

## SALES CHANNELS AND MEDIA DIGITALIZATION IMPACT ON PEOPLE VOLUNTARY SAVINGS FOR RETIREMENT

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### **ABSTRACT**

*Due to the implementation of new technologies and orientation on digital solutions the communication and sales channels have changed dramatically. Information and client service on-line availability presents strong advantages for business, state agencies as well as customers. However, lack of personal interaction during the communication and sales process can make it difficult for people to understand and even frustrate their desire for a product or service. The purpose of the research is to analyse the digitalization impact on voluntary savings for retirement in Latvia and make comparisons with other countries. The voluntary pension schemes are the part of pension system and its third pillar created to strengthen and foster sustainability and adequacy of people income level after retirement. Main stakeholders in voluntary savings for retirement are pension funds as well as government agencies carrying out the national pension system policy. Among other motivation factors the people knowledge level about the necessity to participate in third pension level causes their willingness to create voluntary savings. Service providers chosen marketing and governments realized legislation policy impact the level of people engagement in private pensions and make a basis for people retirement period living standards. Research methods used are analysis of scientific publications and previous conducted research, analysis of statistical data and sales and communication channels in Latvia. The results of analyses show the challenges that service providers are facing and steps that should be taken to promote the voluntary savings in a digital era.*

**Keywords:** *Communication, Digitalization, Financial literacy, Pensions, Voluntary savings*

### **1. INTRODUCTION**

The financial services business environment experiences transformational changes caused by digitalization. It starts with sound decisions to digitalize all the critical business processes and ends at the person's ability to connect to the internet. Pension system creation principles are widely discussed issues all over the World. The general tendency of pension contributions and payments combination principles is to create a balanced pension system with shared responsibility for retirement income between governments and people. Voluntary savings for retirement or so-called 3<sup>rd</sup> pension system pillar as the gear to ensure a sufficient level of income at retirement age by creating private pension funds. It has the highest growth potential which is not fully realized. Development of voluntary savings for retirement depends from several important aspects: people soft skills like awareness, knowledge, attitude, and behaviour to take financial decisions (Atkinson, Messy, 2011, p.3), people ability to take care their personal financial wellbeing, attractiveness of service providers offers and communication, and finally – government established rules by legislation acts. Furthermore, all the mentioned aspects are interconnected. World Bank (Demirgüç-Kunt, Klapper, Singer, Ansar, Hess, 2018, p.13) in their analyses of people's financial literacy level emphasizes the governments' role in the expansion of financial inclusion.

Academy highlights the countries duty to “invest in education and public campaigns to make those groups that are now less literate more aware so that they can make informed decisions about whether and how much to save voluntarily for retirement”( Le Blanc, 2011, p.4). Meanwhile, OECD in its Pension Outlook (OECD, 2018, p.141) names “Simplification of information and choice” as one of five policies to improve the design of funded pension arrangements. It suggests developing web applications, better show information and facilitates offers comparison options. The purpose of the research is to analyse developments of the voluntary savings for retirement aspects influenced by digitalization, observe academic literature and statistical data to evaluate the situation in Latvia in comparison with other European Union countries. The tasks are to investigate the challenges that pension savings service providers are facing and analyse possible steps and solutions should be taken to promote the voluntary savings in a digital era. Research methods used are the analysis of scientific publications and previously conducted research, analysis of statistical data and sales and communication digital platforms in Latvia.

