NewStatesman

The State of the Nation's Savings

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tisa
Leading on Investments and Savings

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Future generations need to save if they are to build a financial pot in order to fund their retirement. But our research shows that the majority of UK households are unprepared to cope with even a fairly minor financial emergency. Some 30 per cent of households have no savings at all, and a further 20 per cent have less than £1500 to draw on.

While auto-enrolment has been hailed as a policy success in the pensions arena, spare a thought for those who have missed out. We're delighted that 6.7m workers have been automatically enrolled , but we're shocked that a further 6m have been assessed but rejected as being too old, too young or not earning enough. A further 4.6m self-employed people are not covered by auto-enrolment.

Government recognises the issues and successive budgets have introduced new flexibilities and choices in the way people save for financial emergencies, life events and retirement. Hopes are pinned on new incentives to encourage saving, such as the Lifetime ISA, which aims to help both the first-time home buyers and retirees of the future. These measures are well intentioned, but on their own will not deliver the solutions we need. TISA is uniquely placed to be able to consider these issues, drawing on its pan-industry membership and consumer focus to develop collaborative, evidence-based policy recommendations and solutions.

Good examples of this approach include our response to the Financial Advice Market Review (FAMR), in which we were pleased to see our recommendations for greater flexibility in financial guidance, and on portable fact-finds, supported in the consultation report. We also highlighted the need for an enhanced digital approach to support guidance and to help people engage with their finances. A TISA-led project to deliver a digital identity for consumers of financial services could provide the catalyst we need to achieve this.

We know that in modern society, technology is key if we are to persuade people to engage with their personal finances. Yet opening a simple savings account or transferring assets between accounts can be a lengthy process as providers comply with anti-money laundering and Know Your Customer regulations. TISA's solution is a digital identity for each customer. At a keystroke, this will make savings, transfers and changes to personal details quick and easy. It will also open up the online world of apps and other innovative fintech solutions, which will enable consumers to create a consolidated picture of all their savings and retirement income plans in one place – essential if we are to deliver the behavioural 'nudges' that people need if we are to improve the levels of personal savings. The first public demonstration of the customer experience of using a digital identity is being delivered this month.

Brexit is, of course, a hot topic. This supplement includes TISA's recommendations for the issues impacting on UK savings, investments and general infrastructure in the post-Brexit market. We also explore behavioural patterns in saving for retirement, and update on our policy project looking at people's expectations and understanding of using their home to provide an income in retirement.

We recognise the scale of the challenge but believe there is much that the industry and government can do together to bring about meaningful change in peoples saving habits, not only improving their financial wellbeing, but also boosting the UK's economy at the same time.

David Dalton-Brown,
director general, TISA

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Going digital offers convenience and security

A digital identity can be the catalyst for a bright financial future, writes TISA director Charles McCready

Digitalisation is sweeping through UK financial services and we are widely regarded as the FinTech capital of the world. But unlike many other industries, financial services face the added challenge of adapting the online delivery of their product so that they still meet the regulatory obligations of Anti-Money Laundering (AML) and Know Your Customer (KYC).

Solving this challenge and opening up FinTech innovation so that people find it easier to access financial services was recognised as one of six key policy recommendations by the TISA-led Savings and Investments Policy Project, an unprecedented coalition of more than 50 firms and consumer bodies.

Developing a secure identity that satisfied the AML and KYC requirements would, the project predicted, simplify how consumers manage their money. Following the project's report, TISA established a dedicated working group charged with delivering a digital identity. In November, this achieved a significant milestone with the first public demonstration of what the consumer experience of using a digital identity might be like.

At its core, the digital identity will satisfy the requirement for firms to carry out due diligence processes on customers to meet AML and KYC regulations. All too often this is a manual process with the provider demanding paper copies or sight of original key documents to open even a basic savings account. Ironically, it's often quicker for someone to take out a payday loan online than open a savings account or transfer their assets in an existing account to a new provider.

TISA tested the digital identity concept by sponsoring an OIX Discovery Project. This brought a sample group of users together to establish their perceptions and whether having a digital identity would change their behaviour towards saving. Nearly half of the participants in the project admitted to abandoning attempts to open a savings account online in the past, citing the hassle of supporting documents to prove their identity as a reason why.

The group positively welcomed the digital identity concept and felt that the 10 minutes it typically took to register their identity in the simulation phase to be time well spent. Importantly, the participants also spotted the broader benefits that having a digital identity would bring them, including the ability to change personal details once with this being automatically notified to all the providers they were sharing their identity with. Next, a pilot programme will allow a sample set of users to go through the process using real data to validate their identity.

