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# Wanted: an advisory model to encourage savers

## Customer help is key to closing the savings gap

The UK is not saving enough – a problem felt most acutely in retirement planning. But it's not enough to blame a culture of gratification, or individuals for being fatalistic. Regulation, policy and the structure of savings and investment management are all critical to closing the gap

It's not hard to find terrifying figures on the scale of the savings gap in the UK. Scottish Widows estimates that there are 6.2 million workers failing to save anything towards their retirement; that's a total of 20 per cent of the population who should be saving but aren't. The savings ratio is just 4.9 per cent, says the Office for National Statistics – the lowest since 2008 and about a third of the level of 20 years ago.

The savings gap might be a well-established problem, but it is getting worse, not better. Two years ago, the Chartered Insurance Institute estimated the total savings gap – just to deliver pensions at a level most people expect in order to secure a tolerable lifestyle – at roughly £9trn. With growing life expectancy, rising care costs and clear government aspirations to shift financial responsibility on to the individual, not only is the gap still big, but its potential impact on the UK is growing.

### The knowledge we need

At the end of 2012, the Financial Services Authority's Retail Distribution Review (RDR) created much-needed transparency in fees for advice on long-term savings. Advisers could no longer be paid commissions by providers – and they would have to charge upfront fees instead.

But while the RDR has improved the quality and professionalism of advice available to wealthy customers it has, in effect, removed a swath of the market – those with modest savings, who are most in need of advice – from any kind of contact with the savings and investment industry.

Forty years ago, even the mass market of low-income earners was prompted to save regularly by doorstep visits by "the man from the Pru". Now? Charges for advice sessions run to hundreds of pounds, fees that many can't or won't pay.

Worse, a significant proportion of the population is in denial about the need to save – especially for retirement, where people assume that state pension provision will step in. It is becoming clear that this is unlikely to be the case, with clear signals from central government that it wants individuals to assume more responsibility.

### We need to promote saving

It is easy to see why younger people take a more fatalistic attitude: with sizeable student loan repayments and a housing market that, in some parts of the country, is simply out of reach, even modest monthly saving for retirement is a stretch.

Previous generations benefited from decades of rising house prices and generous workplace pension schemes. Today's workforce lacks access to either. We need the message about how much people need to save, why and how, to be loud – delivered early and repeated constantly. But in order for that education to be effective, we need more stability in the system. How do you educate Generation Y on long-term savings when there are frequent changes to the rules? The government is in the middle of a consultation on pensions tax relief that might up-end existing assumptions made by both the savings industry and savers. What then?

The industry is not blameless. How will we encourage long-term savings and wealth scheme providers to simplify their products, become more efficient and get closer to the customer if they are uncertain about future regulation? Established players in the industry are also struggling with the cultural, technological and business-model transformation necessary to focus better on the customer rather than a product or a channel.

### Retail and digital show the way: adapt to the consumer

Focus on the customer. Educate him. Make it easy to transact. Make it transparent. In other words, provide the help customers need when and how they want it. These are lessons many other industries have long since adopted.

New players, and existing financial services businesses that have made a definitive move to digital platforms, have seized critical high ground with compelling digital channels in the battle for consumer engagement. These are the disruptors, bringing low-cost, low-fee models that emphasise consumer choice, plentiful information and interactivity.

Yet even they face challenges around advice and guidance. Regulation has to adapt to this new environment. It can't be long before so-called "robo-adviser" systems, currently emerging in US markets, start to be used here in the UK.

The web, online payments, peer reviews and devices such as smartphones have revolutionised retail, for example – making it both customer-centred and efficient. Imagine being able to make a pension contribution with that kind of frictionless transaction, rather than working through complex paperwork and worrying about whether you've made exactly the right decision.

But saving and investing is more daunting to the average consumer than most retail decisions. We're asking consumers to make sophisticated calculations. That is one reason we think the retail banks might have a huge opportunity in the long-term savings and wealth market for the mass affluent and maybe even the mass market . . . but only if they, and the regulators, can get the offering just right.

Developing a new business model based around customer life cycles and lifestyles isn't easy. We are likely to see a lot of pain as businesses plough investment into systems and struggle to reshape for the new market. But this investment should result in a market that is easier for the customer to understand – and ultimately close the savings gap.


### Facts and Figures

**6.2m**

Workers failing to save anything towards their retirement

Source: Scottish Widows retirement report

**4.9%**

Savings ratio in the UK – the lowest since 2008 and about a third of the level 20 years ago

Source: ONS

**20%**

of workers are failing to save anything towards their retirement

Source: Scottish Widows retirement report

**£9trn**

Estimated total savings gap – just to deliver pensions at a level most people expect for a tolerable lifestyle

Source: Chartered Insurance Institute

Find out more about critical developments in the savings, wealth and investment management industry at **www.kpmg.com/savinggenerations**