## **2. LEGISLATION FRAMEWORK**

In Europe Union, the pensions regulation framework was established in the year 2003 by issuing the Directive for activities and supervision of institutions for occupational retirement provision. It was “the first step on the way to an internal market for occupational retirement provision organized on a Union scale” (European Parliament, 2016, p. 38). The migration between job vacancies within the Europe Union and the softening of borders between EU countries as well as the necessity to introduce a modern risk-based governance system of institutions for occupational retirement provision caused the necessity for improved regulation, being in force from the year 2016. The duty to introduce regulation of person pension products on the European level resulted in recently approved Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) (European Parliament, 2019). It is the consequence of the overall tendency to create private retirement savings in long-term investment products rather than in cash or bank deposits (European Parliament, 2017, p.2). With the newly adopted law, the voluntary pension schemes offered by EU countries service providers should become cross-border available for all member countries. It is expected that this directive will create a single EU market for the private savings pension plans for suppliers and customers, it will boost competition and improve the terms and conditions for customers. The local legislation initiatives should follow in order to harmonize ES legislation acts on the national level. The voluntary savings in private pension funds in Latvia has been regulated by the “Law On Private Pension Funds”, accepted on 20.06.1997 (Parliament of Republic of Latvia, 1997). It is meant for both types of retirement savings – created by the employer, so-called occupational pensions, and by private persons. Latvia being a member of the Europe Union since the year 2004 operates in Europe a single market with all its offered advantages and limitations. Therefore, the Latvia national legislative acts have been adapted to the EU directives requirements. At the end of the year 2019 in the Latvia Parliament Commission for Budget and Finance, there is an ongoing discussion on the changes in existing Private pension funds Law (Saeima, 2019). In parallel to the legislative changes in question, it is proposed to define more clearly the conditions for the termination of the pension scheme and to transfer supplementary retirement benefits to another pension scheme in such a way that it can be made remotely through the technical capabilities of the services provider website. If the proposed changes will be accepted Latvia will take a good step in facilitating remote sales channel development. Europe Parliament institutions are caring not only about the wealth of retired people in Europe by implementing normative acts to create common regulated and supervised markets they have been established certain rules for service providers using distance marketing means in sales of financial services in order to

protect consumer rights (European Parliament, 2002, p.2). Directive formulates the unified requirements for the services and their providers as well as terms and conditions of agreements concluded via the internet or telephone and in its almost 20 years duration gives ground for unified consumer protection principles in Europe Union countries. The academy is discussing the effectiveness of EU regulations of financial services distance marketing putting too much emphasis on the amount of information that should be given to the client in advertisements of savings in pension funds and before client's decision to create savings for retirement at all. Steennot in his research (Steennot, 2007, p.542) suggests facilitating the formal information on a stage of advertisement by shifting it to the stages of agreement reading processes. Latvian Law On Private Pension Funds defines the rules of minimum required information given to the client by any formats in public announcement or advertising of services: "1) the title of the pension scheme; 2) the firm name and legal address of the pension fund; 3) the name and legal address of the manager of funds of the pension scheme; 4) the name and legal address of the holder of funds of the pension scheme; 5) the place where one may get acquainted with the pension scheme and the investment policy thereof"(Parliament of Republic of Latvia, 1997, p.11). Digitally provided information can give the better chance to deliver required information in more effective and readable way in comparison with traditional communication means.

### **3. FINANCIAL LITERACY**

Digitalization starts with the two basic factors – the internet and the ability to use it. OECD, World Bank, and Europe Union institutions are paying attention to the development trends of both factors and analysing people financial literacy level. According to OECD International Network on Financial Education, "Financial Literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (OECD, 2018, p.4). Financial literacy goes hand in hand with enhancements of digital solutions. In its global financial inclusion database, the World Bank Group focused on the analysis of digital payments and on access to the Internet (Demirgüç-Kunt, Klapper, Singer, Ansar, Hess, 2018, p.86). According to Findex database 93% of adults in Latvia had bank accounts. It higher than in Lithuania (83%) and lower than Estonia (98%) (Demirgüç-Kunt, Klapper, Singer, Ansar, Hess, 2018, 124 p.). European Commission's one of the priorities is Digital Single market – "bringing down barriers to unlock online opportunities" (European Commission, 2019). To measure the progress The Digital Economy and Society Index (DESI) has been created. It presents the dynamics of the chosen five indicators and characterizes countries' digital competitiveness (Digital Economy and Society Index 2019). According to Figure 1 Latvia's DESI score's development has a positive trend however it is slightly below the EU average ratio. The highest scores are in Connectivity and Digital public services ratios, the lowest – in the Integration of digital technology and Human capital. According to DESI report on the year 2018 Latvia's main strengths was "the extremely advanced coverage of ultrafast broadband (with 90 % of households covered, against 60 % in the EU as a whole)" and there was "a high level of online interaction between public authorities and citizens: a growing number of Latvians use e-government services, which reach 81 % of internet users, well above the EU average" (Digital Economy and Society Index 2019, Country Report Latvia).