The project also continues to engage with the Government Digital Service and Verify.GOV.UK to explore how consumers who already have a Verify ID can also use this with financial services. Whilst the project has a strong desire to arrive at an interoperable solution, the government currently has standards that are higher than those required by financial services for AML and KYC compliance and conversion rates that are lower that existing methods of electronic validation already available.

It's clear to see how the development of a digital identity can open a world of innovation benefitting both customers and firms. We are exploring these possibilities and collaboration with other interested parties is already underway in the payments arena.

When coupled with open data standards, governance to ensure interoperability, it's evident that a digital identity can be used as the catalyst for a dynamic technology-driven financial future.

A plan is the only passport we need

TISA's Brexit Steering Committee of senior representatives from its members will provide the Treasury with expert input for the Brexit negotiations. TISA director general, David Dalton-Brown, outlines the initial recommendations

TISA's focus is specifically on savings and investments and the general infrastructure issues relating to the post-Brexit market. Other industry bodies are concentrating on their areas of expertise and we have sought to collaborate with them.Our initial response to HM Treasury was presented at the end of September, it's the result of a major research project that took place over the summer involving 79 member firms – representing half of our total membership – that encompassed 14 workshops looking at the implications of Brexit.

The recommendations we have made are not dependent on firms having 'passport' rights. We believe this will demonstrate how leaving the EU can work for businesses, consumers and the UK economy. Currently when our members trade with other states within the EU they've used passporting to move their services into the single market, however we have concluded that passporting is not necessary within the savings and investments sphere.

Our members can see an alternative to passporting which in fact we think is an improvement. It uses the EU concept of third-country recognition under which the EU would recognise that UK regulation is equivalent to their own, allowing UK-based firms to trade on the continent.

The member workshops identified that the concept of third-country recognition exists in a number of EU directives already, including AIFMD and MiFID II, but there are others such as UCITs that don't currently include it. So our proposal to the UK government is not to negotiate it directive by directive, but instead to seek from the EU a simple piece of enabling legislation which would allow the EU to add it to the remaining directives at a stroke. This would also simplify the ongoing administrative burden for the EU of maintaining the concept of third-country recognition.

It is, of course, reciprocal. By stating that UK regulation is equivalent to EU, the reverse also applies and EU regulation is indeed equivalent to the UK. That represents a huge help to the 8000 firms currently based elsewhere in the EU that are doing trade in Britain. They undoubtedly would like to continue to trade with us and we too would like to trade with them; the reciprocal nature of third-country recognition will enable that to continue.

We must not lose our ability to bring in top talent

Another clear theme emerging is that our members have told us that the speed of Brexit negotiations needs to be picked up now. We have already asked the government for a clear vision of what it is that they are trying to achieve through the Brexit negotiation.

We urgently need this - well within the two-year Brexit exit negotiating time table – so that firms can prepare for its implementation with an appropriate lead time. It will also help to avoid the risk that firms will otherwise take decisions needed to ensure business continuity that might involve moving jobs and locations offshore, simply because they cannot see which way it is we are going to end up.

We want to turn now to people because of course the people that work within financial services are so important to us and many of our member firms employ people that originated from all over the world.

Our ability to bring in top talent from around the world is clearly acknowledged and has made the UK a pre-eminent financial centre. We need this to continue post Brexit and indeed one of the things we're saying to the government is they need to speed up the work and residency permit process, so that where firms can see a top professional that they want to attract into a job in financial services in the UK, they can bring them in quickly and easily. And let's not forget the people that are already working over here, both who came from the EU and from other countries around the world. We need to reassure them that they are welcome to stay, that we appreciate the contribution they're making and that they are an important part of UK financial Services.

The UK's FinTech community is another area which needs protection against the possible adverse effects of Brexit. This sector is crucial to the UK economy, comprising 61,000 jobs and generating £5bn of revenue every year. So it's vital that as the government work through the third country equivalence proposals that we have suggested, they ensure that the needs of the FinTech community are not overlooked.

Another area which is key to FinTech is about recognising firms in a quick and timely manner when they ask for authorisation. We know that Paris and Berlin would love to attract many of our FinTech firms and if small firms feel they could get authorised faster over in the EU, then they would go there.

We set out earlier on that we want to have a set of UK regulations that are deemed to be equivalent to EU regulations so that the UK's savings and investment firms that want to transact within the European Union are able to do so under the concept of third-country recognition.

But where our members just want to transact domestically, then they don't need a rulebook which is equivalent to the EU and we are calling on government to create a simple domestic only version of the rulebook, cutting away the EU red tape that we don't need where firms simply want to transact savings and investment business within the UK.

