KPMG

Paradise postponed

Long-term impacts of the pension freedoms

Executive summary

Research supported by

ABI Association of British Insurers

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Foreword

Pensions paradise postponed – meeting the four challenges

Our first report, Freeing the Future? focused on the initial impacts of the new pension freedoms (PF) on the UK pensions and retirement market. In doing so we identified four key challenges that need to be confronted by policymakers, regulators and industry if the reform is to succeed in the long-term.

1. Policy – may we have a strategy, please?
2. Customers – how to improve capability and engagement?
3. Innovation – will industry grasp the nettle?
4. Business strategy – fight or flight?

Scope

This second report explores the longer-term impacts of the freedoms in the context of these four themes. We will concentrate on areas where the reform has had most effect, namely during the at-retirement and decumulation phase.

Already, PF have proved a catalyst for other important potential reforms, such as pensions taxation and guidance and advice. However, in this report we will only consider other adjacent areas insofar as they could directly affect the outcome of PF.

Timeframe

What do we mean by 'long-term'? Nothing in the world of pensions happens quickly, witness some of the PF ideas first put forward under the Peter Lilley proposals in 1997 and auto enrolment (AE) seeing the light of day nearly a decade after the Turner Commission published its first report in 2004.

But in this report we use 'long-term' to mean longer than a single administration or normal business planning cycle, ie five years or more.

Methodology

In partnership with the Association of British Insurers (ABI), KPMG research has included interviews with over 40 leading individuals in the sector, gathering and analysing the views of insurers, asset managers, banks, consumer representatives, advice and guidance providers, think-tanks and the key political architects of the system. This research has been used in both reports on the freedoms, supporting analysis of the short-term and now the long-term impacts of PF.

Quotes throughout this paper have been taken from our interviews except where otherwise stated. Firms or individuals who took part in our research have been listed on page 5.

"George Osborne has lobbed a grenade into the retirement market and although the dust has not yet settled, it is already clear that pension freedoms will generate wider change"

Executive summary

"Surely the freedoms are somewhat redundant - if you've not saved enough in the first place, flexibility isn't so useful..."

Policy

- So long as the world remains politically and economically volatile we should not expect greater stability from policymakers or more joined-up long-term thinking to take precedence over shorter-term expediency.

  Does this therefore mean that PF are condemned to flounder in the UK?

- Ultimately, the success of PF is dependent upon the success of AE. This is one piece of long-term policy where momentum must be sustained if retirees are to have sufficient money at retirement to benefit from freedom and choice. For this to happen, AE must become more prescriptive and the tax-based incentive more effective.

Customer

- Most consumers are neither sufficiently capable nor engaged to assume responsibility for making PF decisions. Government, regulators, employers and industry should focus on building foundations to improve capability and using PF momentum to boost engagement.

- Raising capability will take a generation and there is little international precedent for successful educational programmes. Practitioners believe targeted communications work better than holistic education.

- Raising consumer engagement will be driven by AE and guidance and advice. AE will raise engagement but only in the long run as both contributions and account values become more significant.

- A new guidance regime must be affordable and engaging but also commercially attractive. The advice gap is not just a supply-side issue: consumers are culturally unused to seeking investment advice. To understand the demand-side more deeply, new guidance propositions should first be sandbox-tested in the at-retirement segment.

Innovation

- Innovation in customer experience around guidance and advice will prove more influential than product innovation but there remains a healthy future for re-branded, better value, better targeted annuities.

- Other product innovation will involve the emergence of universal accounts which help customers manage multiple sources of income and asset classes, including cash, ISAs, equity release and rental income.

- In terms of guidance and advice, PF will trigger profound innovation in advice services both in the nature of delivery and the surrounding customer experience.

- Robo-advice will soon lose the 'robo' label as digital delivery expands beyond transactional to planning and monitoring. Digital will be equally as important for automating advice and investment processes as an engagement tool to attract customers and understand their needs.

- The threat of disruption is greatest at the customer interface rather than product, asset management or administration. Indeed customers will eventually become their own gatekeepers.

- The industry will also need to invest in common standards and infrastructure if it is to achieve a step-change in costs and efficiency.

