaign, several financial organisations have delved deeper into their LoA volumes, with some reporting shock at their actual volumes and allocated resources after their initial underestimations.

We strongly recommend an audit of LoA volumes, impacted resources and process bottlenecks using the available calculations within this paper to develop the individual business case. Although, for some providers there has been investment in semi-automated solutions to improve the fulfilment of LoAs (creating consolidated PDFs, secure mail etc.) – this does not reduce the need for advisers to validate and then re-key the information they receive. This is what makes the next step vitally important…

5. COLLABORATION & MOMENTUM: the next steps

Thanks in part to the #LogYourLoAPain campaign and its supporters, there's a growing acknowledgement of the necessity for a collaborative effort to enhance the LoA process. Building upon this momentum, our next step is to identify priority stages for improvement. This will be achieved through a series of workshop roundtables involving key stakeholders, with the aim of reaching a consensus on those priority areas.

IMPACT ON INDUSTRY PERCEPTION

£ Unquantifiable

BY JUSTINE PATTULLO

#LogYourLoAPain campaign creator and lead

To conclude, one crucial aspect remains unquantifiable: the impact of the LoA process on consumer perceptions of our industry.

The #LogYourLoAPain campaign prioritises LoA volumes over already-examined delays and time to complete for several reasons; chiefly because, as a longstanding, cross-organisational process it persistently evades thorough scrutiny. Even within the walls of life companies, master trusts, and more digital-first D2C brands, very little is known about their own internal LoA volumes and dedicated resources. The process is often relegated to administrative desks, deemed unimportant or simply misunderstood. By voicing the volumes, and the associated activities and costs in this paper, my hope is that it will empower those within the big corporate walls to demand attention for the overripe LoA process.

Combining volumes with the persistence of outdated methods, the LoA process stands as a glaring aberration hiding beneath years of neglect. And it's going to get worse.

The forecast surge in LoA volumes will bring escalating costs. While attention rightfully gravitates towards addressing the issue of deferred small pension pots, it's imperative to question whether the LoA process, which generates twice the cost and is on a growth trajectory, warrants similar governmental intervention.

Consider this: a mere 10% efficiency enhancement across the LoA process could result in a staggering £44.2 million saved annually. If just a fraction of these savings were redirected to the 22.6 million individuals in workplace pensions, each pot could receive an additional £194,690.27 per annum. As John Lennon famously sang, 'Imagine'...

The revelations from the #LogYourLoAPain campaign starkly illuminate the importance of reform. It brings into focus the voluminous resources, time, environmental toll, cyber security risks, and financial ramifications associated with LoAs.

The identified drivers for change and enablers for improvement chart the course for industry stakeholders to collectively tackle the challenges posed by the LoA process. The momentum generated through the #LogYourLoAPain campaign offers an opportunity for stakeholders to unite, prioritise changes, and pave the way for a more efficient LoA process that enhances consumer perception.

Justine Pattullo
Independent Marketing Consultant

THANK YOU TO OUR SUPPORTERS

A special thanks to our supporters, whose dedication has gone beyond competitive boundaries to drive attention and momentum towards solving the LoA challenge.

The #LogYourLoAPain initiative is founded on the principle of collaboration, which is central for two significant reasons:

1. **Awareness:** By collaborating, we maximise awareness of the LoA process, reaching a broader audience and deepening understanding.

2. **Problem-Solving**: Collaboration brings together diverse perspectives and resources to collectively address challenges within the LoA process, promoting inclusivity and efficiency.

Thank you to the administrators, paraplanners, advisers, technology suppliers, providers, and schemes who, through the campaign, have taken the time to share their LoA experiences with us. To those on the frontline, interfacing between clients and the LoA process, a heartfelt 'thank-you' is extended. Your efforts are pivotal to handling and exposing what has become known as the "Big Sorry."

ABOUT JUSTINE PATTULLO

An independent marketing & communications consultant, with a passion for driving positive change and a track record of delivering award-winning campaigns, Justine created and leads the #LogYourLoAPain industry-wide initiative to revolutionise the Letter of Authority process.

With over 20 years of experience in pensions and wealth technology, Justine is an accomplished marketing leader renowned for driving industry collaboration to effect meaningful change. She specialises in establishing and managing high-performing marketing and PR functions and campaigns for complex fintech brands undergoing significant transformation.

Previously, as Head of Marketing & PR for global fintech Bravura, a pivotal role during a period of substantial change, Justine led global communications efforts and critical restructuring announcements. Before that, she worked with various UK-based platforms, fintechs and consultancies.

GET IN TOUCH

About Pension Lab

We specialise in seamlessly delivering scalable and integrated regulatory solutions for advisers, planners, providers and administrators. Our end-to-end solutions ensure smooth and compliant pension transfers, from locating pensions to automated Letter of Authority processing. With FCA authorisation and ISO27001 certification, we uphold bank-grade security standards, catering to large financial institutions.

Our critical solutions, such as Letter of Authority, Pensions Dashboards, Pension Finder, Consolidation, and Member Engagement Tools, enhance member experience while meeting industry standards.

Our passion for innovative technology and deep regulatory knowledge makes us a trusted partner in addressing cross-industry challenges.

Get in touch

Contact Us

The Pension Lab Website

#LogYourLoAPain Website

The Pension Lab LoA Solution

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