

PICA Presentation 20 May 2014 – Teresa Fritz

Who is the consumer panel?

Good morning. Thank you for inviting me on behalf of the Consumer Panel to give our thoughts on the brave new world of retirement planning which has emerged from the budget.

Firstly this slide tells you a little bit about the Panel and our role.

As most of you will know, toward the end of last year the Consumer Panel published the research it had carried out into the annuity journey and retirement market. We undertook the research because it was becoming evident that the products and guidance available to consumers in the mass market at the time in their lives when they are making the biggest financial decision ever, was just not good enough.

We made several (what we thought) were quite challenging proposals for change which there is no point in going into now – as for once we were trumped by the politicians who came out with proposals that were far more radical than ours.

Today we are looking at one of those proposals in detail – the guidance guarantee. But before we do I think it is useful just to remind ourselves of the problems consumers coming up to retirement were facing, as whilst our research was carried out in the pre-budget world, the findings still hold true for the post-budget world – and in fact are even more potent

Retirement – the old world

We found that the journey for most consumers to accessing their pension pot was confusing, complicated and daunting.

The status of the distribution channels i.e. were they giving regulated advice or not? – were unclear. How you paid, and even more importantly how protected you were, was also unclear.

We found that, whilst most consumers understood that they could leave their current provider and shop around, many shopped – then stopped. Put off by the minefield of information in unknown territory and intimidated by calls from introducers – many preferred to stay where they were and take what they were given from their existing provider.

The growth of non-advice for the execution of annuities was alarming and growing by the day. We only looked at a small sample of sites, but in very few cases was there any clear warning that you were not receiving regulated advice, but effectively buying execution-only without the valuable consumer protection that accompanies full advice.

What consumers told us about their experiences

This slide gives just a few examples of what consumers told us.

So the options open to consumers as they approached retirement just a few short weeks ago was looking fairly dire.

Retirement – the new world

In the brave new world all that has changed. But actually has it? Not really. People had complex decisions to make before the budget and will still have complex decisions to make. What has changed is the level of complexity and the number of people who will have to make them. (Higher for both). Because the decisions are more complex, the solutions will be more complex and it will be more challenging for the industry to ensure customers get good outcomes.

So, whilst the Panel welcomes the increased choice and flexibility the proposals offer consumers, we have concerns about the increased level of risk consumers must take, the complexity of the choices before them and the availability of the crucial help and advice they will need to make the right choices.

The Guidance Guarantee

As we all know, alongside the greater freedom of choice came the promise of free face-to-face guidance for every DC consumer approaching retirement.

Of course all of the proposals are still exactly that – proposals – so what exactly this new guidance service will look like is a long way from being decided. But this does mean we have a blank canvas and therefore the opportunity to really put in place something that, for once, the financial services industry can be proud of. Or we can do it like we've always done it before and fail consumers yet again.

So what does good look like?

Like I'm sure many people in this room and many organisations and financial services firms around the country, the Consumer Panel has had numerous discussions about what we would like to see for this new guidance service.

And whilst it is still early days – there are some things we feel must not be compromised. This is our shopping list. I'll go through each one in a bit more detail

Specialist – Independence – Service consumers can trust

Firstly the quality of the delivery. It is the **individual** delivering the service that is key (not just the organisation). Virtually everyone accessing the service will have difficult and complex decisions to make and therefore the person guiding you through the process must be experienced, knowledgeable, confident and qualified. They will need knowledge not only of the annuity and drawdown market, but also of taxation, investments and debt management (not to mention long term care planning and equity release). They must therefore have the same (if not more) expertise as a regulated individual.

They will need to be skilled in collecting and assessing facts, listening, probing and coaching. They will need to have patience, and to be able to impart complicated information in a non-patronising manner.

