

# The 3 Rs of understanding

When we review and develop our customer support function, customer understanding is always a key consideration. Our approach to this issue is informed by an ongoing programme of work with independent behavioural experts.

The following report from 2023 explains our approach to ensuring advised customers can access the information they need, in a form that aids their understanding. In summary, we:

1. Periodically check for 'barriers to understanding'.
2. Provide information that's accessible and easy to find.
3. Provide easy contact details to help clients quickly check their understanding.
4. Make sure customers can keep documents in a way that works for them.
5. Encourage them to ask questions.

Although this report was undertaken for our AJ Bell Investcentre platform – and therefore references its documentation – its findings and the onward actions it sets out apply equally to AJ Bell Touch. We're grateful to Dr Richard Whittle for his continued and valuable insight.

## Meaningfully assessing customer understanding

Part of our work on Consumer Duty has been looking at testing customer understanding, and adapting our approach to supporting customers to make sure that we facilitate the best possible understanding at all points in the lifetime of our relationships.

We recognise that financial advisers have a critical role to play in this understanding, but, with the findings of our testing, we can ensure that customers have the information they need, in the format they prefer at the appropriate times. Whilst this sounds simple, delivering this requires careful testing and the implementation of behaviourally measured and effective adjustments that can be tested and adjusted over time.

In an earlier article, we identified a key challenge from the FCA for providers and advisers through the Consumer Duty, requiring us to answer the question “do customers get the information they need at the right time and in a manner they can understand?”

## Taking an informed approach – a randomised design

We have previously considered the approach we take to testing understanding, but this paper provides much greater depth on the randomised design we have completed and the confidence we can take from this work in identifying the actions we will take and further testing we will complete.

Early on in our Consumer Duty implementation, we identified customer understanding as being an area where our approach would benefit from external support – having worked with Dr Richard Whittle in the past and having seen the applied benefits of behavioural analysis, we are delighted to have been able to work with Richard again on this study.

Being able to apply this level of academic rigour to such a challenging area in a live setting has helped us greatly and will hopefully also help to increase the understanding of the UK financial advice market for future researchers.

## Our findings from this work – The 3Rs of Understanding

The findings of the research are reassuring – our customers show an overall good level of understanding and we have been able to identify both different levels of understanding and support needs, and the coping mechanisms customers develop to facilitate their own understanding, which we can leverage in future. When we have tested understanding of customers in isolation, that is without the support of the financial adviser, we see different types of understanding which have been categorised by Dr Whittle into the 3R understanding framework:

- **Retained Understanding.** On a day-to-day basis, when not actively engaged with their products, 45% - 60% of customers retain a good level of understanding about their product details.
- **Refreshed Understanding.** 60% - 85% of customers who receive relevant information reminders demonstrate a good level of understanding.
- **Responsive Understanding.** Customers develop strategies to understand their products when they need to make an informed decision.

**Our key finding is that customers retain a good level of understanding about their products, and refreshing that understanding with relevant sections within our documentation can increase customer understanding at the key decision points by around 50%. Furthermore, when tested on direct understanding of documentation, 85% of the customer base demonstrated a good ability to correctly apply the provided information.**

It is important to note that this testing is based on direct interaction between customers and our literature and content – studies have shown that financial advisers can positively impact the financial education<sup>1</sup> and financial literacy of their clients. Clients with low financial literacy have been shown to rely more on their adviser to plug the gaps<sup>2</sup>.

In addition to the support of their adviser, customers have also shown that they develop their own strategies to understanding. That is, **customers may not retain a high level of understanding at all times but ensure that they have a good level of understanding when needed to inform a decision.**

Our main finding is simple. Customers develop individual approaches to make informed decisions. Our job is to make it easy for them to do so.

We can do this by:

1. Periodically checking documentation and processes to check there are no ‘barriers to understanding’.
2. Providing information that is accessible, and easy to find.
3. Providing easy contact details. If someone needs to quickly check their understanding this should be a quick and simple process, whether it is by phone (with a named contact area and freephone number) or accessible online chat support.
4. Making sure customers keep documentation in a way that works for them.
5. Letting customers know it is a ‘good thing’ to ask questions.

