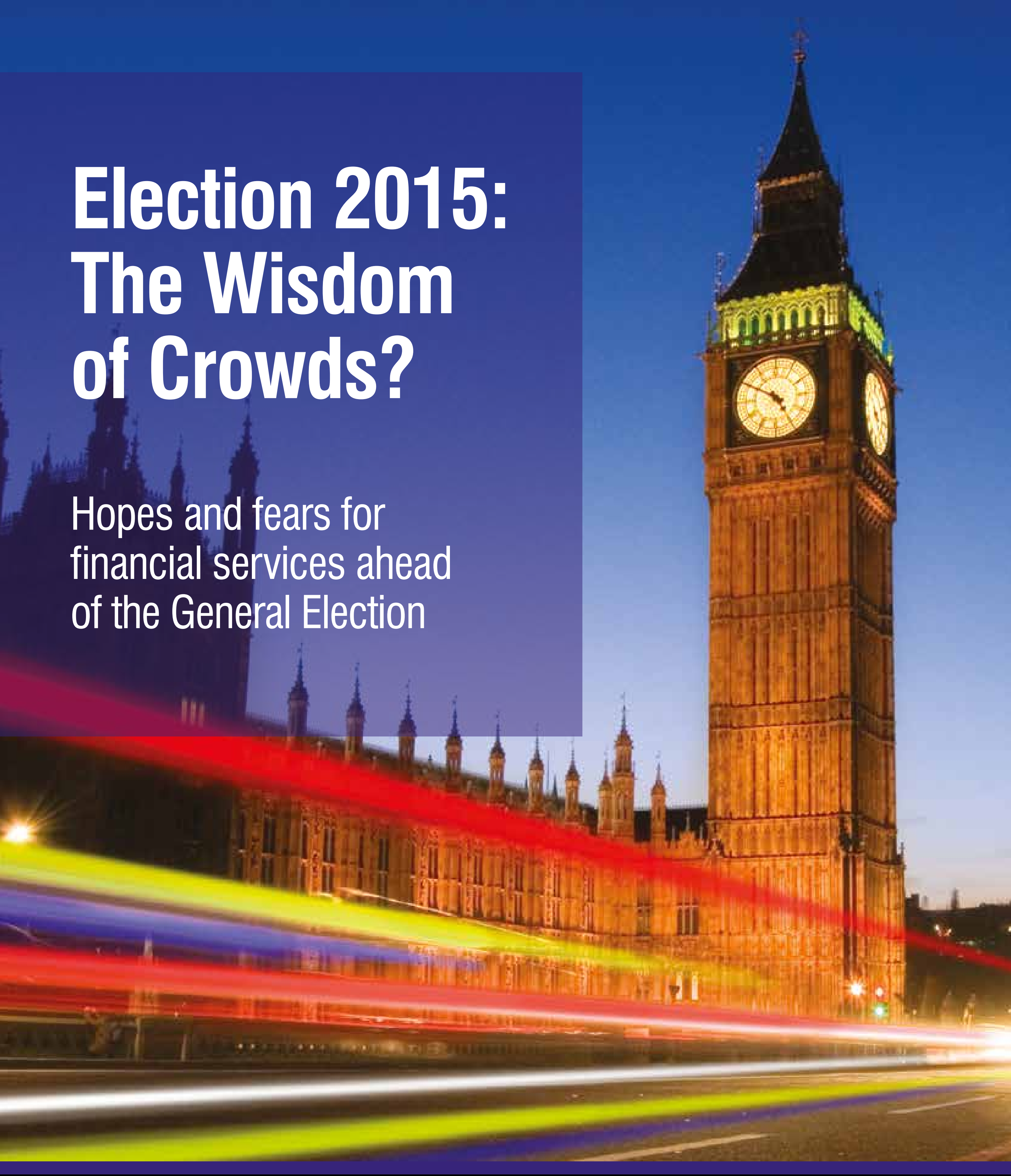
Election 2015: The Wisdom of Crowds?

Hopes and fears for financial services ahead of the General Election



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In advance of the 2015 UK General Election we decided to repeat an exercise we undertook in 2010. As part of the CII's engagement on issues of importance to the public we commissioned a number of individuals and bodies, covering a spectrum of opinion within and outside of insurance and financial services, to set out their hopes and fears for the forthcoming General Election.

Hence the 'wisdom of crowds' revisited! This is not meant as a collective manifesto, nor as a set of CII-endorsed calls for action. Rather, it is an attempt to gather a wide variety of thoughts and concerns to help amplify, and hopefully enlighten, the debate over the next few weeks and to focus on issues that might otherwise be overshadowed by some of the inevitable 'big' election themes that will dominate the public airwaves and online debates.

At the heart of this exercise is the issue of public trust and confidence in insurance and wider financial services. In the public's eyes the debate feels a bit like Groundhog Day to the last election, with the banking sector once again being viewed as the villain of the piece. But it is important that there is a wider and more thoughtful debate than this.

There are other opportunities and threats that deserve a greater spotlight, not least the contribution that insurance can give to boosting UK economic performance and boosting global growth. However, there are, in turn, challenges from consumers to the whole sector to be more adaptive and responsive to consumer needs. Issues of big data, competitiveness, simplicity of information, the future of UK membership of the EU and Scotland of the UK, as well as regulatory changes, are all important components of this debate.

The Wisdom of Crowds can hopefully make a powerful contribution to these debates.

"At the heart of this exercise is the issue of public trust and confidence in insurance and wider financial services."

David Thomson
Director of Policy Affairs,
The Chartered Insurance Institute

In the film *Groundhog Day*, centred around the American tradition of the woodchuck emerging from its hole on 3 February to predict whether spring is coming, a man is banished to repeating the day over and again until he redeems his ways.

Our profession and wider stakeholders might be forgiven for thinking that much the same thing has happened to them when it comes to General Election Day.

Like that beleaguered weatherman waking up in Punxsutawney on what he thought was 3 February, the profession is dealing with many of the same issues in 2015 that plagued it in 2010. The economy, political uncertainty, financial regulation, what to do about banking, Europe, and protections to prevent another mis-selling scandal are all on the cards. Again.