*Figure following on the next page*

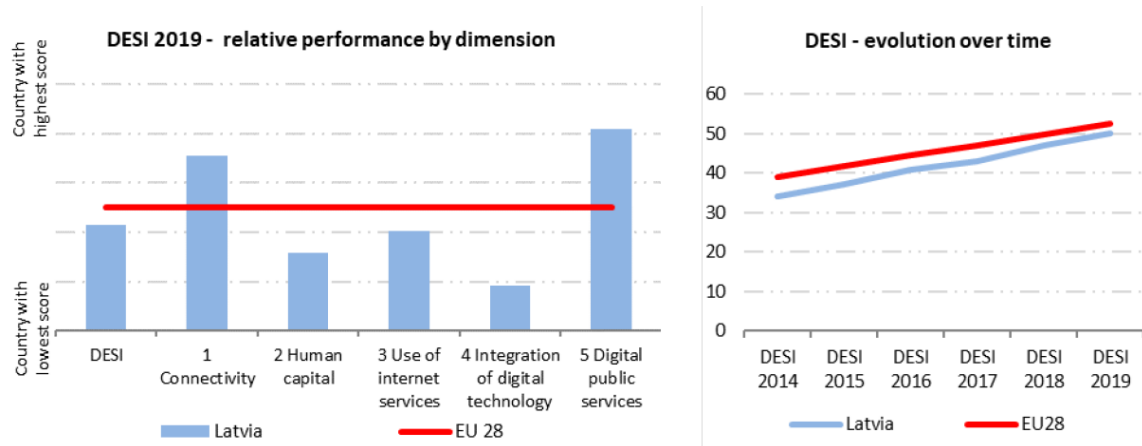


Figure 1: The Digital Economy and Society Index of Latvia (Digital Economy and Society Index 2019, Country Report Latvia, 2019, p.4)

Latvian government institutions play significant role in development of pension system on-line informational platform. At the end of 2019 it is developed in the way people of Latvia can get to know their expected pension income from the first two pension system pillars. It gives ground for people motivation to create supplementary savings on voluntary bases. However, there is no established data exchanging solution between governments agency platform and private pension institution platforms, which limits the precise and immediate data presenting possibilities on private service provider on-line platform. Digital Economy and Society Index 2019 Country Report of Latvia gives detailed information on people's habits to use the internet in banking, shopping, and selling. After Great Financial Crises in 2008 Banks in Latvia switched their strategy in the composition of sales network principles – they highly motivated customs to use internet banking instead of service “service at the counter”, closed customers' face-to-face customer service sites and introduced high commissions on cash transactions. It resulted in 79% of people using internet banking services which is much higher than the EU average 64%. Unfortunately, two other ratios – shopping in internet and selling online are much lower than EU average, only 53% and 11% accordingly (in the EU: 69% and 23%). Meanwhile statistical database of the Europe Commission Eurostat provides with the information on the proportion of the population carrying out at least one of the financial activities over the internet (Figure 2).

