TISA
The Investing and Saving Alliance

Response to FS19/5: Effective competition in non-workplace pensions

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About TISA

TISA's ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation.

We do this by focusing on good consumer outcomes and harnessing the power of our broad industry membership base to deliver practical solutions, new digital infrastructure and by devising innovative, evidence-based strategic proposals for government, policy makers and regulators. This holistic approach to address the major consumer issues uniquely positions TISA to deliver independent insight, promote innovation and facilitate good practice.

TISA's rapidly growing membership is representative of all sectors of the financial services industry. We have over 200-member firms involved in the supply and distribution of savings, investment products and associated services, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

TISA will unveil **Vision 2025** – our strategic policy roadmap towards delivering a material impact in enhancing consumers' financial wellbeing at our Annual Conference in December 2019. Our current strategic policy focus includes making financial guidance more widely available; financial education for young people; retirement savings and addressing consumer engagement, particularly for the vulnerable.
Complementing our development of consumer policy and thought leadership, TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives (TeX/STAR, Digital ID, MiFID II and Open Savings & Investment). This reflects TISA's commitment to open standards and independent governance.

TISA is also recognised for the support it provides to members on a range of operational and technical issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations. This work currently includes MiFID II, CASS, SM&CR and addressing cybercrime.

Executive Summary

TISA welcomes the opportunity to provide a response to the Financial Conduct Authority's FS19/5 – Effective competition in non-workplace pensions.

We welcome the spirit in which these proposals have been created and the research contained within the statement illustrates there is a need to increase protections for non-advised consumers and boost levels of understanding and engagement.

It seems appropriate for the introduction of Investment Pathways for this group if they are choosing to invest in an IPP or 'Streamlined SIPP' product. Considering the low engagement that is found to exist, a solution aligned closely to the workplace pension scheme default fund seems appropriate to mitigate this issue, although we recognise an active choice does need to be made. 'Complex SIPP' investors are either advised or sophisticated investors and the operating model which exists to accommodate this class of consumer will not be appropriate for Investment Pathways.

We have recently seen new requirements around cash investments for non-advised Drawdown consumers which will be implemented by August 2020, with a proposed review to measure effectiveness in 2021. We believe it would be prudent to wait until the outcome of this review is completed before considering further remedial work on cash investments within Accumulation. It could be that the forthcoming changes may have some unintended consequences which could cause consumer detriment if implemented earlier in the retirement journey. The review will allow the new rules to be tweaked and refined where appropriate and it would then seem timely to implement for Accumulation.

There has been a high level of focus on costs and charges in recent years with various governance initiatives in progress, which should have a positive impact in this area. We should wait and evaluate the effectiveness of existing legislation before embarking on further change in this area. It should also be considered that the display of costs and charges in isolation will not lead to enhanced consumer outcomes and such a document is unlikely to be read by a consumer. The concept of Value for Money, whilst subjective, is a better indicator for non-advised consumers. Collaborative work with industry, Government and consumers is needed to begin the construction of this framework, which is where costs and charges would fit.

In recent years, technology has played an increasingly prominent role in communication, engagement, guidance and advice. In 2020, we hope to see the rollout of Pensions Dashboards which will be a powerful tool in harnessing engagement and the various proposals to be implemented from the Retirement Outcomes Review will further boost awareness and understanding. It seems now is a timely juncture to consider all aspects of client communication and take a holistic view on what it is we hope these communications will achieve. Consumers receive rafts of information on a periodic basis, much of which includes pensions jargon, does not make sense without guidance/advice or is not even read.

We have reached a point where with the rollout of Pensions Dashboards, we can seek to overhaul pension communication and make this truly meaningful to the consumer. At the same time, we should be looking for Government and Industry to work in collaboration to establish a guidance framework which is capable of providing support to all consumers throughout the retirement journey.

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Consultation Response

Q1: Do you have any views on introducing investment pathways? How many pathways would benefit consumers: one or multiple? If introduced, what criteria should we consider in defining investment pathway(s) for non-workplace pensions? Can you suggest a proportionate alternative?

We are broadly supportive of this principle, however consideration should be given to the appropriateness for operators of 'complex SIPP products', where consumers will typically be sophisticated investors who are paying for and accessing bespoke services for investment flexibility.

A fundamental outcome from a consumer perspective is to keep the process straightforward, easy to understand and streamlined, so any additional steps in the process are not viewed as an obstruction to investing.