From a strictly political perspective, the 2015 general election could not be more unique. The only certainty—albeit marginal at best—is that we are in the age of the coalition. But involving whom? Whereas the run-ups to previous elections were usually characterised by different views on the outcome, Tom Clarkson points out in his opening political context over the page that even the most seasoned pollsters are cautious in their analysis of what hue that coalition will take.

A central issue going into the 2010 election was the response to the financial crisis, giving rise to two key features. The first was a tumultuous economy complete with fears of a double-dip recession; and the second was about steps to avoid another crisis by enhancing the financial regulatory architecture. This time round, the financial services issues are even more fragmented.

Perhaps the most notable issues in the life and pensions space are the Government's pensions freedoms that will be coming into force just as the election campaign starts. It marks the end of at least the first phase of intense debate over the whole principle of letting consumers decide for themselves what to do with their pension wealth. More importantly, it has moved the agenda. The announcement has effectively transformed what is normally a dreary discussion about savings decumulation confined to pensions anoraks into a major political issue with everyone offering views. Commentators from across the political spectrum will be keenly watching when this great experiment in consumer choice goes live on 6 April, and what happens in the ensuing months.

Another golden thread is the issue of getting consumers to save. Auto-enrolment rightfully dominates the agenda here given that over a third of the UK's entire private sector workforce is about to "stage in" via their micro and small firm employers. While this may help, more progress is clearly desired to create a more engrained savings culture among the public.

For general insurance commentators, the picture seems more mixed: motor insurance, regulation, consumer confidence, and infrastructure resilience all get raised.

So while the political outcome on 7 May and the weeks that follow may be anyone's guess, our profession will be in for another round of pivotal decisions across the sector. However, unlike the venerable Groundhog Day woodchuck, rushing back into a hole is definitely not an option.

> The 2015 general election could not be more unique. The only certainty – albeit marginal at best – is that we are in the age of the coalition

Laurence Baxter
Head of Policy and Research,
The Chartered Insurance Institute

Tom Clarkson
Financial Services Lead,
ComRes

"The financial services sector needs now, more than ever before, to position itself as part of the solution to the country's problems, not part of the cause."

The wisdom of the crowd

Ask any pollster to predict the election outcome, and you will see them frantically scrambling to the top of the nearest fence. Where once firm forecasts were boldly given as television soundbites, now you would be lucky to hear them whispered hurriedly in the quiet corner of a Westminster pub.

There are good reasons for this sudden outbreak of nervousness among the country's top polling agencies. The 2015 General Election is looking extremely hard to predict because many of the traditional rules of political polling in the UK no longer apply. "Uniform national swing" – the idea that the swing between the two main parties in a national poll will be reflected (on average) in every seat across the country – is a far less useful guide of how votes will translate into seats than ever before. The fracturing of the political system and the corresponding rise of UKIP, the SNP and the Greens makes it nearly impossible to predict firm national outcomes under first-past-the-post.

Despite this uncertainty, we can be bold about one thing: if the polls remain as exciting as they are at the time of writing, the General Election is going to leave behind an almighty mess on May 8th.

Current modelling suggests that neither the Conservatives nor Labour are likely to win enough seats to form a Government on their own. And with Nick Clegg's Liberal Democrats continuing to perform stubbornly poorly in poll after poll, it looks like their seats alone will be insufficient to create a parliamentary majority for either of the two main parties.

A broad-based coalition or a minority government on some form of "confidence and supply" deal therefore appear the most likely outcomes of the General Election. Depending on how strong any such arrangement proves, and although the Fixed Term Parliaments Act makes snap elections much harder to trigger, another General Election before 2020 could well be on the cards.

For the financial services sector, this means that a period of great uncertainty lies ahead. With a potential referendum on the United Kingdom's membership of the EU and further pressure for devolution of powers also on the horizon, significant political risk is inevitable.

Against this backdrop, what can the financial services sector expect from the next Parliament? ComRes anticipates at this stage that three broad themes are likely to emerge.

First, strong support for the UK financial services sector in an international political context. Over the last few years, ComRes's extensive research among MPs and Prospective Parliamentary Candidates has consistently shown that all of the main parties view the need to protect the international competitiveness of the City of London as of paramount importance. The City's importance is likely to be seen as all the more salient in light of the sector's contribution to the Exchequer, bearing in mind that the next Government will inherit some

ComRes

£1.4 trillion of debt. Whoever the next occupant of Downing Street is, we can therefore expect a strong defence of the UK sector in negotiations at an EU level.

Second, and in contrast, a continuation of crowd-pleasing attempts to demonstrate robustness towards the sector in front of the electorate. There is no reason why "banker bashing" will be any less effective a tool for winning public support after May. We can expect newly elected MPs to be particularly vigorous sabre-rattlers in this respect – our research over the course of the last twelve months suggests that some hold particularly strong views on the sector. In terms of concrete policy, manifesto pledges to tax the sector further attempt to tap into this sentiment. It will be interesting to see whether, as the Government's stake in the sector diminishes, the political ambition to punish the banks also recedes.

Third, an increasing emphasis on competition within the UK retail banking sector. ComRes's research has shown this becoming an increasingly prominent concern for MPs across the political spectrum, and we can expect to see significant discussion of this issue in the infancy of the new Parliament. For a Labour-led government, direct intervention in the sector and the forced creation of new players is likely to be high on the agenda. For a Conservative-led government, efforts to reduce barriers to entry in the market appear likely. Across the political spectrum, the debate on free banking bubbles under the surface – outgoing MPs do not appear convinced that free banking is an essential, so open discussion of this politically risky issue should not be ruled out.

Beyond the three themes identified here, the complexity of political life after May 7th should not be underestimated. But there are some aces up the sleeve of the financial services sector. No Government in British history will inherit as much debt as the incoming one in May, so there is a tremendous opportunity to demonstrate the sector's value to both the UK economy and the general public.