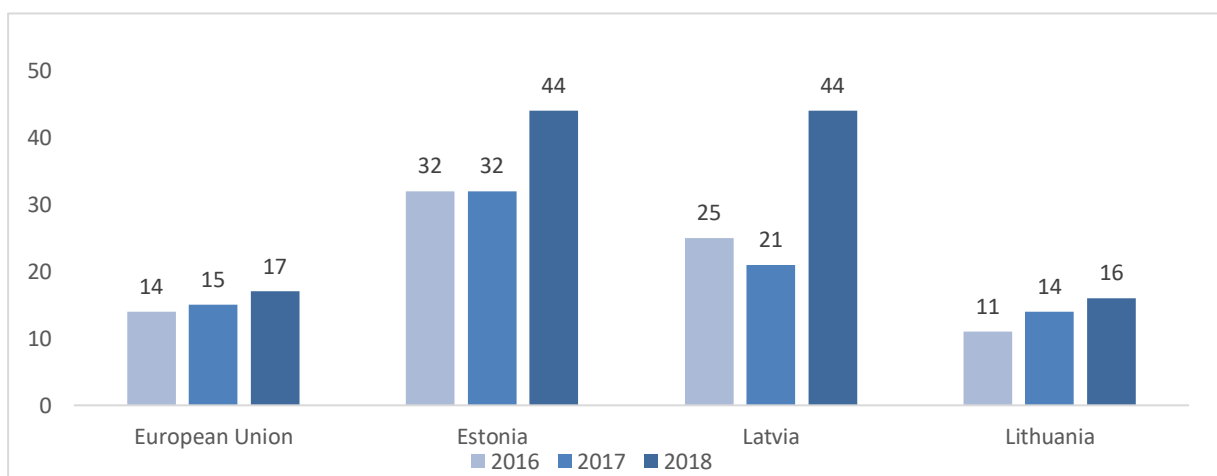


Figure 2: Individuals carried out at least one of the financial activities over the internet, years 2016 – 2018, in % (Evija Dundure construction based on Eurostat data, retrieved from <https://ec.europa.eu/eurostat>)

The tendency all over the Baltic states is positive. Lithuania population's interaction on financial services in internet is the least developed and below the EU average, Estonian and Latvia people activity in financial services online platforms in year 2018 are equally 44%. It includes all banking, insurance and investments on-line solutions.

#### **4. DIGITAL STRATEGY OF SERVICE PROVIDERS**

For all companies - focusing on local markets and working internationally, digitalization has become an everyday issue in business. The academic Jeanne W. Ross with colleagues in Thirty-Seventh International Conference on Information Systems in Dublin, year 2016 (Ross et al., 2016, p.14) spoke about digitalization as the way how to create operational and service excellence by naming two main company success drivers - operational and digital services backbones, and digital strategy as the value proposition definer. Rapidly developing market situation and consequently changing legal regulations puts financial service providers operating in the pre-digital era in a challenging situation - a situation which can be solved by digital transformation process (Chaniyas, Myers, Hess, 2019, p.18). Previously conducted IT strategies separately or as part of company business strategies have made fusion in the one – Digital business strategy (Bharadwaj, Sawy, Pavlou, Paul, Venkatraman, 2013, p.472). Academics in their research identified four key themes to consider in creating the Digital business strategy: scale, scope, speed, and value creation. The opened Europe Union pension funds markets for the companies successfully exploiting digital communication means scale of business should increase. Bigger scale brings higher sales volume and it gives the possibility to reduce prices. Researchers in their analyses of online customer preferences located the low-price factor as the main decision driver (Muthitacharoen, Gillenson, Suwan, 2006, p.687). Price sensitivity is the result of a high level of information availability and the possibility to compare the offers. For Latvia, the sales processes digitalization could enhance the growth in domestic clients' segment as well as give the opportunity to join pension plans of Latvia services providers – private pension funds and life insurance companies, for the clients from other EU countries, especially those citizens working and earning income in another EU country. From one side, there is market growth potential, however the fierce competition can bring the extra threat to lose existing clients. Certainly, Latvia like all EU customers should get a bigger range of services from new service providers to choose. All private pension funds in Latvia have internet-based client service platforms with the main on-line functionalities available for customers. According to one of the six private pension funds (The Financial and Capital Market Commission of Republic of Latvia, 2019) operating in Latvia – “SEB atklātais pensiju fonds” in its annual report of the year 2018 stated that 41% of all new pension plans members applied for savings using internet banking platform (SEB, 2019, p.4). The company is realizing digital strategy in a way to provide full service of private pension service on the Internet – starting with the conclusion of the contract, the reporting of the account of contributions and capital gains, and submitting the application for receiving pension income. For the future periods, the company puts digital and distance service development as the strategic direction.

