

Written evidence submitted by True Potential LLP (SGCB 04)

About True Potential LLP

- True Potential is a group of companies with close to 20 per cent of the financial adviser market using our services. These include investment management, financial advisory and business support services as well as financial services technology.
- True Potential is also a pensions provider, working in partnership with some of the world's best-known fund managers, including UBS, Allianz, Goldman Sachs, Schroders, Columbia Threadneedle, Close Brothers, SEI and 7IM.
- True Potential was ranked as the fastest growing financial advice and technology services company headquartered outside London in the 2014 and 2015 Deloitte Technology Fast 50. The ranking of the 50 fastest-growing technology companies in the UK is based on percentage revenue growth over the last five years.
- True Potential is one of only 67 UK companies to appear in the Deloitte Technology Fast 500 EMEA 2014, a ranking of the 500 fastest-growing technology companies across Europe, the Middle East and Africa. Rankings are based on percentage revenue growth over five years. True Potential advanced from position 431 in the 2013 list to 204 in 2014.

Summary

1.1 True Potential was among the very first to call for an enhanced ISA. In 2012, we launched our campaign to tackle the UK's Savings Gap. A central ambition was to see greater use of ISAs as we believe their simplicity and flexibility are more in tune with the way individuals, especially those under 40 years of age, live their lives today.

1.2 In January 2016, True Potential put forward detailed proposals for an enhanced ISA. With a strong focus on building a retirement savings pot, we called it the 'Retirement ISA'.¹ Under our proposals, the Retirement ISA would benefit from a 25% government bonus and a £20,000 annual limit with safeguards to deter early withdrawals.

1.3 We are therefore fully supportive of the almost identical Lifetime ISA (Lisa) and, as a product provider, we have committed to offer the Lisa from 2017. There are however two

¹ <http://www.tp LLP.com/wp-content/uploads/2016/03/Retirement-ISA.pdf>

aspects of the Lisa that we would like to focus on in this written evidence: **automatic enrolment** and **financial literacy**.

1.4 The Lifetime ISA has the potential to revolutionise savings in the UK. In our opinion, the debate around retirement saving has for too long been about a single product – the pension. We welcome the additional flexibility provided by the Lisa and our polling suggests consumers feel the same.

1.5 We recommend that employers are permitted to contribute to their employees' Lifetime ISA. That would mean employees would be no worse off if they opt for a Lisa versus a pension.

1.6 Positioning the Lisa under automatic enrolment, alongside a pension, would also mean there would be no need to opt out of AE.

1.7 We have seen much debate in the press about the Lisa, with criticism from former pensions ministers. To reconcile the obvious political conflict between the Treasury, which is leading the Lisa and the Department for Work and Pensions, we propose a solution.

1.8 We would like the Committee to consider the value of a Savings Minister to join up policies aimed at encouraging people to save. In the end, whether it is a pension or a Lisa, what is important is that people put enough money aside to provide for themselves later.

2. Automatic Enrolment

2.1 True Potential's national poll of 2,000² employees shows:

- 30% of people aged 25-40 would choose a Lisa instead of a pension.
- 15% of people aged 25-40 would choose a pension instead of a Lisa.
- 64% of 18-24 year olds would use their Lisa to help buy a first home.
- 58% of 25-34 year olds would use their Lisa for retirement savings.

² <http://www.tpilp.com/wp-content/uploads/2016/06/Tackling-the-Savings-Gap-White-Paper-Q1-2016.pdf>

- Employees who are higher up the income scale are twice as likely to save into both a pension and a Lisa compared to those at the other end.

2.2 The Lifetime ISA is already twice as popular as a pension with six months still to go before its introduction. The public criticism of the Lisa appears to centre on two principal concerns: a) financial loss, which is the effect of the loss of employer contributions; and b) the impact on automatic enrolment (AE).

2.3 Unlike workplace pensions, current plans mean employers will be unable to pay into their employees' Lisa. This has led to understandable fears that savers who prefer the Lisa's flexibility could be disadvantaged by missing out on around £20,000 worth of employer contributions.

2.4 True Potential is a provider of auto enrolment technology services to thousands of UK businesses and to over 50,000 employees. We see each day the power of auto enrolment and the positive effects it is having. There are legitimate concerns that the introduction of the Lisa could lead to an increase in the number of people opting out of auto enrolment. True Potential's view is that the Lifetime ISA is sure to be popular, but the Government has rolled out a national pension scheme.