Whoever wins on May 7th, Britain's political leadership is likely to be weak. While that may increase the prospect of politically eye-catching policies, such as windfall taxes on big businesses, it also makes it harder for any Government to get its programme into law. The financial services sector needs now, more than ever before, to position itself as part of the solution to the country's problems, not part of the cause.

Paul Lynes
Director of Communications and Public Affairs,
Ageas

“For far too long the divide between DWP and Treasury has resulted in elongated debate, ‘divide and rule’ and lack of traction on much policy.”

Getting young drivers back on track

The Coalition Government has made significant progress in reforming the motor insurance market. That is welcome, but more can be done. Bans on referral fees and inducements, the extension of the Road Traffic Accident portal, a new fixed recoverable costs regime and changes to the reporting of whiplash claims all stripped out some of the unnecessary costs in the system, resulting in falling prices for customers. We now want the next government to be bolder and go further.

They could start with whiplash fraud and reduce the time allowed to make a whiplash claim from three years to one, stopping unscrupulous claims management companies from encouraging people to make exaggerated or false claims. The new government should ensure the new medical reporting system for whiplash really does improve the standard of reports and make certain they are produced by independent, qualified medical practitioners. Then they could look again at excessive costs and charges for replacement vehicles and repairs to prevent unfair practices and charges becoming the norm – an issue the Competition & Markets Authority completely ducked in its recent review.

There are also two specific groups of drivers that need extra attention from incoming government: the young and the old. Last year Ageas commissioned the Road Safety Foundation’s (RSF) *Making Road Safety Pay* report which put forward suggestions for both. The high price young drivers pay for motor insurance is well known. The RSF, Ageas and our partners ingenie, believe temporarily scrapping insurance premium tax on telematics products for under-25s for five years could see a quarter of a million new telematics products taken up – reducing serious accidents, lowering premiums, and saving the economy £500m. It’s an idea, supported by industry groups like the British Insurance Brokers Association, which provides an achievable solution to a real public policy concern that’s damaging the industry’s reputation.

The difficulties older drivers face are less well known than those of young drivers. With an ageing population, however, it is worth thinking now about how we cope with the changes it will bring. Ageas is proud to be funding an older driver taskforce that is currently looking at how older drivers can be kept on the roads safely for as long as possible. The taskforce will study current evidence and practice, and make recommendations for road and vehicle design, driver behaviour and self help. Any future government would do well to consider its suggestions when it reports.

Action on unnecessary costs and help for young and older drivers should be key parts of the next government’s transport policy. I hope that we will see real action taken on all of them after May.

John Lawson
Head of Policy, Retirement Solutions, Aviva

"As consumer saving increases, Aviva and other providers will be able to support more infrastructure developments in communities across the UK."

Benefits beyond the customer: Towards a single national savings strategy

While the outcome of the 2015 general election remains uncertain, the only thing we can be sure of is that significant changes will affect us all. New retirement freedoms have taken the limelight in the last 12 months, but people still need to save more, or they won't have the money to make the most of this freedom.

In the next parliament, auto-enrolment rolls out further, the new regime for retirement beds down and pension charges and governance are all set for change.

But key challenges remain: demographics, longevity, interest rates, personal and national debt, investment returns, the savings ratio, social care and housing wealth are all debates that will continue.

A single national saving strategy would be a useful, tangible first step towards giving these issues the airtime that they deserve, and agreeing a long term settlement to help rebuild a culture of savings and investment in the UK.

It could bring together:

- **The evidence:** huge amounts of data is available on what works and what doesn't, including behavioural research;
- **The practise:** there are valuable lessons from other countries about specific policies and their impact;
- **The regulation:** a strategy would give regulators the overarching policy guidance from which to take their steer;
- **The reality:** different policies may well be needed for different demographics with differing capabilities of saving; and
- **The policy:** there is already much social, fiscal and economic policy around saving which could be seen in the context of the strategy's objectives.

Benefits beyond the customer

Long term savings offer resilience, not just for savers and their families, but also help to secure growth and investment nationally. Recently, Aviva has invested over £150m in three public private partnerships in Yorkshire and Scotland. This has helped to build schools for over 2,000 students and care apartments for vulnerable adults.

These projects are just a small part of a growing portfolio of infrastructure investments. And as consumer saving increases, Aviva and other providers will be able to support more infrastructure developments in communities across the UK.

Whatever the outcome of the election, getting people to save for their own futures, and in turn supporting the future prospects of others, should be a key part of the next government's strategy. This will help to secure sustainable long-term growth and investment for the UK.

AVIVA

Phil Hickley
Head of External and Public Affairs, AXA UK

"In terms of retirement, the new pension reforms should be embraced as an opportunity to reframe society's savings philosophy."

Future risks and challenges

I believe there needs to be recognition from government and the regulator that insurers are adapting to best serve our customers in an increasingly digital world. We are both a protector and an enabler of innovation – for example, AXA's involvement from the very beginning in the UK's driverless car trials showcases the need for technological innovation to be closely aligned to public policy and regulation.

In the same vein, insurers are naturally placed to be at the forefront of long-term risk management and research. We would welcome support from policymakers for commercial partners in Higher Education – this is not just about "black boxes" for patent development but some form of recognition or incentive for those involved in such research would help deliver real societal benefits in areas such as the environment and health.

The next administration must manage environmental risks but flooding in particular will continue to be a developing issue given a growing population and the demand for housing. Flood Re is the start of a long-term policy solution but there are fundamental societal challenges around planning at a national and local level that mean policymakers must work with industry to address so we can formulate a long-term answer to this important issue.

From a health perspective how the Government addresses the challenges of an ageing population and, by extension, an ageing workforce will be important. With people remaining in work longer the challenges that they will face, including the potential dual care of grandchildren and elderly relatives, must be a material consideration for policymakers.

In terms of retirement, the new pension reforms should be embraced as an opportunity to reframe society's savings philosophy. Naturally, there is going to be an increasing focus on the individual and individual protective cover via financial products. However, managing financial security in retirement will involve complicated decisions and the next Government will, in all likelihood, need to revisit the issue of guidance to ensure that it is present at milestones in people's lives.