Business strategy

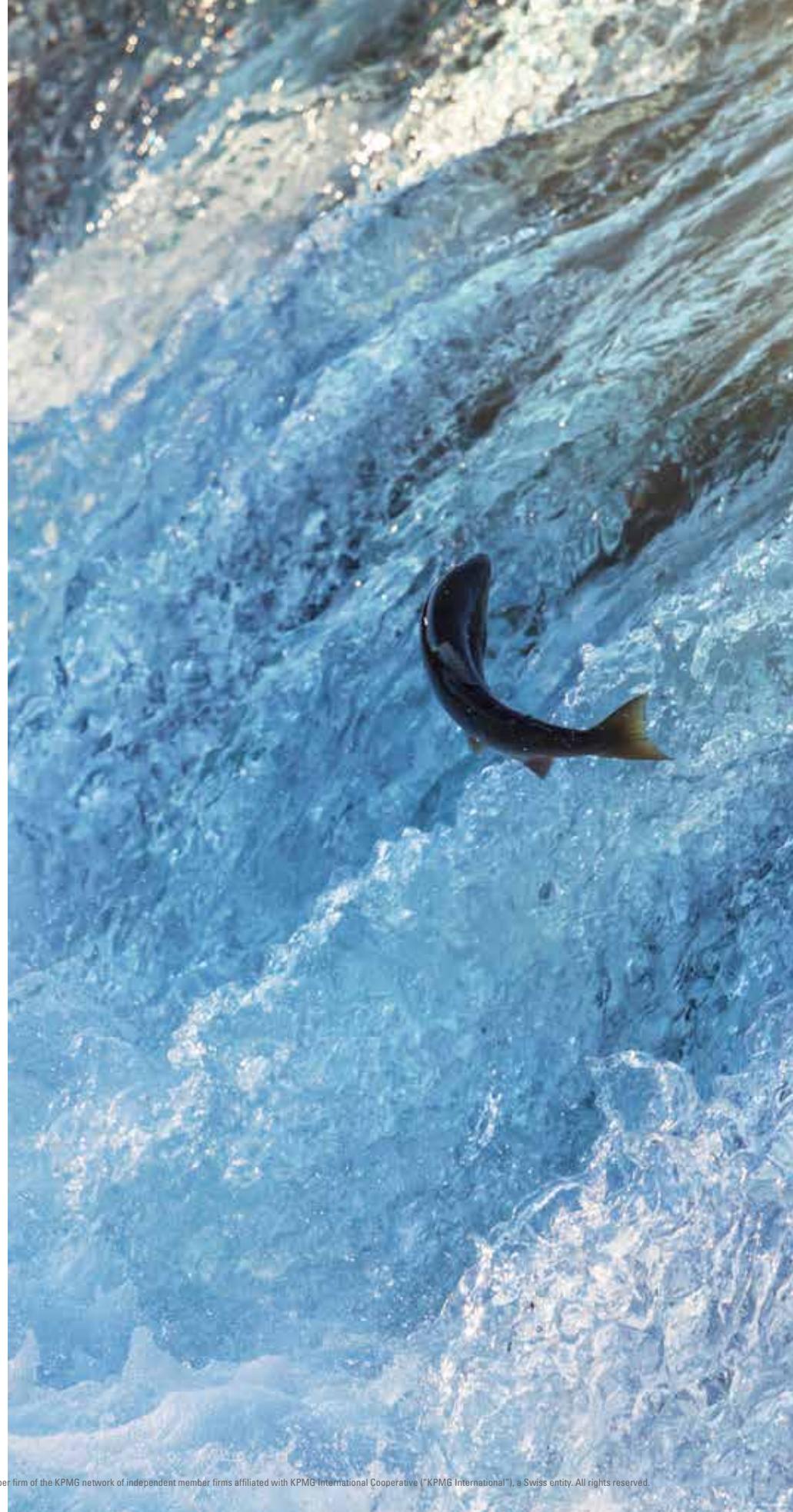
- By providing a customer experience that appears personalised but is cost-effective to supply via multiple channels and media, the winning firms in the new era will be those that transition from asset gatherer to customer gatherer.

- In the face of margin pressure, vertical integration will give advantage to firms competitive in more than one role. However, there will remain room in the market for specialist boutiques, and for a few large low-cost operators able to generate scale economies.

- Facing up to hard decisions will call for strategic honesty from incumbents whose flexibility and resilience will be tested by potential disruptors: choosing to specialise or not to participate may be the optimal decision for some. Concurrently, some familiar models and propositions from years gone by will reappear but in different guises such as the 'bionic man from the Pru'.

- Ultimately, the successful 'case study' firms of the new era will be those that can demonstrate strategic agility and customer centricity.

To read the full report please visit:
kpmg.com/uk/paradisepostponed



The long-term picture

Policy

- Success of PF depends on success of AE
- AE needs to become more prescriptive
- Accumulation incentives should be more effective to attract higher savings

Customer

- Consumer education will take a long time to alter behaviour
- Focus should be on increasing engagement
- More accessible guidance and advice is key to increasing engagement

Innovation

- Innovation will intensify around the customer experience
- 'Robo' in robo-advice will quickly be consigned to history
- Market efficiency will be boosted by greater investment in infrastructure

Business Strategy

- Convergence between wholesale and retail pensions will challenge business models
- Operating environments will become more complex as firms strive for customer centricity and vertical integration
- Some innovation and change will have a 'back to the future' flavour – 'the bionic man from the Pru'

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