Even small frictions in getting help and support when it is needed can be a barrier to understanding.

## Onward actions

Our planned actions to support increased customer understanding are generally not focused on specific documentation changes but on supporting customers to develop overall understanding and access to information when they need it.

These actions will include providing prompts to help encourage regularly refreshing understanding and also increasing lateral access to key information to support customers in developing the understanding that works for them.

Our findings identified that the adviser is a core component of our customers’ understanding strategies. Over the next 12 months, we will begin the next stage of our understanding testing where we intend to further consider the benefit of a financial adviser’s involvement and the associated support this provides to customers in future research and testing, here we will also aim to explore the applicability of the 3R approach to a wider population.

<sup>1</sup> <https://doi.org/10.1080/1351847X.2019.1700148>

<sup>2</sup> <https://doi.org/10.1111/joca.12083>

## Research design and execution

The design and execution of our research has been developed independently by Dr Richard Whittle – whilst we have facilitated customer communication and engagement, to maintain the rigour of the research of the process we have not had any direction over the process.

### Dr Richard Whittle

Dr Richard Whittle is a University Fellow at Salford Business School researching (online) human behaviour, focusing on artificial intelligence, dark patterns, consumer understanding and sludge.



Richard is Scientific Director and Co-Investigator of the £3.9 million Research England funded Y-PERN programme, where he advises policy institutions on the implications of AI. He is author of Algorithms, Blockchain and Cryptocurrency, and is part of the Manchester Digital Strategy Research Network.

Dr Whittle has published in world-leading journals, including Public Administration, Behavioural Public Policy and Work, Employment and Society, led the technical research on the retail economy for the Greater Manchester Independent Prosperity Review, and conducted the financial ‘rules of thumb’ evidence review for the UK’s Money Advice Service.

Previously Richard has held positions at UCL, The University of Leeds and Manchester Metropolitan University, where he was Chief Economist at the Future Economies University Research Centre and led the postgraduate economics collaboration with HMRC. Richard’s research and knowledge exchange activities have received funding from numerous sources, including from the ESRC, Research England, the NHS, GMCA, and UKRI as well a full CAPE fellowship hosted in the Institute for Innovation and Public Policy at University College London.

## Research design

Assessing and improving customer understanding of financial disclosure documentation is of key importance to policy makers, regulators and industry. However, very little research exists that considers both ways to improve understanding and testing that understanding.

The UK’s Behavioural Insights Team notes however that “intuitions [on what can improve understanding] can be wrong...businesses should test how well real customers understand it [documentation] by asking them questions about what they have read” (Behavioural Insights Team, 2019). They further explain that this testing should be undertaken through a mixture of Randomised Controlled Trial and qualitative ‘deep dive’ data gathering.

Randomised Controlled Trials are recognised as the best way of determining whether a policy is working by the UK Cabinet Office. RCTs can suffer from numerous technical issues which make this ‘gold standard’ highly problematic in dynamic – non-experimental – settings. However initial survey work to determine the suitability of the AJ Bell customer base pointed to a randomised testing approach as the most appropriate method of robustly testing customer understanding.

**The FCA has been at the forefront of the use of behavioural science and experiments to inform regulation.**

*FCA Occasional Paper 23*

Our approach was conducted in line with best practice from the FCA's 'When and How we run field trials' document<sup>3</sup>.

## Final Research Design

The research programme consisted of three stages:

1. A review of customer-facing documentation and processes to establish if there were any observable barriers to understanding. This was required to know if issues with understanding are behavioural or structural i.e. we should not test if the average customer understands something that is particularly difficult to understand, or if it contains behavioural impediments to understanding such as jargon, information overload or prompts to a particular outcome. We should instead fix any issue at source.
2. A randomised survey approach to test understanding and what works in understanding. This randomised approach (detailed below) allows for an investigation into various drivers of and barriers to understanding.
3. A qualitative interview approach to fully understand the decision process and deep dive into issues arising from stage two. Due to the subjective nature of understanding the qualitative research process is also used to validate the survey design.

The three-step process above allows for a comprehensive assessment of customer understanding and how this can change in different contexts.

