Money Marketing Retirement Strategy Summit

Can product innovation close the retirement advice gap?

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Agenda

- Brexit and the political environment
The regulatory agenda
Social change and attitudes to saving

- A quiz and some physical exercise
- A provocation
- Some suggestions

- Summary and discussion

A few caveats…

- My personal views.
  - Not EY. Not Fairstone
- Forgive the generalisations
- Time for questions afterwards but feel free to interrupt!

This document is incomplete without accompanying presentation

Acronyms

- RDR?

Acronyms

- RDR?
- Retail Distribution Review

Acronyms

- LAPR?

Acronyms

- LAPR?
- Life Assurance Premium Relief

Acronyms

- FAMR?

Acronyms

- FAMR?
- Financial Advice Market Review

Acronyms

- PRIIPS?

Acronyms

- PRIIPS?
- Packaged Retail and Insurance-based Investment Products

Acronyms

- FATCA?

Acronyms

- FATCA?
- The Foreign Account Tax Compliance Act

Acronyms

- FSCS?
  - Only joking!

Acronyms

- MiFID II?

Acronyms

- MiFID II?
- Markets in Financial Instruments Directive II

Acronyms

- CPPI?

Acronyms

- CPPI?
- Constant Proportion Portfolio Insurance

Acronyms

- ICPPI?
- Individual Constant Proportion Portfolio Insurance

Acronyms

- Individual Constant Proportion Portfolio Insurance
- "*Allows an investor to maintain exposure to the upside potential of a risky asset while providing a capital guarantee against downside risk*"
  - NU launched in 2005! MetLife in 2012
  - Other players have entered the market
  - No traction! Same with original unit-linked guarantees and variable annuities

Why not?

Some possibilities:

- Too complicated?
- Too expensive?
- The companies won't stick around.
  - SFP = Self Fulfilling Prophecy!
- Too opaque?
- Don't fit on platforms?
- Can't get my head around them?
- We don't need any more products!

Here is the problem

- 30 year drawdown
- 60/40 equity and bond portfolio
- 4% (+inflation) of original investment withdrawn each year
- Morningstar and Ibbotson forecasts:
  - 1% load: 25% chance of money going the distance
  - 2% load: 11% chance
- Forecasts can be as valuable as history
- (Please don't shoot the messenger!)

OK. What might work

- The model T Ford was in production in 1927. M&G launched the first unit trust in 1932. Cars seem to have evolved quite significantly. Time for a new approach?
  - Outcome focused
  - Lower cost and shared risk
  - Direct securities inside deculmination SIPPs
  - “Value for money”
- Index funds need more useful indexes than market capital for drawdown. 40% of FTSE 100 is now 10 companies.
- And what companies….

Banks, fags, drugs, oil and booze!

- Royal Dutch Shell
- HSBC
- BP
- BAT
- GSK
- AstraZeneca
- Diageo
- Santander
- Rio Tinto
- Glencore

So what is the answer?

- The question was: “**Can product innovation close the retirement advice gap?**” I think the answer is yes
- Financial advisers do not appear enthusiastic about new propositions. So providers will develop them and market them directly to consumers
- Retirement brands will emerge focussed on the mass affluent
- The model will combine digital with human interaction
- The theme will be around the security of an institution and some guarantees
- It’s a £1trn opportunity and serious money will be invested to get a decent share

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Some thoughts…

- Markets can remain "irrational" longer than clients can remain relaxed
  - Potential brand damage for all financial advisers in the long term; particularly DB to DC transfers
  - Are all clients shown the potential impact of a three year bear market?
- Is there a demand for flexible products which offer risk mitigation with real asset exposure? Looks like it!
  - PruFund: £35bn
  - GARS: £22bn

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Questions…