Responding to LISA's challenge

The industry must positively engage

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The Lifetime ISA (LISA) poses big questions for savings and wealth firms – not least, how to structure products that consumers want to buy. The biggest, though, is: does it signal a fundamental change to pensions taxation?

There are few industries whose offering is as heavily influenced by Government policy as savings and wealth management. And that policy changes so often and so radically it can be hard to get the customer proposition right.

KPMG noted in the 2015 report Freeing the Future that in the past 17 years there have been 15 radical changes to the pensions landscape. No wonder companies have become agile in the face of new laws and regulations. But, as a result, firms have had little capacity to deliver innovation that's really required: to transform their business so that customers sit at its core.

The industry now needs to decide how to respond to the launch of LISA, the Lifetime ISA announced in the 2016 Budget. They know it might be a Trojan horse for a shift from the EET model for pensions (exempt-exempt-taxed) to TEE – removing arguably one of the biggest incentives for people to save.

It's not the only factor weighing on long-term savings. The initial outcome of the Financial Advice Market Review seems to have done little more than summarise well-understood issues around the current provision of advice and guidance. There's no sense that we're closer to resolving the underlying issues that have vexed the industry and regulator for years – in particular, why customers are still failing to engage with the industry and the need to save.

Engagement and reform

How should firms position themselves, both to deal with the immediate implications of the changes and address the longer-term challenges, whatever direction Government policy takes?

"The industry has made some progress on better engaging customers and modernising infrastructure but the pace of change must accelerate," says Andy Masters, partner and Head of Savings and Wealth at KPMG.

LISA re-enforces that need for change, in particular towards consolidated visibility of holdings and solutions to help customers make better financial decisions. More generally, the industry must offer flexible, simpler propositions underpinned by platform technology that allow customers to manage their money across different tax wrappers efficiently and through the channels of their choice.

But the pace of change remains slow. More than 75% of customers and assets are currently in legacy products. Consolidation of the platform market is inevitable, but it has yet to happen. And there's been limited progress on industry initiatives to support the wider aggregation of products such as the pensions dashboard.

LISA adds to this challenge: it will require further product development, additional operational complexity and creates significant pressure on firms with pensions-only propositions, in particular those on older platforms.

The implementation is unlikely to be simple, and myriad operational complexities are already being debated across the industry:

- How do legacy fund supermarkets or L&P platforms effectively implement LISA?
- How will a customer's status as a first-time buyer be validated with HMRC before monies can be withdrawn?
- How will bonuses, effectively a tax reclaim, be built on top of the ISA?
- Where bonuses are withdrawn before 60, how is the growth associated with the bonus calculated? What if multiple funds have been used?
- Whether the 5% penalty will lead to the product being considered 'complicated'.

Bring LISA into the family

Nevertheless, any firm administering savings and wealth must respond quickly and positively to LISA as part of a growing range of non-pensions vehicles for long-term savings.

Customers will immediately spot opportunities to take advantage of it as a vehicle to save for property. And firms can target higher rate taxpayers who have reached their maximum pension contributions.

But this can only work if LISA is integrated with the wider proposition. Firms building their LISA on stand-alone infrastructure with no consolidated view of pensions and other savings propositions will regret it.

Firms also need to consider whether to develop LISA in a way that future proofs it for future steps to make it an alternative to or replacement for the auto enrolled pension.

There are some no-regret steps providers can take now, Masters insists. "Some employers will immediately start offering a LISA as an alternative for some or all of their employees," he says. "Firms helping them do this will quickly get to grips with the operational complexities of this integration and move their proposition and infrastructure in that direction."

Then there's the matter of advice. Many customers will struggle to decide whether to invest through a LISA or pension. That choice will be further complicated if employer contributions are permitted whilst the current system is retained as the Centre for Policy Studies propose.

Many firms have already vertically-integrated advisers in their group structure; others offer a guidance service. Some do both. The important thing, Masters says, is to ensure the whole service is fully joined up from end-to-end and that customers receive a fair-priced, high-quality service.

"Firms need to cut through the regulatory uncertainty and focus on delivering a quality experience should the customer choose to contact them directly," he says.

The big issue is how to fill the advice gap economically in a way that offers value to the end customer. This might be an opening for robo advice – online services that provide automated, algorithm-based portfolio management advice. It could either be used directly by the customer via the platform interface or to support the advisers called on by customers who prefer the human touch. "This might help keep the cost down without compromising the quality of service," says Masters.

Making these changes to incorporate LISA and improve the customer experience will require investment in the short term. But firms have no choice but to face up to this challenge or lose out as consumer preference, technology and regulation continue to evolve.

If you'd like to discuss further, please get in touch.

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