## Document Review:

To ensure that the research assesses understanding based on documentation which is in itself appropriately understandable. The documentation provided to the customer was audited for 'barriers to understanding' including checking that it was appropriately simple and clear, that visual aids were present when required and aided understanding, that key information was salient and accessible, and that the document adhered to appropriate design and (electronic) delivery methods to aid understanding. Additionally, the documentation was audited for the presence of behavioural phenomena such as nudges or framing, and that feedback or clarification mechanisms are in place.

## Randomised Survey:

Given the subjective nature of understanding, it is not viable to simply ask customers if they understand the documentation they have received. Following best practice examples, this study uses a testing approach where customers are asked comprehension questions to test their understanding of the documentation. Furthermore, using a randomised experimental survey approach<sup>4</sup>, we can better understand what factors impact customer understanding in order to help design better communications.

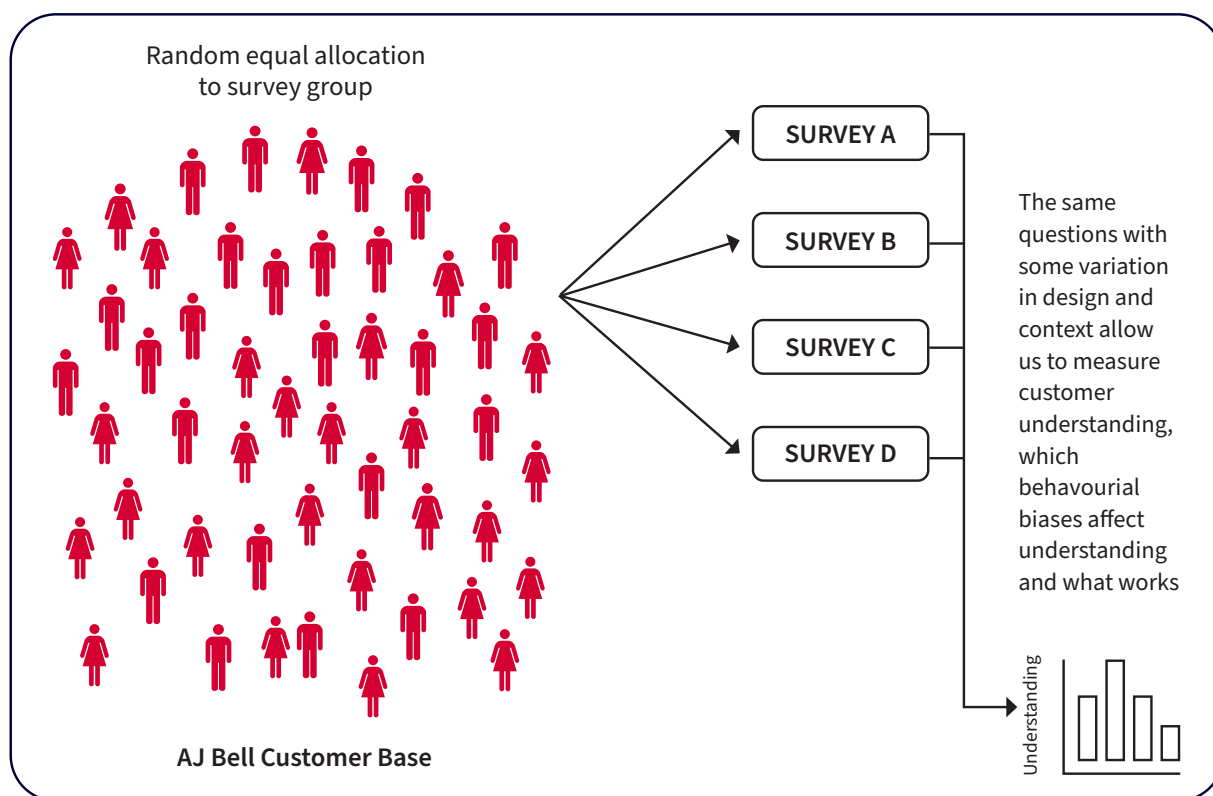
Learning from best practice such as the Money Advice Service's financial capability lab<sup>5</sup>, adapted to the FCA's guidance on conducting this type of testing in the real world, we can develop a highly robust approach to testing customer understanding and 'what works' for communication and documentation. This is shown below:

<sup>3</sup> <https://www.fca.org.uk/publication/corporate/how-when-we-use-field-trials.pdf>

<sup>4</sup> Survey questions were tested on an initial subsample of customers and on AJ Bell staff volunteers to ensure their appropriateness to the customer base.