We could extend that concept even further for where firms want to transact with the rest of the world outside of the EU. By developing a rulebook that is appropriate for dealing with the rest of the world, something which the UK can then cut its own set of rules and its own deals with the rest of the world, could again boost the position of London and our other financial centres as pre-eminent places for foreign countries to come and do business with.

So in conclusion what TISA members have evaluated very carefully in this initial response is that a system of third-country recognition will do nicely for trading savings and investment with other EU member states. We do not need passporting. We do not need full membership of the single market and both of those will make the Brexit negotiations much easier and quicker for UK government.

In particular we have asked the UK government to speed up and to share a clear sense of direction in terms of where they are going so that we can clearly see what decisions it is that member firms need to take, and then allow them to have an appropriate lead-in period to take and then implement those decisions. Then in broader terms we want good access to foreign talent from around the world to bring in the best people to work within the UK. We want a rule book which is appropriate for domestic business and we want an environment that makes the UK an attractive place for all sorts of overseas countries to want to trade financial services with us. We are optimistic that Brexit can be made into a success.

TISA's key recommendations

1. Our industry needs to know the government's proposed direction of travel now, so it can make the necessary preparations for the new relationship with the EU and indeed the rest of the world.

2. The UK not being part of the single market should not present an insurmountable problem for the savings and investment industry, providing that the government targets what the EU calls "third country equivalence."

3. In order to create a more streamlined regulatory framework, TISA suggests an "EU equivalent" rulebook for those firms or their subsidiaries that want access to trade financial services within the EU.

4. Attracting more global, non-EU financial services to the UK through the development of a well-regulated market will remove over reliance on the EU and equip the UK with the tools it needs to succeed on the world stage.

5. Maintaining access to global professional financial services skills is essential to keeping the UK as a world centre for the industry. UK firms need to feel confident that they have ongoing access to the pool of EU and non-EU talent, supported by a faster visa process.

The role of housing as an asset in retirement

Research by TISA shows that over the next 15 years over 10m people in the UK will enter retirement, typically relying upon the two biggest assets available to them – their pension and home. However, big pension changes and the benefits they offer plus property value increases have resulted in shifts to attitudes and expectations regarding how retirement will be funded in the future. TISA has therefore undertaken a review of the role of the home, seeking to address this new dynamic and help people to understand what they can realistically expect from the financial resources available to them.

Pensions have undergone a quantum shift from generous employer schemes with high levels of employee take-up and known retirement outcomes to a lack of engagement and uncertainty about how much people will get when they retire. Defined benefit (DB) schemes are rapidly becoming the preserve of the public sector, where they are available to over 95 per cent of employees. In the private sector, such schemes are only available to five per cent of the workforce, with the rest offered defined contribution (DC) pensions.

Prior to 2012, only 37 per cent of women and 40 per cent of men were saving for a non-state pension and a further 33 per cent had entitlement to pensions they were no longer contributing to. The next 15 years marks a period where many of the people retiring will still benefit from having been part of a DB pension scheme at some point during their career. But this diminishes as people retire on much smaller pensions than their predecessors.

This heralds the beginning of a generation of retirees who either saw a

Charles McCready, director at TISA, says people must be taught how to save effectively for their old age

low take-up of occupational DC pensions or were enrolled into schemes with very low contributions.

Our research looked at 1,000 people aged 50 and over to understand how they expected to fund retirement. The anticipated average household income was £29,000 per annum, a drop of 35 per cent from their working life incomes. Only half were confident that they had saved enough to provide sufficient income in retirement, with the average income shortfall being £11,400 per annum, taking into account a full state pension of £8,000 per year.

To cover this gap, almost half the group would consider downsizing to release equity in their home to boost retirement income. Only seven per cent would use equity release. The average amount expected to be released was just over £100,000, with the expectation that this would provide between £4,500 and £6,600 of annual income. With annuity rates being close to 4 per cent, this over-estimated the expected income by between 12 and 65 per cent. Importantly, this is considerably less than the average £11,400 predicted shortfall. This points markedly to the danger of people relying upon their home to fund their life during retirement without having benchmarks to validate their assumptions.

We also identified a lack understanding of the impacts of downsizing and in particular how equity release works. While two-thirds professed to know what equity release was, further investigation showed that overall the group were only able to correctly answer three out of 13 basic questions on the matter. Our findings clearly point to the need for greater financial planning across all forms of retirement savings, including the home. 70 per cent of the research group want the home to be included in financial guidance and advice. Today neither guidance services nor advice consider using the home as an asset in retirement.

This needs to be addressed by government and the FCA to provide time for the rapidly growing number of people relying upon their home alongside other savings to ensure that they can enjoy financial wellbeing in retirement. Proposed actions include building a government-sponsored campaign to raise awareness of the importance of housing wealth; including its consideration in retirement and creating a regulatory environment that encourages holistic financial advice.