Like insurers, Government should be encouraged to look to future risks and challenges in order make decisions that are applicable both in the short- and long-term.

Tim Fassam
Head of Public Affairs,
Prudential

"It's difficult to think of a plan made in 2005 that would not need some updating today!"

Getting the planning back into pensions: A new pension commission

A few weeks ago I had the opportunity to talk with some of our customers about the challenges and opportunities that their retirement represented. As one would expect they had a variety of interesting and insightful things to say but one point in particular stood out. When we asked how far in advance they were planning for retirement they replied that they didn't see the point of doing too much planning, as the system would probably have changed by the time they came to retire anyway.

Many in the pensions industry suggest starting serious retirement planning ten years before the event. However, if we think back to 2005 it is clear that those Prudential customers have a valid point. In the intervening decade we've had 'A-day' (the introduction of pension simplification), the start of automatic enrolment, agreement on a new flat-rate state pension, major changes to the annual and lifetime allowances, new governance arrangements for defined contribution pensions and, of course, we are about to see the introduction of new flexibility on how people can take income from their pension savings in retirement. It's difficult to think of a plan made in 2005 that would not need some updating today!

The complexity created by these changes is also why so many are now championing the value of advice. If those of us in the pensions industry sometimes find the pace of change confusing, think how it feels to our customers. While it won't be the right choice for all, many people will want and benefit from bespoke help to ensure they are making the right long-term decisions.

Of course the good news is that most of these changes have been positive. Most of the changes follow the path set out by the Pension Commission – or fit with the model they proposed. The changes have increased the number of people saving and provided a range of new choices for customers. However, while these are important improvements, the underlying issue, that most people are still not saving enough to provide for the retirement they expect, persists. Pension decisions are long-term, so stability and predictability are vital in encouraging people to save more. At Prudential we believe the best way to achieve this is through consensus with savers, policymakers and industry working together.

Our work with the International Longevity Centre has suggested one option to achieve this – a new Pensions Commission. This new Commission would have the explicit aim of ensuring people had enough savings to enjoy a comfortable retirement. We believe that a Commission could reach a consensus on how we encourage higher saving levels, build a better understanding of the retirement outcomes we are trying to achieve and set out a policy roadmap for the next Government.

PRUDENTIAL

Steven Hill
Senior Public Affairs Manager,
Standard Life

> The initial success of automatic enrolment is testament to what can be achieved when a policy enjoys sustained support across political parties.

Achieving a consensus for savings

Britain's pensions system has witnessed the introduction of several landmark reforms in the last five years, including a Single Tier State Pension; automatic enrolment of employees into workplace pensions; and far-reaching changes to the way people can access their retirement savings. Collectively, these initiatives represent an exciting opportunity to revitalise long-term savings in the UK and create greater prosperity for consumers.

The changes announced at the 2014 Budget – which will give people greater flexibility over how they utilise their retirement income – have understandably attracted significant media attention. However, ensuring that more people save enough in the first place remains the most pressing public policy challenge.

Automatic enrolment has been very successful so far, with over five million people joining their employer's pension scheme since the reform was introduced in October 2012. A key task of a future government is to replicate this early success across smaller companies to ensure that as many employees as possible are saving for their retirement.

A further challenge awaiting the next government is to encourage more people to contribute more to their pension. While it's a great start, the 8% minimum under automatic enrolment will not provide the majority of individuals with an adequate standard of living in retirement. Standard Life believes that further 'nudges' in savings behaviour represent the most effective way of increasing contribution levels.

In particular, we support auto escalation – where employees pre-commit to increasing their pension contribution with each pay rise – as an effective means of boosting overall savings levels. Such schemes have been successful in the US and we can replicatethem here.

Alongside this, it is vital that we continue to provide financial incentives to help people to save for retirement. There is currently a healthy debate about the future of tax relief for private pension provision. Any reform must be based on proper consultation and impact analysis and, as far as possible, cross-stakeholder and cross-party support will be necessary to produce a stable, long-term solution. Anything less runs the risk of simply eroding further individuals' confidence in saving.

The initial success of automatic enrolment is testament to what can be achieved when a policy enjoys sustained support across political parties. Policy makers in the next Parliament should aspire to a similar degree of consensus to create a long-term plan for savings policy, which provides people with the confidence they need to set money aside for their futures.

Standard Life

Ron Wheatcroft FCII
Technical Manager,
Swiss Re

"The need to save more is unavoidable but, as the auto-enrolment process continues, issues that could stop people saving, should be addressed."

Understanding incentives to save for the longer term

The forthcoming election promises to be the most interesting since John Major's come-from-behind victory in 1992, the outcome being more uncertain than any election in recent years.

Whoever is elected, the next Government will have to continue to reduce the welfare spend. Services are increasingly unaffordable and the trend is set for more responsibility to fall on citizens to provide for themselves. Insurers should see this as a great opportunity to support the new government through this change, improve access to its services and fill the gap with cost-effective products.

Although auto-enrolment has been a good step in the direction of self-reliance, it is just the start; much more needs to be done. People are nowhere near adequately prepared financially to meet other risks. Fewer than a quarter of workers have any cover beyond what the state provides against the financial consequences of prolonged disability. Nearly 60% have no life insurance beyond what their employer might provide. Finally, the unpreparedness for contributions to later life care costs is woeful.

The need to save more is unavoidable but, as the auto-enrolment process continues, issues that could stop people saving, such as being off work sick, should be addressed.

As one simple example, part of each pension contribution could be used as an insurance premium to ensure that the pension contributions would not be stopped when someone was long-term sick and unable to work.

We need a well-informed debate about whether and how an extension of auto-enrolment might provide the solution to the gap left by retrenchment of welfare provision. To inform this debate we need to understand, and be able to evidence robustly, the macroeconomics of auto-enrolled insurance and rehabilitation solutions.