<sup>5</sup> <https://www.fincap.org.uk/en/articles/the-financial-capability-lab#:~:text=In%202016%2C%20The%20Money%20Advice-facing%20people%20in%20the%20UK>.

Figure 1: The Randomised Survey Approach



## Qualitative 'Sense-Checking'

Following the completion of the randomised survey, key findings were discussed with survey participants to better understand and 'deep dive' emergent issues. The interviews were informed by best practice in the field, including The Behavioural Insights Team's EXPLORE guide, coupled with insights for interviewing advised customers from the Financial Advice Market Review (FAMR)<sup>6</sup>.

## Results and findings

The three-step research process first establishes if there are any impediments to understanding – investigating if understanding is prevented or reduced by existing materials and processes or if the understanding process is influenced by behavioural and psychological characteristics. Secondly, a randomised survey approach establishes levels of understanding in the AJ Bell customer base and how existing documentation affects that understanding. Thirdly, emergent issues are explored, and the survey is then validated via participant interviews.

<sup>6</sup> <https://www.fca.org.uk/publication/research/famr-consumer-research-nmg-consulting.pdf>

## Document Audit

A representative sample of documents the customer would receive on their customer journey was reviewed. Documents were initially assessed on five measures, and following insights from the subsequent research, a sixth category was added:

Each document was reviewed for (where relevant):	Notes
Simplification and clarity	Appropriateness of text is judged by <ol style="list-style-type: none"><li>1. minimising or explaining jargon,</li><li>2. avoiding complex or overly long explanations (where relevant),</li><li>3. ensuring the document follows a logical and coherent flow,</li><li>4. identifying any ambiguous terms or concepts.</li></ol>
Visual aids and design	Assessed by (1) ensuring visual aids appear where useful to aid understanding, (2) evaluating the document's layout and design ensuring they support understanding, (3) assessing the effectiveness of visual aids in aiding understanding.
Salience and personalisation	Assesses (1) if the document makes key information salient and accessible, and (2) if key information is highlighted as being relevant to the reader / recipient.
Chunking and progressive disclosure	Assesses (1) if the document presents information in manageable 'chunks' to prevent information overload and, (2) if read online / electronically the document allows information to be received at the reader's pace to avoid overwhelming the reader.
Behavioural nudges and framing	The document is assessed for (1) any behavioural nudges (e.g. default options, social norms) which may prompt sub-optimal choices or affect decision making, and (2) if any framing of information is present affecting decision making or impacting understanding.
Feedback (clarification) mechanisms	Building on the research findings that those who sought clarification developed a stronger understanding or 'strategy for understanding', the documents were also checked for prompts to seek clarification or feedback.

The document review found no significant impediments to understanding in the material provided or in the processes where it is received, allowing us to test understanding in the customer base.