#### **5. DIGITAL MEDIA**

To perform successfully in digital media there are certain rules and tendencies the industry follows. Bharadwaj, Sawy, Pavlou, Paul and Venkatraman in their research named Google, Facebook, and eBay as the most visible examples of effectively exploiting the information increased value factor (Bharadwaj, Sawy, Pavlou, Paul, Venkatraman, 2013, p.477). The content marketing features help to create content that not only does not leave insensitive customers but also provides a sense of added value (Jutkowitz, 2014, p.2). Even if information is strictly formal the digital media performs better when the message has been presented in a potentially attractive manner as games, videos, audio and images in digital format (Koiso-

Kanttila, 2004, p.525). There is not urgency factor in voluntary and long-term investment decision therefore digital media should bring the information in the way causing the positive emotions. Another important aspect effective digital media strategy must anticipate – once information about the voluntary savings is provided the client has to get a chance to buy a product or service. The digital media is the way how to turn interest in product or service into a real purchase (Srinivasan, Rutz, Pauwels, 2016, p.11). Nyström and Mickelsson in their article “Digital advertising as service: introducing contextually embedded selling” proposed the definition of contextually embedded selling as “a process where the firm’s advertising and sales functions are unobtrusively and congruously integrated into a single digital media journey” (Nyström, Mickelsson, 2019, p.400). Researchers structured main themes important for marketers: media content, engagement, media use, value-in-use and purchase opportunity and identified the differences between traditional advertising and contextually embedded selling. Observation of digital media space in Latvia lets us create Figure 3. On November 2019 there were 3 types of Internet sites people in Latvia could receive information about the voluntary savings for retirement: (1) official internet sites created and provided by Latvia governments institutions where people can retrieve the personalized data about the current status of 1<sup>st</sup> and 2<sup>nd</sup> pension system pillar, information about the 3<sup>rd</sup> pillar only informative nature; (2) internet sites providing general information about the pension system, including voluntary savings; no personalized data, only link to official sites described previously; (3) private pensions service providers internet sites with online calculators and possibility to apply for an offer.



*Figure 3: Digital touchpoints for 3<sup>rd</sup> pension pillar in Latvia digital media sources on November 2019 (Evija Dundure construction based on research provided on indicated Internet resources)*

The main disadvantages of all three kinds of internet sites are the lack of interconnection between all of them limiting the possibility for customers to realize buying on-line and textual information that is less attractive for the observers than graphical or video information. In Latvia, there are no internet platforms comparing offers from more than one voluntary savings service provider.

## 6. CONCLUSION

Digitalization provides an impact on the external and internal business environment causing transformational changes in all voluntary pension savings stakeholders – legal regulations, business strategies and people's financial literacy level. Latvia as a member of European Union follows the guidelines in legislation and digital policy requirements. The private pension legislation framework in Europe supports people with the freedom to choose from the large spectrum of service providers.

Private pension funds in Latvia are operating in small scale country can advance from the unified market as well as suffer. It is largely depending on private businesses' willingness to exploit opportunities provided by digitalization, which does not only enlarge competitiveness but can also potentially increase their market share. As a result of very good internet coverage and banks realized digitalization strategies, people in Latvia are used to the official and financial operations on internet platforms. However, only half of Latvia's population are shopping on the internet and every 10<sup>th</sup> business has developed an internet sales channel. The financial literacy of people in Latvia is growing and it is the bases for voluntary pension savings growth in the future. The midterm success of voluntary savings in Latvia depends on information providers in digital sites. Distance Marketing exists though it can be much more effective with the interconnections, data transfer possibilities and full sales cycle delivery on each of the platforms.

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