Successfully implementing the reforms which follow the Dilnot Review into social care provision will be vital. The new government and regulators must support the development of a marketplace in which as many people as possible are able to fund and pre-fund their care needs with confidence.

The interaction between what the State and private sector provide can be complex. The resulting confusion and uncertainty can be a barrier to taking action. The next Government should address areas such as the potential disincentive to insure long-term disability risks, where, in some circumstances, private provision can leave individuals no better off than relying on state provision.

Swiss Re

Andrew Myhill
Government and Industry Affairs Manager, Zurich

"The private sector has had to step in to fill the gaps as the state has receded. The insurance industry has been at the forefront of this."

Closing in on the gaps

If a week is a long time in politics, what is five years for a Coalition Government? There have certainly been many changes for the financial services industry since 2010, and the next five years will signify even more change. The end of the tripartite regulatory regime, a new Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), a new European Commission and a swathe of other structural reforms have seen the sector scrambling to find equilibrium in its new environment. The debt crisis and the pressure on the public purse have also had a big impact.

There would be little argument that the last five years have seen significant reduction in the size of the state. Fiscal pressures and changes to the welfare state mean individuals are increasingly expected to take greater responsibility for their own financial future and well-being. Leaving the political and philosophical arguments aside the point remains that the private sector has had to step in to fill the gaps as the state has receded. The insurance industry has been at the forefront of this and government and the industry have had to learn to work much more in partnership. There have been some well publicised successes such as Flood Re, however there remain a number of important challenges and priorities to deal with over the course of the next Parliament:

Regulatory: 2015 is likely to be a year of consolidation, implementation and simplification. For the FCA and PRA, relationships between each other, their counterparts in other European states, and the EU-level supervisory architecture are critical. The PRA and FCA must be supported in reflecting strong intentions with strong actions in order protect the UK industry.

Europe: The Government must also support and develop the Commission's plans for a 'Capital Market Union' which includes insurance companies. There must be an appropriate legislative and regulatory regime for the insurance sector; promoting a strong and competitive sector, whilst providing the strongest possible protection for our customers. A truly integrated and competitive single market in the insurance sector will promote growth, innovation, and consumer choice, and will allow insurers to fulfil their vital economic and social functions.

Pensions: Pensions are a long-term commitment and people need to have confidence in planning, therefore any changes need apply to future contributions only. Care needs to be taken to avoid creating complexity and it is essential that savers approaching retirement have the right tools to help them make better choices. However, guidance is not just important at the point of retirement. People should receive support during their entire working lives, helping them plan for old age and ensure they save adequately for their pensions.

The developing market around income protection and social care costs, and the identification of a dual role for insurers in closing the Long Term Investment (LTI) funding gap through investment and risk protection are exciting opportunities. However, for this to continue there must be trust on both sides.

Insurers want to do more, to step beyond our traditional territory and burnish our economic and social value credentials and with the right political and regulatory environment we can. While the polls are pointing to a tight race and coalition speculation swirls around Westminster, our industry will have to work with the future government, whatever its composition, to continue delivering for customers and ensure that we remain a part of the UK economic growth story.

Chris Hannant
Chief Executive,
Association of Professional Financial Advisers (APFA)

"If we are to get people to manage their finances better and increase saving, they need to take more interest and greater responsibility."

Engaging customers and enabling advice

From an APFA perspective, I see that there are two challenges for the next government to address: getting people more engaged with their financial well-being and enabling the financial advice profession to support them efficiently.

Individuals need to ensure financial resilience through life and save to provide for their retirement. Auto-enrolment helps push people to the latter, but does so by stealth. If we are to get people to manage their finances better and increase saving, they need to take more interest and greater responsibility. One of the notable positive impacts of the pension choice reform has been its prompting a greater increase in interest from people about their pensions. The new government should capitalise on this. It should develop a strategy for saving and financial engagement, based on individuals taking control. The financial capability strategy should not be kicked down the road again. People need a better understanding of the limits of what the state can provide for them, so they can sensibly plan.

It has been recognised that people will need support and help in managing this choice. The current government has set up Pension Wise to help people understand their choices. It is rightly limited to understanding, but to determine the best specific course of action they will need financial advice. The new government needs to recognise that a thriving advice profession is part of the solution and it needs to act to support it. More needs to be done to address the cost of regulation. I would like to see the FCA facing a more vigorous Better Regulation challenge from government. This is about achieving regulatory outcomes more efficiently. Efforts applied to regulation across government seem to stop when it comes to financial services. More needs to be done to reduce the scale of the Handbook, cut the reporting requirements and regulatory fees. This should reduce the cost of giving advice and so make it more accessible.

If people can be encouraged to do more, they will get better outcomes. To help them, access to financial advice needs to be easier and less costly. The simplest way to do that is to lower the cost of regulation.

Association of Professional Financial Advisers

Joanne Segars
Chief Executive,
National Association of Pension Funds
(NAPF)

> “Many have forgotten that the idea of automatic enrolment in the UK has been around since 2004. Success takes time.”

Building certainty and stability

What both pension savers and schemes value most is certainty and stability – the ability to know where they stand.

When we asked savers, 85% of over-55s told us they would choose certainty over greater flexibility around what to do with their pension savings. Many even stated that they would accept a lower return on investment in exchange for a guaranteed minimum income level.

New reforms to pensions announced in the 2014 Budget completely changed the way people will be able to use their pension savings at the point of retirement. And thanks to automatic enrolment, more people than ever are saving more for their retirement, or saving for the first time. The number of people enrolled into a workplace pension passed the five million mark in December, and we look forward to that number increasing even further as the nation’s smaller business begin automatic enrolment. We have also seen charge levels gradually fall, meaning more and more people are saving into vehicles that offer good value and good retirement outcomes.

We welcome giving greater flexibility to these savers. But the volume of changes announced last March and the tight timeframe given for implementation – alongside a host of other reforms – have presented huge challenges for pension schemes.

Many NAPF members were concerned about the late arrival of the Freedom and Choice regulations and the short amount of time they had to implement necessary changes.