2.5 That said, few people will be able to afford to save into both a workplace pension – especially as AE contributions rates increase – as well as a Lisa, so in reality there will be a choice. If the Lisa ends up as a complementary product it will be one used mainly by the better off, and that would be a huge missed opportunity.

2.6 The main reason that pensions may outperform the Lisa is because employers can contribute to a pension. Basic rate tax relief is equivalent to the Lisa bonus.

2.7 We believe the solution is not to stymie the Lisa by delaying it or worse abandoning it, but to open it up to employer contributions as well and give savers the best of both worlds.

2.8 If we think of automatic enrolment as national savings scheme, not simply a national pensions scheme, it is possible to see how this could work. An employee would simply nominate their pension or their Lisa to receive the employer's contribution.

2.9 If employers could contribute to Lisa savings, people could choose the best product for them without the fear of being worse off in future or feeling that they had to sacrifice the flexibility that they wanted.

2.10 Placing both products under auto enrolment would almost certainly neutralise the current risk of a surge in AE opt outs, as even if an employee chooses the Lisa under this model, they will be doing so under auto enrolment and gain from the employer contribution.

2.11 Some will argue that employer contributions should not be allowed into a Lisa because those under 30 years old will most likely use it to help buy a house. There are few things employees would value more from their employer today than some help to get on the housing ladder. That would lead more people into the financial discipline required to pay the mortgage each month and budget accordingly.

2.12 We urge the Committee to consider this proposal

3. Financial Literacy

3.1 With a new savings product soon to be available, we echo the renewed calls for financial education.

3.2 In fact, this is something that True Potential believes has been necessary for many years. Our 'Tackling the Savings Gap' campaign places financial education as one of the three core requirements – alongside technology and regulation – to close the gap.

3.3 But our campaign is not simply about calling on others to do the work. We have tried to make a practical difference ourselves and provide leadership.

3.4 In 2013, True Potential partnered with the Open University to launch the True Potential Centre for the Public Understanding of Finance (PUFin).³

3.5 We donated £1.4m over five years to the Open University to establish PUFin, which is a pioneering Centre of Excellence for research in the development of personal financial capabilities. PUFin is working to improve public understanding of personal finance through its research and the delivery of free online modules providing individuals with the tools to make sound financial decisions.

3.6 To date, over 125,000 people have taken part in the free online courses.

3.7 True Potential PUFin has four core objectives:

a. To make financial education more pertinent and freely accessible.

To meet this objective, the Centre has launched the following three, free, online modules in personal financial management both on the educational platform FutureLearn and on the Open University's social learning platform OpenLearn, where they are permanently available self-taught courses.

- **Managing My Money**
- **Managing My Investments**
- **Managing My Financial Journey**

3.8 Managing My Money covers all aspects of household financial management including financial planning and budgeting, debt management, investments, housing, pensions and insurance.

3.9 Managing My Investments examines in detail the range of investment products available to the public, the theories and practices relating to investment management and the impact of behavioural factors on investment decision-making.

³ <http://www.open.ac.uk/business-school-research/pufin/>

3.10 Managing My Financial Journey explores the development of the financial services industry in the UK, its transformation since the 2007/08 banking crisis and the way regulation is now applied to financial firms and to the sale of financial products to the public.

3.11 b. To develop knowledge in the area of financial capability under the leadership of The Chair of True Potential PUFIn.

3.12 This is being achieved through a series of research papers covering subjects including:

- How to improve the public's financial resilience;
- How to tackle the UK's personal finance problems;
- How to improve investment risk profiling;
- How to develop a better understanding of financial risk; and
- How to create a secondary annuities market that works for pensioners.

3.13 Current research is being undertaken into investment diversification, investment behaviour (using an investment simulation model) and women investors

3.14 c. To increase our understanding of public finance issues and provide evidence of where we can make the greatest impact the True Potential PUFIn has two True Potential PhD studentships to support the Centre (and three PhD students).

3.15 d. To raise awareness of the issues that exist in the field of personal finance we disseminate our research to a wide financial services industry audience.

3.16 The principal activity here is True Potential PUFIn's Annual Conference. This year's conference at One Whitehall on Tuesday 15th November is on the subject of investment behaviour.

3.17 The dissemination of the Centre's research has also included submissions on how financial exclusion should be tackled to the House of Lords personal financial education to the Welsh Assembly.

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