

How can Industry and Government create an effective partnership?



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Outline

- Role of Government
- Role of Industry
- Current problems
- Policy responses
- Effective partnership
- Conclusions



Role of Government

- Create stable framework for pensions/savings
 - Government - welfare/poverty prevention
 - Private sector - savings/investment aspects
- Education and access to advice for mass market investors
- Protection and regulation (not extreme!)
- Don't penalise private savings
- Encourage savings



Role of Financial Industry

- Provide investments/savings for mass market
- Customer focus – needs vs.products
- Clear communication
- Economies of scale – in advice and purchase
- Make DC pensions work better
- Restore confidence, control risk



Current Problems

- State system undermines private pensions
 - Lack of stable framework, means-test penalties
- Risks/difficulties of saving are greater than the risks/difficulties of NOT saving
- Blurring of welfare and investment roles
- Loss of confidence
 - Scandals, lack of advice, over-regulation
- Poor investment returns



Policy response so far

- FSA
- CAT standards
- Pension Credit (to 'reward' saving!)
- Simplicity, security and informed choice
- New products - ISA/Stakeholder/Sandler
- Continuation of current model which is failing
 - Only focus on supply-side, not addressed demand



Why hasn't this worked?

- People do not want to save – no demand!
- Too complex and undermines private savings
- Pensions not 'suitable' for mass market
- No new incentives for employers or individuals
- Tax relief not much incentive for basic rate taxpayers
- Matching payments better for mass market



Government Response Required

- Clarify State pension system – state take on welfare role, leave private sector for savings
- End mass means-testing
- Government to explain importance of private savings to get above welfare
- New incentives for individuals and employers
 - matching payments, employer rewards
- Effective regulation – specialist advice
- Encourage workplace provision
 - auto-enrolment, economies of scale, access



Industry Response Required

- Regain trust – modernise systems
- Successful, suitable products
- Explain clearly, simplify procedures, no jargon
- Lifetime savings accounts
- Advice in groups – economies of scale
 - Value for money – needs, not just products
- Reliable returns – risk control
 - Capital guarantees, absolute returns?



Effective Partnership Needs Clearly Defined Roles

- Government provide poverty relief
 - End mass means-testing, citizen's pension
- Government provide better savings incentives
- Effective regulation, not over-burdensome
- Improve financial education
- Industry free to provide savings without penalty from State
- Industry to provide clear advice and products
 - Update systems and operations



Conclusions

- Radical reform required
- Industry and Government both need to modernise thinking and practices!
- Lifetime savings and pensions
- Joint work on financial education and advice
- Understand ordinary investors!
- Effective partnership can be achieved



Thank you for listening

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