Schemes require legislative certainty before they can change the way they operate. We hope that, in a few years’ time, we can say that Freedom and Choice has also been a huge success. But for the emerging settlement to work, it must be given a chance. We must remain focused on the overall savings landscape over the long-term, and on the interests of savers. Many have forgotten that the idea of automatic enrolment in the UK has been around since 2004. Success takes time.

The next Government must establish an independent Retirement Savings Commission, to define target retirement outcomes, measure progress towards them, make recommendations for change and provide impact assessments of Government proposals for change. It would be accountable to Parliament and undertake a full annual review and report, with the first one to coincide with the planned 2017 review of auto-enrolment.

Importantly, it would help Ministers make and implement policy that works for the long term. That way savers and schemes will know where they stand.

Nigel Waterson
Chairman,
Equity Release Council

“With more people than ever living for longer than ever, government needs to help people understand how they can fund these later years.”

Unleashing the potential of equity release to meet the needs of an ageing population

The UK population is ageing – the number of people aged 65 and over grew by over one million between 2005/6 and 2012/13, while at the same time, the number of people aged 85 and over has risen by 30%[1]. With more people than ever living for longer than ever, government needs to help people understand how they can fund these later years.

The new guidance guarantee means that hundreds of thousands of people approaching retirement will be focusing on their options for funding that retirement. For many, an average pension pot of about £25,000 will simply not be enough on its own to provide a comfortable and worry-free retirement.

This is where housing wealth comes in. Some estimates put the housing wealth of older people in the UK at £1.4 trillion[2]. The average defined contribution pension pot is around £25,000 and makes up 4% of an average saver’s total wealth. On the other hand, the average housing wealth held by those over the age of 55 was £271,293 in H1 2014. Equity release provides the opportunities for retirees to tap into this wealth while remaining in their homes until they pass away or move into long-term care. Yet more could be done to enable people to make the best use of this resource.

The Equity Release Council would like to see:

- A single government department – ideally HM Treasury – which champions equity release and encourages the rest of government to consider how it could work better together, avoiding conflicting policy priorities for consumers, the industry and government.
- Retirees being able to access independent financial advice from qualified advisers with a holistic knowledge of all the options relevant to later life, so that they can fully consider how to fund retirement. This will be particularly important once the Pension Wise service is launched, with an increase in the demand for advice expected to accompany this. The initial guidance must ask about people’s housing wealth alongside other sources of income in later life. And there should be a clear “hand-off” to specialist advice on equity release.
- A clear approach by government as to how equity release can be utilised to help people pay for care – providing a source of income which can help people retain ownership of their home and stay living in it for longer as they become physically frailer.

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

[1] http://www.ageuk.org.uk/Documents/EN-GB/Campaigns/CIC/Care_in_Crisis_report_2014.pdf?epslanguage=en-GB?dtrk%3dtrue
[2] The International Longevity Centre – UK – The UK Equity Bank: Towards income security in old age

Andrew Hilton
Director,
Centre for the Study of Financial Innovation (CSFI)

"Restructuring should not be off the table – particularly if it can be shown that there are ways to improve the industry"

Regulation, regulation, regulation

In the last compilation of views that the CII published ahead of the 2010 election, I made the case for either 'smarter' regulation or a restructuring of the financial services industry such that it didn't need such intensive micro and macro-prudential regulation. I wouldn't change a word of what I wrote then (even if, had any of my sponsors' read it, the financial future of the CSFI might have been in jeopardy).

What has happened since then?

Well, there haven't been any major financial collapses, as far as I am aware. There haven't been lines in the street outside any High Street bank, building society or insurer. But the regulatory burden on banks and on other financial institutions has increased remorselessly. Tier 1 capital charges, SIFI charges, G-SIFI charges, special 'one-off' taxes on banks, limits on bonuses, 'clawback' provisions, increasingly onerous macro and micro-prudential supervisory regimes, new authorisation regimes for designated executive (and now non-executive) positions... The fastest growing specialisms within the UK financial services sector are now compliance and legal. At least a part of me wonders whether the best thing for UK plc might not be to strangle the last lawyer with the guts of the last compliance officer.

Of course, that would be a tad OTT. But what I want to see after the election is a sensible, grown-up debate between Westminster and the City about the proper role of the financial sector in promoting the interests of the UK. And, if that means (as I think it may) redesigning the sector so that it is more competitive and so that it poses less of a potential systemic threat, so be it. Restructuring should not be off the table – particularly if it can be shown that there are ways to create an industry that would permit a lightened regulatory burden. For a regulator (or a politician), the answer to every problem is inevitably another regulation. We cannot blame Brussels or Basel (or Washington) for that; it is simply the nature of the beast. Regulators regulate. But, for the economy as a whole, there has to be a better answer – and what I want, after May 7, is to see the political will to explore that answer.

CSFI

Iain Anderson
Director and Chief Corporate Counsel, Cicero Group

> For insurers this could include significantly improving the links between the Home Office, DWP and the industry in order to tackle fraudulent behaviour.

Much done, more to do...

The last five years have seen the most fundamental changes to the UK's financial services sector in a generation.

Entering power still reeling from the financial crisis, the Coalition has radically reformed the regulatory regime that firms have to deal with and we are seeing the practical results of this as the PRA and FCA move firmly from consultation to implementation.

These changes include the senior persons regime set to be extended across the entire sector and in the next Parliament we will see clarity on the rules for ring-fencing of banking. Pensions reform has been both dramatic and bold while the policymakers have both approved of new entrants to the sector and clamped down on some of the newer digital disrupters.

Some might conclude from this that the public policy debate is over. Far from it.

Regulators and the next Treasury Select Committee will have their eyes more on the detail of the changes agreed in this Parliament but there are pivotal issues still to resolve and great opportunities for the sector, or certainly those who seize them.