Two ends of the behavioural rainbow

We are seeing two very different behavioural patterns in saving for retirement at the moment, exhibited by people at opposite ends of their savings careers, says Adrian Boulding, Policy Strategy Director at TISA

Auto-enrolment has been declared a huge policy success and the Statutory Review of AE, scheduled for 2017, will be as much about celebrating its achievements as about fine tuning how it works. Around seven million workers have now been successfully auto-enrolled into a workplace pension by their employer, with only one in 10 opting out of the savings process. And we've just started going round the loop again – a quarter of a million people who actively chose to leave their pension scheme first time round have now passed the three-year mark and been automatically re-enrolled by their employer.

It's a very simple triumph of behavioural science. Humans aren't that interested in making small savings over a long period for a benefit that's many years away. So they couldn't be bothered to join, and before AE we saw employers with good pension schemes getting 50per cent take up if they were lucky and I saw some, particularly in retail, down at 15per cent.

Instead of asking to join, they now have to ask to leave, having been joined into the scheme automatically by their employer because the law says so. This is an improvement over the previous behavioural trick encapsulated within Stakeholder Pensions, the default investment fund. That took away one of the barriers to joining, which before 2001 was the necessity to make an active choice of where you wanted your money to go as part of the joining process. Back then I worked on a large industry-wide scheme, and one of the most common calls to the helpline was "which fund is right for me?" I reckoned that for every caller with this question, there was another lost member who hadn't made that call but just put the incomplete forms into their "too difficult" basket.

And this is why the people calling for Lifetime ISA to be added to auto-enrolment, with a choice for the employee between LISA and Pension, just don't get it. I'm sure LISA has a role in the voluntary savings space, but please keep it well away from AE or it will spoil a rare pensions success.

I interpret the data that we're now seeing at the other end of the spectrum as another clear conjunction of behavioural traits. Many of the retirees using George Osborne's new Pension Freedoms are withdrawing all their money in one go. Research published by Citizens Advice in August showed three in 10 people just take the whole pension out and put the cash into their bank or building society account. It's comfortable as they understand how those accounts work, whereas pensions are perceived as complicated. Just one in five are investing the money according to Citizens Advice, and people are scared off investment because of loss aversion – they don't like living with the worry that their funds might go down.

Meanwhile, *The Guardian* reports that annuity sales have collapsed, with only one in eight people buying the product that used to be the nation's retirement income staple. That's because buying an annuity is a big decision. You hand over all control of your money to an insurance company and there is currently no going back once you've taken that road. Humans don't like big decisions and will adopt all manner of ostrich like positions to avoid taking them.

So here's the rub. At the start of saving for retirement we need to keep choices well away from people to make the system work. But at the point of retirement, where customers could really benefit from engaging with the process, we still have much work to do to create a decision framework and a simpler set of choices.

TISA: Leading on investments and savings

TISA is an industry-wide organisation with a growing membership of 160 firms drawn from all areas of UK financial services. Uniquely, TISA puts its focus on the financial wellbeing of the individual, believing that solutions that work in their best interests are ultimately most beneficial to the industry and the nation. This creates a clear distinction from trade bodies that exist primarily to serve members' interests.

Our remit extends across savings and investments and through our track record of developing and promoting policy with regulators and government, we have gained a reputation as a trusted adviser. Our independent stance is reflected in our ability to drive development projects that improve industry performance and consumer outcomes.

TISA's Mission:

TISA is a unique industry-wide membership organisation. Our mission is to bring the UK financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of citizens, our industry and the nation.

TISA's focus:

Policy:

- We originate thought leadership across the spectrum of savings and investments, developing and delivering evidence-based and authoritative policy, embracing the latest digital solutions that improve people's financial resilience, facilitating good practice in the industry and providing economic and social benefits to the UK.

People:

- We promote financial fairness for all UK citizens by engaging the industry, regulators, and Government to develop policies, regulations, guidance and services that work for the benefit of the individual and a well-functioning financial services market.

Membership:

- We provide our members with a collective voice, drawing upon their strategic insight, practical experience and technical knowledge, to provide industry-wide thought leadership, and engagement with Government and regulators, on consumer focused policies and solutions which help to drive and shape legislation.

Technology:

- We champion the development of technological innovation to make saving easier and safer for people, allow companies to operate more efficiently and support the Government's digital programme.

Operational:

- We support our members on clearly defined operational and technical issues targeted at improvements to infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations, with the purpose of improving industry effectiveness by reducing cost and risk and enhancing customer outcomes.

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