Whilst non-advised Drawdown consumers may be presented with up to four investment pathways from 2020, the Accumulation phase is very different and the client journeys which exist in Drawdown are not so prescribed in Accumulation.

When considering how workplace pension schemes operate with a default fund which most members are invested in, a similar sort of consumer journey could be implemented in non-workplace schemes, with schemes offering a single Accumulation pathway option (akin to a workplace default) which includes a universal glidepath to the selected retirement date.

Q2: Do you have any views on applying an 'active decision' requirement to non-advised investments in cash, and additional warnings to all consumers about the impact of such a decision? Can you suggest a proportionate alternative?

We agree with the principle that investing in cash does need to be an active decision, unless it forms part of a chosen investment strategy e.g. where a switch to cash or cash-like assets occurs in the years leading to retirement.

We are mindful that this is being implemented from August 2020 for non-advised Drawdown consumers and the effectiveness of the proposals to be assessed one year from implementation. Before considering applying this principle to Accumulation, it would be prudent to wait until this assessment has been made to ensure the new 'Drawdown Active Cash' proposals are having the intended effect and not creating unintended consequences for consumers.

It would also be worth investigating why there are so many consumers invested in cash or cash-like assets when majority received advice at the point of sale. It is unlikely they will have been advised to invest in cash from the outset and also equally unlikely that they made an active decision to switch to cash. If the survey provides a snapshot picture of where money is invested, it could be that a high proportion of the cash is held in complex SIPPs pending investment instruction.

Q3: Do you have any views on the ways we have suggested charges could be made clearer, less complex and more easily comparable? Can you suggest a proportionate alternative?

When considering charges from a communication perspective, we should take a step back and use this opportunity to think more strategically about the wider picture and the information a consumer is provided with and will have access to. Consumers currently receive a raft of information including key features illustrations, SMPIs, annual statements, wake-up packs and will have access to pension data via a Pensions Dashboard in the not too distant. It is important that the information and data a consumer is exposed to should be relevant, easily understood and consistent.

Previous work undertaken has shown that most communications a typical consumer receives regarding their pensions are either not read and/or not understood. With the dashboard initiative in the pipeline and technology playing an ever-increasing role in the industry, we should be re-evaluating the benefits of communications/information and seeking to improve consumer knowledge and increase engagement through these channels.

Q4: Do you have any views on publishing charges information? Can you suggest a proportionate alternative?

It is unlikely that a document listing out pages of charges will be read by consumers. It cannot be used in isolation for decision making, however there is a danger that a standalone document such as this could lead to poor outcomes. Whilst charges do form an important aspect of an overall proposition, it is just one aspect of many.

A value for money framework is considered in Q6 and it would seem appropriate for charges to form part of a larger framework where they are less likely to be used for the basis of decisions by themselves.

Q5: Do you have any views on what remedies or further analysis would be appropriate in relation to the level of charges identified in this market?

The intention for the extension of the Senior Managers and Certification Regime is to minimise consumer harm and strengthen market integrity. This should, by definition, include personal accountability to ensure the level of product charges being applied is fair and proportionate. If a value for money framework is established as proposed in Q6, this will further strengthen the governance and transparency around charges.

It would therefore seem one step too far to further increase the remit of IGCs without understanding the effectiveness of policies already implemented for this very reason and assess the outcomes of potentially implemented proposals to further strengthen the good work being accomplished in this area.

One further aspect to be considered is the large group of consumers who are invested in older-style pension plans which carry a higher level of charges to the plans of today. Many of these will be paid-up plans and probably even forgotten about. We know from the success of Auto Enrolment that inertia is a successful approach to effect change in an unengaged market. There would be value in assessing this group to consider if there are ways in which industry can help improve their outcomes.

Q6: Do you have any views on what such a framework should consist of?

Value for Money (VFM) is very hard to quantify. It is subjective so what one person classes as VFM another will not and vice versa. Some aspects of VFM may be hard to measure such as good customer service.

A robust and all-encompassing Vulnerable Customer policy is also an essential part of any VFM proposition.

Given the breadth of what VFM can potentially cover, this is an important and large initiative to undertake. It will require input from consumers and the collaboration of Government and industry.

IGC surveys have previously been undertaken with consumers to identify what constitutes VFM and this would seem like a good starting point to commence work on this initiative. A series of workshops involving Government and industry will be required to progress this and ensure it delivers on its potential.