The pensions changes of the past two years are going to be tried out on an electorate and a regulatory regime that may or may not be ready. Policies to encourage investment in infrastructure only really gained traction in the latter half of the current Coalition's term. There is much more to do. And EU Commissioner Lord Hill's plan to build a Capital Markets Union promises significant benefits for the sector and wider society. It is as important as it has ever been for financial services practitioners to plug into the debate in Brussels.

Back in the domestic sphere policymakers need to go further and support even greater information disclosure and sharing. For insurers this could include significantly improving the links between the Home Office, DWP and the industry in order to tackle fraudulent behaviour. For credit providers all policymakers need to get behind the need for a central credit data registry powered by real-time information. Policymakers of all political persuasions should also support innovation where it serves the consumer interest. The UK is leading the way in this with the rapid growth of peer-to-peer lending platforms and the most advanced price comparison offerings of any EU member state.

These are good news stories that show the power of change and why we should all embrace it.

But for policymakers there's lots more to do.

CICERO

James Dowling
Head of Financial Services Public Affairs,
Fleishmann-Hillard

> "An urgent priority... needs to be the promotion of a responsible, fully rounded, savings culture"

Building an incentive for saving

The past few years has seen a huge shift in risk away from the state and employers, towards those of working age. Welfare reform, the closure of many defined benefit schemes, and the UK's housing market have all served to protect or even benefit the older generation, while younger adults have been deprived of the advantages their parents took for granted. This shift is almost certainly a permanent one, affecting also those who come of age in future years. In a world where many of the traditional safety nets have been pulled away or significantly weakened, an urgent priority for any incoming Government needs to be the promotion of a responsible, fully-rounded, savings culture and the empowerment of people to take the decisions necessary to secure their own financial futures. Looking into the future, there are a number of areas where this need can clearly be identified.

Firstly, the erosion of the traditional privileges creates the need for an approach to saving which embraces the role of insurance as a financial buffer. In particular, this could look to promote greater take-up of the kind of protection products offered by the insurance industry – to fill the gap left by the withdrawal of public provision. This is in the interests of both individuals and the state; an incoming Government should be looking for opportunities to promote this. Given the importance of financial professional help in weighing up the choices around such protection policies, the key to improving this take-up is widened access to financial advice.

Secondly, the Government's Budget 2014 pension reforms will be implemented in April 2015. These will necessitate those who are retiring to take complicated decisions about how to fund their future. The scope of the Pension Wise guidance service seems quite limited. Many of those on middle incomes who do not currently use a financial adviser are likely to find that they have need of one to ensure an optimal outlook in old age.

The above two pressures come after the retail distribution review effectively priced many on middle incomes out of the market – and at a time when further changes to pensions tax relief are clearly on the horizon. Further restrictions of higher rate relief have been mooted by Labour as official policy. Many senior Conservatives also clearly agree with Steve Webb, the current pensions minister, that higher rate relief should be replaced with a flat rate somewhere in between the basic and higher rates of tax. Reform is coming – likely soon in the new Parliament, regardless of who ends up in power. For the financial services industry, in particular, this presents a risk. However, swift action could help convert it into an opportunity which will help address the needs outlined above.

The ABI in 2013 called for a review of the current system of higher rate relief with a view to agreeing a system which will incentivise saving. Right at the start of the Parliament, the industry should seize the initiative by clearly spelling out the shape of the reform they want to see. Just as importantly, this should also say what changes would be unacceptable, and why. Key should be a reform of the financial advice market, to make it more accessible to those on middle incomes Such a move would considerably increase financial resilience and education – and if delivered as part of a package with tax proposals designed to incentivise saving (rather than simply removing the privileges of the better off), could see a real increase in saving rates beyond the minimal returns offered.

FLEISHMANHILLARD
The power of true

Phillip Booth
Editorial and Programme Director,
Institute of Economic Affairs*

"We need to return to that approach upon which our successful financial services sector was built."

A bonfire of regulations: Priorities for the next parliament

Since 1986, there has been an extraordinary growth in the regulation of many aspects of financial services that were previously unregulated by the state. In the process, the various mechanisms that evolved within the market for regulating behaviour were undermined. And what has been the result? There are continued mis-selling crises; neutral and straightforward financial advice is hard to come by, especially for the least well off; policy documentation is ever more complex; costs rise; and the size of the regulatory agencies mushrooms. For decades, insurance companies, pension funds, the consumer financial market and securities markets operated very effectively without government regulation. We need to return to that approach upon which our successful financial services sector was built.

The growth of financial regulation has not even slowed down. Mortgages and non-life insurance were added to the regulator's portfolio a few years ago and now both sectors – but especially the former – are being tied up in red tape to the detriment of customers. Consumer finance products are now subject to price controls and pensions will be soon, too.

This situation has arisen because our regulators believe that they have the wisdom and ability to correct what they believe are "failures" in markets. However, the experience of the financial crash, when the regulators clearly failed, perhaps should lead us to question the current zeitgeist.

Since 1980 the UK has have moved from having one regulator for every 11,000 people who work in finance to one regulator for every 300. At that rate of growth there will be more financial regulators than people working in finance by 2071: and this number excludes compliance officers. Yet, are we really any better off than in 1986 when financial markets were more or less completely unregulated by the state? Are we perhaps infantilising consumers and making them less and less able to take decisions?

We need a radical agenda over the next five years. That should include, but not be limited to:

- Ensuring that banks that fail can fail safely so that they never need to be bailed out by the state.
- Abolishing the highly distorting and damaging capital regulation on both banks and insurance companies and returning to a "freedom with publicity" approach.
- A considerable reduction in consumer financial regulation and its abolition for mortgage products and non-life insurance.
- A considerable reduction in deposit insurance.

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iea

Mairi MacDonald
Post Magazine

“The insurance industry cannot continue to carry the can for homes that are flooded as a result of developers building on flood plains.”

Broadening our financial base

It has definitely become a cliché to say it but regulation of the general insurance sector needs to be proportionate to the risk it poses to the wider economy, which means greater differentiation between policies governing the various strands of financial services is required. While many in general insurance pine for their own exclusive regulatory body, the sector does not need another layer of bureaucracy and cost.

