jpespartners

POLITICAL UPHEAVAL: THE UK GENERAL ELECTION AND ITS IMPLICATIONS FOR THE INVESTMENT INDUSTRY

The announcement of a "snap" UK General Election was one of those events that felt surprising at the time but less so with hindsight. At time of writing, it remains highly likely that the Conservatives will win an increased majority; however if recent history tells us anything it is that polls can be wrong and the unexpected is always possible in the political arena.

There can also be little doubt the coming years will be tumultuous with Brexit negotiations, an aging population, greater geopolitical uncertainty, reflation and continued challenges to economic growth just a few of the difficulties that will need to be navigated.

All of this means there is a lot riding on the election, with the outcome and its resulting implications likely to have a particular impact on the investment and wider financial services industries. With this in mind, JPES Partners has undertaken detailed analysis of core policy areas to identify how the different parties' views on issues relating to key financial topics (pensions; tax; corporate governance; Brexit) may impact investment firms' activities.

What the media has focused on:

Given that it is currently the party of government, it is unsurprising that our research shows the Conservative manifesto has received the most media attention. Labour is however close behind, reflecting its position as the most feasible opponent to the Conservatives, while the Liberal Democrats rank a distant third as a result of their diminished profile and poor showing in 2015.

When considering those policy areas of most relevance to the investment industry, Brexit has remained very much at the forefront of the media's attention, reflecting the importance of the topic and the likelihood of it dominating the political agenda throughout the next parliamentary cycle.

Coverage of other policy areas has been much more mixed – pensions issues score relatively highly in terms of volume of coverage, not least as a result of comparisons between the different party proposals. Of these, the Conservatives have seemed to fare best, with a majority of pensions industry experts arguing the Conservatives' proposed end to the state pension "triple lock" to be the best approach of those being offered to the electorate[1].

This potential success has though to be considered against the significant outcry against Conservative social care policies, which we have included in our research due to the impact the so-called "Dementia Tax" (albeit since discarded) might have on savings and retirement practices. The criticisms of these have featured prominently in the media since the major parties announced their manifesto pledges, featuring highly in the election related news agenda.

A final point to note is relative lack of attention that has been paid to tax policy to date. This can be attributed to two factors – the predominance of other topics within the news agenda and a relative lack of interest in tax as an issue given historic understanding of where each party stands.

Authors

Matt Rogers, Associate Director

Tel: + 44 (0)20 7520 7624
Email: matt.rogers:jpespartners.com

Henry Adefope, Client Manager

Tel: + 44 (0)20 7520 7634
Email: henry.adefope@jpespartners.com

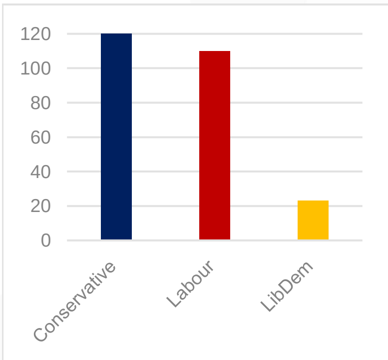
About JPES Partners

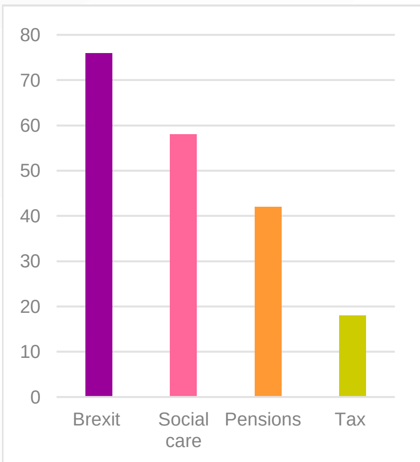
JPES Partners is the only investment management marketing and communications consultancy in the UK.

We help our clients achieve their business objectives through a combination of strategic marketing and communications disciplines. Our team of consultants draws on a range of professional backgrounds including investment management, journalism, marketing, public relations and law.

For more information, please visit: www.jpespartners.com

Coverage of the major political parties' manifestos[2]





[1] Professional Pensions: Conservative Manifesto gets stamp of approval (26 May 2017)
[2] Media research conducted using Factiva™, focusing on English language titles across national media newswires, institutional and retail fund management publications

Pensions

Pensions policy is an area of major difference between the three major political parties, with the Conservatives proposing a number of significant reforms whilst both Labour and the Liberal Democrats have been much more sanguine about change. Among the most notable policy differences are:

- Removal of the pensions "triple lock", with the Conservatives favouring a change that would see state pensions rise with earnings or in line with inflation (depending on which is highest), while Labour and the Liberal Democrats prefer to retain the status quo
- Potential changes to the state pension age, with Labour advocating a freeze rather than the Conservative proposal to increase this in line with life expectancy
- Expansion of auto-enrolment to include small employers and self-employed
- Changes to pensions tax relief, with the Liberal Democrats arguing the case for a single rate of tax relief
- Punitive measures against company directors seen to be endangering the long term security of pension schemes

Closely linked to this area of policy has been debate around social care provisions, itself a major issue that can impact retirement plans. Most controversial here has been the Conservative push and subsequent retreat on social care, where plans to ensure older people would not pay for care once their savings and assets are down to £100,000 have been dubbed a "Dementia Tax" due to the value of their home being counted among their assets.

Implications for the investment industry:

With the exception of Brexit, pension reforms have the potential to have the single biggest impact on financial services providers. While proposed policies differ in focus and application, all three political party manifestos essentially recognise that a new generational deal is needed, with potentially tough measures required to address the challenges arising from an aging population.