Many of these people will be recruited from the regulated community because only by such recruitment do we have any hope of making the April 2015 deadline. However, this is an

advice service (and it is advice, if not regulated advice), like we have not had before. Hopefully this new service will also attract new people into financial services – maybe people who would not have thought of financial services as a career before. People who like giving advice, but don't want to sell.

Which brings me to my second point. It is imperative that the guidance process is completely divorced from the sales process. Believe me, (because I have done it for several years) it is perfectly possible to give detailed, complex advice on a whole range of personal finance issues without crossing the regulatory boundary once, or even coming near it. But only if you don't sell products and are not linked to a company that does.

As soon as you link up guidance with the sale of a regulated product you are back into the murky grey where it is all too easy to slip into regulated advice.

This new service will not work if it is in any way linked to sales of a regulated product. So – independence is the next 'must have'.

It must instil trust and confidence in those who access it. This is another reason why independence is so key. The service must have a true consumer focus and convince consumers that it really is there for them and on their side. Therefore branding will be crucial.

Single entry point - accessible - there when you need it

It must have one single entry point i.e. one phone number, one website, to keep it simple and present it as one service so we don't add yet another choice into the numerous choices consumers have to make. It can be any number of organisations involved in delivering the service under the covers, but to the public it must be one service.

But it must be accessible. The government has stated that the service must be face to face, but it must also be accessible by telephone and through the internet. In my view, the vast majority of people will want to access this service by telephone from the comfort of their own home, where they have access to their documentation. Others will want to do some

research before and after seeking guidance and therefore a first class online journey (one that you can come back to again and again and drop into at different points) is crucial.

Face-to-face might be provided through the workplace either individually or, more practically, in small groups of workers, with signposting to individual telephone guidance.

The fact is everyone is different and must be treated as such. Therefore all access points must be available to everyone when they need it.

So the service must also be available whenever you need it – not a one-off. Some people will need 15 minutes – some people will need an hour and a half – but half hourly discussions on this subject are more than enough for most people. So many people will need to come back – perhaps when they have found out more information – perhaps when they have had a further discussion with their employer or their partner – or perhaps just when they have had some time to absorb some of the information they have been given. People might want to come back after a year or so, or when they face a crisis such the death of a partner, or the onset of a serious illness. People will need guidance not just once but many times throughout their retirement and if this is to be a really useful guidance service it must – like the NHS – be there, free, at the point of need.

People must not be rushed into these decisions and must be made to feel that the service is there for them, when they need it – not when the industry feels like providing it.

Hand-off to regulated advice and sustainable

There must be a clear and seamless hand-off to regulated advice, because guidance is the first crucial step, but it is only the first step. Most people will need access to regulated advice and to buy a regulated product. Therefore the service must work with the regulated advice community to deliver a full advice journey. Perhaps this is the time to really make those portable fact finds we have all been talking about for so long, work at long last.

The service must be sustainable. There is no point in creating a service that is going to be watered down or fail within a year or so because of lack of funding. Guides must be suitably remunerated. They are qualified specialists and must be paid as such. There must be regular and ongoing training, assessments, sophisticated telephony, and maintenance of premises for face to face – the list goes on and on – but it will not be cheap. Nor should it be. The public have been waiting for this for a long time and they have now been promised it. Let's not be cheapskates and spoil the ship for a ha'peth of tar. But ongoing funding must be sorted before we start – if not, we should forget the whole thing now.

And finally – it must be proactive. It's not enough to require pension firms to include a leaflet about the guidance in the wake-up pack. The service must be promoted nationally using similar techniques to the promotion of auto-enrolment.

Summary

So that's our wish list. Challenging yes – impossible? No. But it does need the whole industry to get behind this – not just the consumer groups. It needs the adviser community, providers, banks, the regulators and scheme providers, administrators and trustees to really get behind this initiative and make it the best we can.

We have been given a golden opportunity to get advice in the 'at retirement' space right. We have a chance to make the new retirement journey in the post April 2015 world all the things it should always have been - and never has been.

Thank you