But a stronger team within existing organisations, with more specialist knowledge of the nuances of the sector, would go a long way. If this led to more discussion, quicker decision-making and fewer knee-jerk reactions to areas of the sector they think might be lacking, it would garner more support rather than blame for stifling innovation and entrepreneurialism, and in some areas, forcing consolidation.

Moves to improve the attractiveness of the UK to overseas businesses are to be welcomed and the City of London's success on a global platform is critical to the nation's financial health. But London can feel overwhelmed by the volumes of people on its streets, its infrastructure is creaking and house prices force people on three times the national average wage out to the expanding commuter belt and onto overpriced rail links.

What with all the expense involved in living and working in the capital, I've spoken to insurance businesses in the City that cannot find young people to fill entry-level jobs, suggesting an economy that is out of sync. Investment in northern English cities and other corners of the country represent important baby steps towards balancing the regional economy with that of the capital. Supporting cities across the UK to maintain and grow their own financial services centres is vital to reversing the flow of labour to London, where the chicken and egg scenario means most higher-salary, interesting and innovative roles continue to be sucked up by the South East. It would be better for everyone if the pressure was eased on London, jobs of all levels created elsewhere and regional economies stimulated to create a more balanced Britain.

As Flood Re has begun to recognise, the insurance industry cannot continue to carry the can for homes that are flooded as a result of developers building on flood plains. But excluding people or businesses that buy properties in these areas is not a solution either. Stupid planning decisions that allow too much development around flood plains, lack of maintenance of drainage and waterways and flood defences jeopardise whole communities. Yet insurers will still have to shoulder the blame when people can't get building insurance in places where approval ought not to have been granted.

Pádraig Floyd
Freelance

“Rather than letting the futures be determined by a political punch-up, it is time to place these long-term policy making needs in the hands of an independent commission.”

Measure twice, cut once: Financial services policy making

Measure twice, cut once is a traditional mantra of many craftsmen and is a piece of simple and pragmatic logic I would apply to policymaking if I had my way.

There are few governments so bereft of talent they cannot generate excellent ideas and even the coalition government has proven to be greater than the sum of its parts. But it has suffered from the same congenital disorder every administration experiences – a classic case of political myopia.

Politicians can only see as far as the next general election and this leads them to legislate in haste and leave the rest of us to repent at leisure. Financial services is one of the most important industries in terms contribution to the exchequer. And with our ageing population's need to provide for the future, it is also an essential component of social policy.

What financial services does differently is to take a long-term view – and that is what we need to see from policymakers.

Some of this is about consensus, as with auto enrolment, which built on a policy of the previous Labour government. This has seen five million UK workers enrolled into an occupational pension scheme for the first time.

And it's a great start, but requires some bold decisions to ensure it is successful. Auto enrolment contribution levels need to increase steadily if they are to provide a meaningful income – or even replace some of the benefits lost when the new flat rate pension comes in. It will take a brave administration to ratchet up contribution rates, but we need to see a long term game from our policymakers.

Rather than letting the futures of millions be determined by a political punch-up, perhaps it is time to place these long-term policy making needs in the hands of an independent commission.

That wouldn't have prevented the failure to deliver a strong, pragmatic and less capricious regulatory body. Nor would it prevent political interventions like last year's pension reforms.

While daring and revolutionary, they were essentially populist. It was pure back-of-a-fag-packet policy and not only was there no infrastructure in place, there was no notion of how to provide it.

We don't need another layer of bureaucracy, but there are precendents. What are the Monetary Policy Committee and Office for Budgetary Responsibility if not checks against excessive political interference?

Maybe it's time for a commission to oversee policy on pensions and perhaps all financial services. This may allow government to focus on the big picture and the regulator do its job more effectively.

Teresa Perchard
Independent Chair,
Personal Finance Society Consumer Insight Panel

"If consumers are to stand any chance of adjusting to interest rates rising, they will need much more and better support and help than is available today."

The big ask: Engaging and supporting consumers

Whoever is in charge of the UK after 7 May, my single ask is that they give a high priority to helping consumers deal with the adjustments from rising interest rates, as they surely must. As someone who had just taken out a mortgage in September 1992, I have vivid memories of the day interest rates reached 15%. But even the 4.5% base rate of October 2008 will be a dim and distant memory for many consumers today. If consumers are to stand any chance of adjusting to interest rates rising, at the same time increasingly taking responsibility for planning and resourcing their long term needs for income and care in retirement, they will need much more and better support and help than is available today.

So why should this make sense to politicians who seem likely to prioritise constitutional and boundary issues in the next parliament? The new Government will be inheriting a fairly benign and improving set of conditions for the economy, consumers and their personal spending power. Last year the UK's economy grew at its fastest rate since 2007, employment has reached its highest level since 1971, Consumer Price Index inflation is at its lowest level since records began in 1988; interest rates too are at an historic low, for now; workplace pension scheme membership increased to 59% in 2014 and consumer confidence has significantly improved since 2008.

However consumers' debt burden has continued to grow through the term of the present Government – at the end of December 2014 people in the UK owed £1.466 trillion, on average each UK adult accumulated an extra £572 of debt in the last year. Adults today owe on average 115.3% of their earnings. Almost half of adults do not have enough savings to cover an unexpected bill of £300; just under half of UK adults have a numeracy attainment age of 11 or below; over the next 30 years the number of people who are aged over 85 is expected to treble and over the next 40 years the number of people with varying degrees of dementia is expected to double.

The continuing underlying trends of consumer indebtedness, poor financial capability and increasing vulnerability could combine with increasing interest rates to create a perfect storm – putting homes and livelihoods at risk. With the Bank of England hinting that rise might not arrive until 2016, there is some time to plan. In my view that plan needs to go far beyond the Pension Wise service launched this Spring. It must take the form of a comprehensive, high quality financial health advice service for all citizens, of any age, at any time, for all financial questions big and small – not just pensions and saving. A service that has the purpose, capacity and capability to deliver real results, and can work effectively with professional and regulated financial planning services.

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