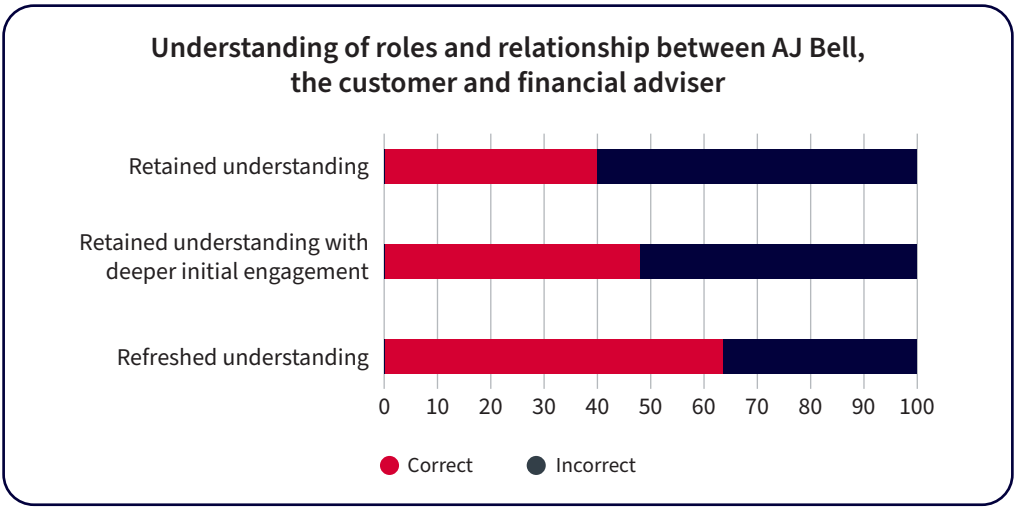
## Randomised Survey Approach

To evaluate the general level of customer understanding, we identified the core question of responsibility as the key test. Regardless of general technical detail about the products they hold, a fundamental understanding of who has responsibility for assessing the suitability or appropriateness of an investment, highlights if a person generally understands the nature of the financial decision they are making.

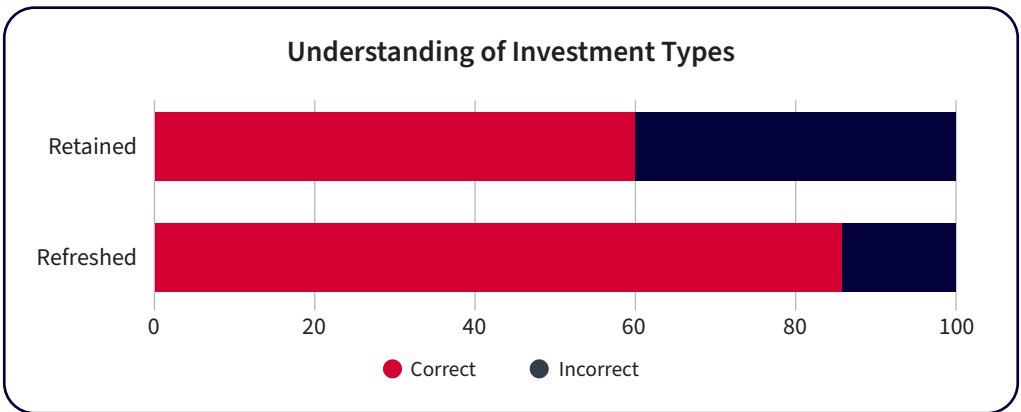
Survey questions were designed to unpick who customers thought was responsible for their investments: themselves or themselves and their adviser, or AJ Bell. The questions were not designed to uncover any more than assessing if the customer viewed AJ Bell as having general responsibility for their choices. This highlights the general understanding of roles and responsibilities and provides a measure of the customers' retained understanding.

A key aim of the survey is to assess the general level of understanding in the AJ Bell customer base and the impact on understanding that the document has. Given that the customers have already seen this documentation at least once, we are assessing what level of understanding is retained and to what extent further exposure to documentation may refresh that.

As a first measure, a meaningful subset of customers was assessed in a natural state, with no prompts or additional information – they were simply tested regarding their understanding of AJ Bell’s responsibilities in assessing the appropriateness and suitability of their investments. This revealed that the retained understanding is around 40%<sup>7</sup>, however nearly 50% of those customers who, when receiving their documentation, made a strong effort to understand it by spending 10 minutes or more in doing so, demonstrating an increased retention of understanding. 64% of the sample subset who received the information prompt and reviewed the relevant section of the AJ Bell terms and conditions document demonstrated good understanding of the roles and responsibilities of relevant parties:



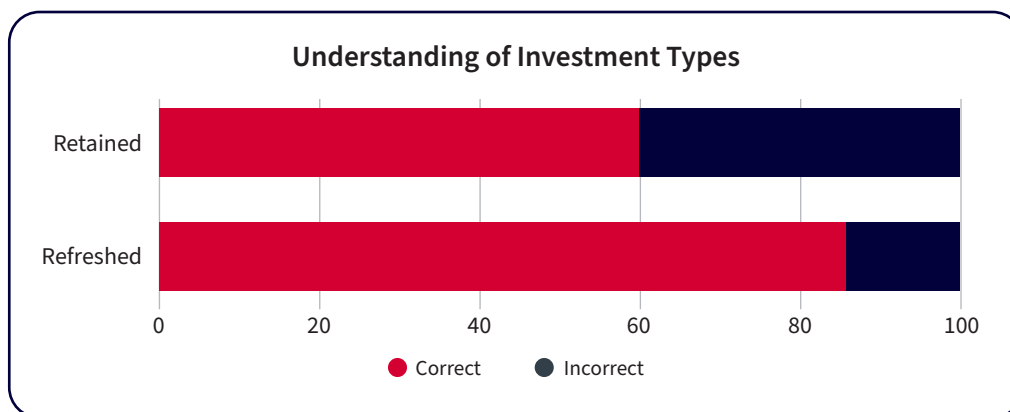
Following reading of the relevant section of the document, 64% of customers correctly identified the fundamental relationship between themselves and AJ Bell. Later in the survey, the whole sample (every survey) contained a section of the terms and conditions text referring to permitted investments. Crucially this text did not define permitted investments but detailed the action(s) that may be taken should an investment held by a customer no longer ‘be permitted’. Findings here again demonstrate a difference between retained and refreshed understanding. 60% of customers correctly identified the definition of permitted investments (retained understanding) and 85% of customers correctly identified the actions that would be taken (refreshed understanding).



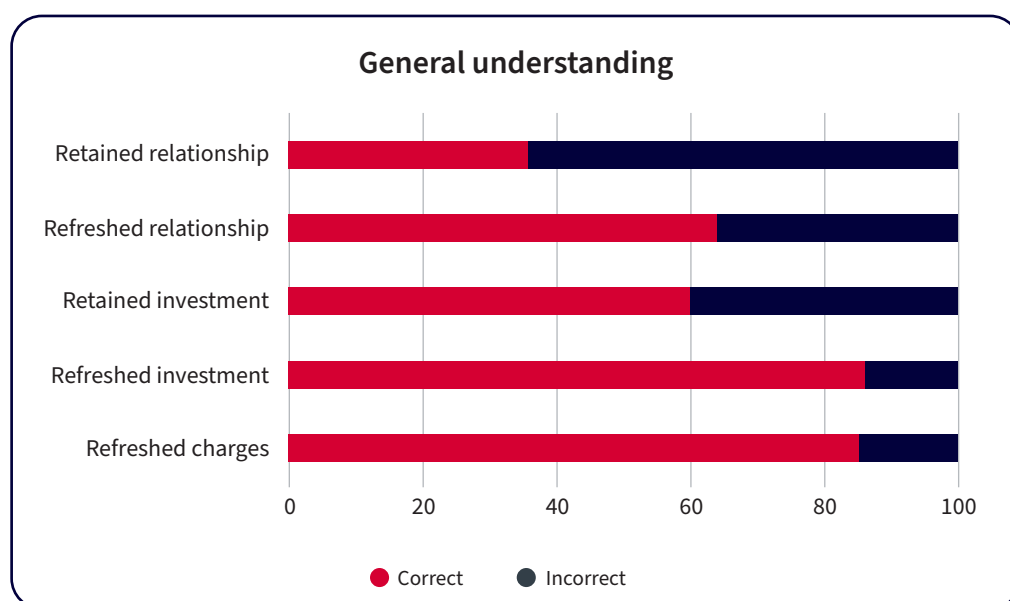
<sup>7</sup> Our survey has a margin of error of  $\pm 2.5\%$



Our survey design also allowed us to test understanding relating to charges information. We were particularly interested in the presentation of this information in the documents. However, we found that differences in presentation such as if the charges information was presented in isolation or as part of a larger body of text made little difference to understanding:



However once again, we find that for the whole sample, understanding following recent engagement with the documentation is 85%.



**The testing approach used shows that customers, when presented with the relevant information, demonstrate a high level of understanding, and that retained product understanding can be quickly refreshed to a high level with relevant information.**

## Qualitative Research

Our survey revealed that customers retained significant levels of understanding from their previous interactions with the documents, and products, often additionally supplemented by their adviser. The survey also revealed that three out of four customers could easily find their documentation.

