Response by TISA to Improving outcomes for members of defined contribution pension schemes

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA 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.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

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Executive Summary

TISA welcomes the opportunity to respond to DWP’s consultation - Improving outcomes for members of defined contribution pension schemes.

All members should be in schemes which provides Value for Money and we welcome the consultation and the intended consumer outcomes.

Our focus for this consultation lies primarily with the proposals around scheme consolidation. We welcome the statutory guidance which will help Trustees understand the elements which need to be assessed as a minimum but it is important that sub optimal outcomes are not just based solely on fund performance. We believe that challenges will exist for Trustees in being able to undertake comparisons on a truly like for like basis, which will make the determination of whether Value for Members (VfM) is being achieved in the existing scheme difficult to ascertain. This is compounded with scheme members not being homogenous groups and what may be assessed as VfM for some scheme members will not necessarily be true for others. It would be helpful if some guidance can be provided to clarify how this can be managed within the assessment.

Whilst it will be challenging to ‘encourage’ schemes to wind up and consolidate, where it has been decided that this will occur, there may be issues finding a provider willing to accept the transfer. This also has implications for choosing the schemes which will be used to undertake the comparison exercise in the annual assessment.

Ultimately, we believe the scope of this consultation provides an excellent opportunity to provide additional guidance and support to Trustees, in helping them carry out their VfM assessments and achieve good financial outcomes for consumers.

Question responses

Chapter 2: Encouraging Consolidation

Q1: We would welcome your views on the reporting of net returns - how many past years of net returns figures should be taken into consideration and reported on to give an effective indication of past fund performance?

Without proposing the number of years that should be provided, we propose that as a principle, there needs to be consistency in the time periods which are covered in the reporting of investment costs, charges and performance. To maintain an industry consistency, this should also be aligned to the requirements for other disclosure regimes e.g. UCITS past performance requires reporting a history of 10 years.

We are aware of the volume of information that is currently reported in this area and the addition of further details without applying a degree of consistency will cause confusion and the original objectives for inclusion will not be met.

Q2: Do you think that the amending regulations achieve the policy aims of encouraging smaller schemes to consolidate into larger schemes when they do not present optimal value for members?

Further details regarding our thoughts on the proposed amendments are contained within the response to Q3. Whilst the proposals may result in a higher level of consolidation, we do think it would be challenging for any scheme to be 'encouraged' into winding up and consolidating.

Q3: Do you believe that the statutory guidance increases clarity about the minimum expectations on assessing and reporting on value for members for specified schemes? Are there any areas where further clarity might be required?

The statutory guidance does provide greater clarity on the areas which require assessment as a minimum but it is important that sub optimal outcomes are not just based solely on fund performance. We should be mindful that scheme members are not a homogenous group. Value for members (VfM) is subjective and what represents VfM for one scheme member does not necessarily have the same meaning for another. The stage that scheme members are at in their retirement journeys, their scheme status (active or deferred) and the size of their pension wealth will also be contributing factors in determining an individual's view of VfM. With that in mind and considering where some members will have guarantees linked to their benefits, there will always be winners and losers when a scheme is wound up and consolidated. It would be interesting to understand how the regulator would view those who have been negatively impacted by a consolidation exercise which they have no control over.

A further important factor will be how practical it is for Trustees to make the assessment/comparison based on the identified elements. Comparisons that are not made on a like for like basis or on a misguided basis will produce unintended outcomes and could lead to consumer detriment. Whilst VfM is not just about cost and performance, it does play an important part of the assessment. The introduction of regularly updated fund sector performance figures based on factors such as levels of risk, style of fund and age to retirement would help Trustees make comparison, demonstrate good value for money and assist schemes in making appropriate fund selections.

What consumers see as important when assessing VfM and why, is also another key factor. There has been extensive member research undertaken in this area (e.g. NMG 2017) and we would like to see this considered and referenced before a definitive set of elements can be created. Given that there is a strong Government and industry focus on ESG, we believe this is an important omission from the proposed elements.

We note that of the three schemes used for comparison purposes, one should be believed to be willing to accept a transfer of members. Should that not be borne out in practice and it is not possible to find a scheme, how does that impact the outcome of the assessment and what steps should then be taken?
Older schemes may not contain winding up details within their scheme rules. Where this is the case, to avoid spending money on an amendment of scheme rules which could impact on member outcomes, should the default approach be to apply to tPR for a winding up order? If so, it would be prudent to ensure there is sufficient resource available to ensure these requests can be processed in a timely manner.

We would also ask that the guidance provides clarity that schemes defined as orphaned by tPR should be dealt with in accordance with their (soon to be published) policy, rather than falling into the scope of these requirements.

<u>Chapter 3: Diversification, performance fees and the default fund charge cap</u>

An in-year adjustment to prorating performance fees

Q4: Do the draft regulations achieve the policy intent of providing an easement from the prorating requirement for performance fees which are calculated each time the value of the asset is calculated?

Creating a multi-year rolling calculation approach

Q5: What should we consider to ensure a multi-year approach to calculating performance fees works in practice?

Q6: We are proposing a five-year rolling period. Is this appropriate or would another duration be more helpful?

Q7: We are proposing offering a multi-year option as an alternative to an in-year option for schemes. Do you have any suggestions for how to improve this offer?

Q8: To what extent will providing a multi-year smoothing option give DC trustees more confidence to invest in less liquid assets such as venture capital?

Costs of holding physical assets

Q9: Do the draft regulations achieve the policy intent? Do you have any comment on the definitions used?

A general comment is that performance fees are theoretically unlimited, which means that Trustees will be reluctant to enter into certain illiquid assets classes due to the cost challenges that exist. An approach will need to be developed to ensure this uncertainty does not prohibit these assets from being considered for inclusion within default strategies.

Chapter 5. Updates to Statutory Guidance: Reporting costs, charges and other information

Q10: Do you believe that the updated statutory guidance increases clarity about the minimum expectations on both the production and publication of costs and charges information? Are there any areas where further clarity might be required?

Yes, we believe the updated guidance provides the necessary clarity.

Chapter 6: Other changes to legislation

Q11: We propose that where the default arrangement includes a promise, the trustees of the scheme should be required to produce a default SIP. We propose that this should be produced within 3 months of the end of the first scheme year to end after the coming into force date.

(a) Do you agree with this policy?
(b) Do you agree that the legislation achieves the policy?

Yes, we agree with this policy and that the associated legislation achieves the objective.

Q12: We are proposing that, for relevant schemes, charges and transaction costs should be disclosed for any fund which members are (or were) able to select and in which assets relating to members are invested during the scheme year.

(a) Do you agree with this policy?
(b) Do you agree that the legislation achieves the policy?

Yes, we agree with this policy and that the associated legislation removes any ambiguity around the disclosure requirements.

Q13: Do you agree with this proposed change? Do you have any other comments on this topic?

Yes, we agree with this proposed change.