Product providers will inevitably have their work cut out to deliver new solutions that cater for longer life expectancy and allow for sufficient retirement funds, particularly given the continued growth of the defined contribution market as a result of auto-enrolment where it is widely accepted providers have been slow to adapt. Those that can do so quickly and publically however will enjoy first-mover advantage.

Alongside the dedicated pensions policies proposed by each of the major parties, the focus on social care must also be considered significant as savers will have to be much more "savvy" in planning for old age and care provisions. Financial services providers will need to provide much greater support as a result, providing much more in the way of bespoke advice to help guide individuals' financial futures.

Tax

Tax policy remains a highly subjective issue, particularly in light of public service funding shortfalls. Opposition parties have been particularly vocal in this area, proposing a number of radical initiatives:

- Increases in the top rate of tax to fund public services
- The introduction of a levy on the purchases of residential property by offshore trusts in tax haven regions
- A tax on derivatives dealing and other perceived "exotic trading"
- Increasing corporation tax by a third to 26%

For their part, the Conservatives have offered somewhat less in tax policy proposals, with the most notable measures being an end to the "triple lock" guaranteeing no rise in national insurance, income tax or VAT in favour of simplification of the tax system and an intention to lower taxes generally.

Implications for the investment industry:

The likelihood of a Conservative victory in the General Election suggests there is little for financial services providers to be concerned about when it comes to changes in tax policy, save for potential increases in tax thresholds which would likely leave individuals (particularly those within the high net worth bracket) requiring more in the way of financial advice.

Should Labour win however, life for asset managers and financial services providers would undoubtedly become far trickier, with a proposed tax on derivatives and other trading in particular likely to hit hard. In such a scenario, it is easy to imagine that (particularly within the context of Brexit) that many investment focused businesses may be tempted to review their UK standing and possibly opt to move to overseas to those countries with more favourable tax regimes.

Corporate governance and executive pay

Remuneration and corporate governance have become major areas of interest in recent times and it is therefore little surprise that attention has been paid to this area by all three major political parties:

- Ensuring greater restrictions are placed on "excessive" executive pay, including Conservative proposals to make packages subject to strict annual votes by shareholders
- Efforts to reduce pay inequality including, in the case of Labour, an "excessive pay levy" on companies with high numbers of staff on high pay
- Greater transparency on pay to address gender equality issues

Implications for the investment industry:

A focus on remuneration and corporate governance is a double edged sword for the investment industry. On one hand, it is potentially unhelpful with industry practices already under scrutiny from the Financial Conduct Authority (FCA), and could lead to further pressure being placed on those businesses perceived to be underperforming but continuing to charge high fees. Listed businesses will need to be particularly wary.

Most interesting however is the impact that such a focus could have on the investment activities of asset managers, who may feel obliged to place even greater importance on analysis of corporate governance issues when selecting and managing individual security exposures. The potential for UK investors to be influenced by such policies and thinking is significant; asset managers may have to adjust their processes accordingly.

Brexit

The importance of Brexit cannot be underestimated, with negotiations around the UK's exit from the EU set to dominate agendas for the next two years (the duration of Article 50 terms) and beyond, regardless of which party ends up in government.

There has been little new in terms of policy in each of the party manifestos with respect to Brexit, perhaps unsurprising given the debate has raged since the June 2016 referendum:

- The Conservatives remain committed to a "smooth and orderly" Brexit, whilst ensuring the best deal for the UK (including the view that no deal is better than a bad one)
- Labour appears somewhat influx but would seek a new set of negotiating priorities and guarantees on the rights of EU citizens living in Britain
- The Liberal Democrats remain opposed to Brexit and would hold a second referendum to ratify any deal, with the option to remain in the EU included

Implications for the investment industry:

Surprisingly, it seems Brexit as an election issue is unlikely to have any immediate impact on the investment industry, save for movements in markets in response to the final result. Instead its influence will be felt more strongly post-election once negotiations on the UK's exit from Europe truly get under way.

The implications for the investment and wider financial services industries are both enormous and complex. Much will rest with the ability of negotiators to safeguard London's status as a premier financial centre; even if this is successful however, companies will need to give significant thought to inevitable changes that will arise in terms of regulation; sales, marketing and distribution; and with respect to the management of regional client engagements.

SUMMARY: What the political landscape means for the investment industry

While Brexit will be the issue that dominates the next parliament (and subsequently media interest), in the immediate future it is pensions policies that are most likely to have the biggest impact on the investment industry. Perhaps for the first time, parties' proposed pensions policies are a direct response to the growing savings and retirement crisis, an issue often acknowledged but less often acted (effectively) on.

The policies proposed by the three major parties can be seen as a challenge for pension providers and suppliers to up their game. Explicit in the different policies is that a state pension alone is insufficient, even if the existing "triple lock" is removed. The onus will be on individuals and company schemes to ensure sufficient provisions and effective solutions for a comfortable retirement.

This places greater pressure on pension providers and investment managers, but also significant opportunities for those able to tap into the continued growth of the defined contribution market in the wake of the future expansion of auto-enrolment. Communications and marketing will play a huge role in this, with investment managers increasingly having to focus their efforts at the level of the individual (rather than institutions) who will increasingly have much more in the way of decision-making power over how their pension is managed. Asset managers will therefore have to both encourage savers to proactively use this, via greater education, but also provide straightforward, clear cases why their products are suited to an individual's savings requirements.