Our qualitative research explored ideas of retained and refreshed understanding as well as how customers developed strategies to understanding. That is how customers ensured that they had their required level of understanding at the point where they made a decision.

We found that the adviser relationship was key to understanding, and that people generally consulted their adviser or the documentation when making key decisions.

Our next study will further deep dive into strategies for understanding with a large qualitative sample.

### Key research findings:

1. Customers retain their initial understanding, though as time passes this decreases. Refreshing that understanding with the document alone can increase the proportion of customers understanding by around 50%.
2. Refreshed understanding is a good indicator of original understanding.
3. Customers develop 'strategies to understanding' to ensure they have understanding when they need it.

### Additional findings:

1. In the sample, risk preference is not a good predictor of understanding (or lack thereof).
2. Simplifying text reading level increases understanding. However, the effect is limited<sup>8</sup>. It is likely that additional simplification will not be able to adequately convey the meaning of relevant information and any simplification of text should be subject to additional testing.

## Conclusions and onward actions

When drawing conclusions from this type of research, we are careful to avoid too easily applying labels to individual customers or customer groups – instead, we must recognise that our customers are human beings and, as we all do, will apply numerous strategies for obtaining understanding when it was needed. For example, customers reported 'outsourcing' their need to understand to their financial adviser or in some cases to their past selves:

*"I went through it [the documentation] when I got it, made sure I was happy with it all, I can't remember anything now. It's all ok though, I remember being comfortable with it all and if I need it I know where to get it again".*

This direct quote from a customer seems a familiar scenario – a neat summary of many experiences of buying all sorts of financial and non-financial goods and services.

Given the base layer of retained understanding and the increased understanding provided with information prompts, our actions are focused on supporting this method of improving understanding:

1. Provide a clear prompt with documentation explaining that customers who read their documentation thoroughly and at least twice report a better understanding. Trial adding prompts to use the glossary to check understanding of key words and phrases, and for the customer to check anything they don't understand with their adviser.
2. People may think that they understand more than they do. In the above prompt, begin with "many people may find financial product information can take a while to sink in..."

3. Make it easy for the customer to get the understanding when they need it:
  - i. Provide supporting material detailing how to access electronic resources.
  - ii. Encourage an easy interaction with their adviser.
  - iii. Encourage digital storage behaviours. Design it so customers can access documents electronically in a way that works for them.
  - iv. Add easy-access documentation to the website e.g. so people don't need to log in or remember a password to get to generic product documents.
4. Use document updates and contact points as reminders to refresh understanding.
5. Assess customers' digital literacy in the initial engagement and if necessary, signpost to support.

We believe that these actions are proportionate, meaningful, and worth sharing with the wider industry – certainly, a 'social norm' type prompt to frame the time needed to properly engage with key reports and recommendations may have merit in many advice processes.

## Final Summary:

The FCA poses the question: "do customers get the information they need at the right time and in a manner they can understand?".

From this research we can suggest a positive answer. On a day-to-day basis around half of customers have a good understanding of the details of their products, even when not particularly engaged with the pension or other services. Think of this as randomly stopping a customer in the street and asking them questions about their products. Customers who report a longer reading time when initially engaging with the documentation demonstrate improved retained understanding. When refreshing their understanding by re-reading the relevant sections of their documentation 85% of customers displayed a good level of understanding. In short, if customers check the relevant parts of their documentation before making decisions, they generally demonstrate a good overall understanding of their product. However, above this, customers demonstrated strategic understanding; that is, they ensure they have a good understanding when they need it, they utilise their documentation to check key details (leading to our recommendation about document accessibility) and engage with their adviser, particularly in more complex decision making.

Our customers have established routes to getting the understanding they need. Learning from this study we are keen to make it easier for them to do so. We can do this by auditing our documentation, making it easier to find and to access, and increasing our reminders for customers to engage with it, and encouraging them ask questions to clarify their understanding. Responding to the finding that customers who spent longer initially engaging with the documentation demonstrated increased retained understanding, we will also further test prompts to encourage a deeper initial engagement with the documentation.