Response by TISA to:
Future of the defined contribution pension market: the case for greater consolidation

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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.

Executive Summary

TISA welcomes the opportunity to respond to the DWP call for evidence – Future of the defined contribution pension market: the case for greater consolidation.

We are fully supportive of the objective of ensuring members are in schemes which represent good Value for Money (VfM) based on the underlying demographic. Given the rising number of individuals now contributing to a workplace scheme and the growing assets under management created through Auto Enrolment, this becomes an increasingly important part of the governance framework.

However, we do not believe this objective can only be achieved through consolidation in isolation. Whilst the new VfM assessments being implemented from Autumn 2021 will result in consolidation for some schemes, they will also affirm in many instances that the existing scheme represents good VfM for its members.

The focus should be on ensuring that Trustees have the guidance and support to ensure that the annual assessment is undertaken in an effective and meaningful way. The governance of these assessments is also essential, to ensure that the assessments are functioning as intended and good member outcomes are achieved.

Incentives should not play a part in a market which is functioning as intended. These could lead to schemes winding up even when it is not in the best interests of its members and raises the question of the validity of the assessment. Furthermore, there are aspects of competition law that would need to be considered.

The industry is currently undergoing a significant amount of regulatory change, which includes as mentioned above, the introduction of a new VfM assessment in Autumn 2021 for occupational schemes with assets of less than £100m. It would be prudent to allow these time to become embedded and monitor the effectiveness before considering any further change in this area.

We would welcome the opportunity to discuss any aspects of our response with you.

Question responses

Question 1:

Do you agree that the government is right to aim for fewer, larger schemes going forward? Are there any risks?

This should not be the main objective. We need to ensure we achieve a landscape where Occupational DC members are in schemes which provide good Value for Money (VfM), which can be demonstrated through the annual VfM assessment.

Consolidation should help achieve this, where the scheme assessment demonstrates that members are not receiving good VfM.

If we continue with the current direction of travel and smaller schemes are forced to consolidate into a larger scheme, there will ultimately be a systemic risk if one of these ‘consolidator schemes’ fails and/or appropriate and effective governance is not carried out.

A rapid acceleration in scheme consolidation will also result in various administrative challenges facilitating these exercises.

Question 2:

What impact will the new value for members assessment have on consolidation of schemes under £100m? If you were a scheme that did not pass the value for members assessment, would you look to “wind up” or “look to improve” and how would you go about this? Beyond the value for money assessment, could government, regulators and industry accelerate the pace of consolidation for schemes under £100m?

The assessment is essential to determine if a scheme is providing good VfM for its members. If this can be demonstrated, then irrespective of scheme size, there should be no reason for a scheme to consolidate.

If additional pressures or requirements were placed on schemes based on their size, it is effectively dismissing the annual assessment. Consolidation should not be taking place solely to facilitate higher investment into illiquid assets, although the benefits that this can have on member outcomes should be considered in the VfM assessment. Smaller schemes can access illiquid funds through pooled fund structures - the Long-Term Asset Fund will increase accessibility in this regard.

Question 3:

How can government incentivise schemes with assets of between £100m-£5bn to consolidate?

The government should not be looking to incentivise schemes of any size to consolidate, where it can be demonstrated that it is providing good VfM for its members. Otherwise, it prompts the question ‘what is the point of the assessment?’

The annual assessment is a challenging exercise, and any form of benchmarking is significantly compromised by the bespoke pricing which exists across much of the market. Ongoing work in this area is needed to help Trustees make these annual assessments as meaningful and effective as possible.

Additional measures have been introduced for schemes with assets under management (AUM) of less than £100 million where a more detailed VfM assessment is required from Autumn 2021. It would be prudent to monitor the effectiveness of these assessments before any further changes are proposed.

Question 4:

Assuming a scheme wishes to consolidate, how significant are the barriers identified above? Are there others?

Some barriers may be more significant than others, depending on the scheme concerned. The unwillingness to accept new business from certain schemes is potentially a large barrier for many schemes. A restriction of this nature may result in a scheme being forced to continue running when the only schemes willing to accept the business do not offer better VfM, even though others might.

The costs of winding up a scheme can be significant, especially in terms of the legal requirements. To mitigate this, an off the shelf 'flat pack' could be developed enabling schemes to fast-track this process whilst reducing the cost of doing so.

A further barrier to consolidation will exist where older schemes have particular guarantees attached which would be lost upon transfer.

How do barriers vary for medium-larger schemes?

How can the government, regulators and industry remove these barriers?

How can government incentivise consolidation for schemes between £100m and £5bn especially where there may be a proportion of members who have smaller pots and therefore may be less attractive to receiving schemes? Could government incentivise trustees of both the merging and receiving schemes to take a mixed economy of smaller and larger pots – could this be provided by the market at a suitable cost, and without imposing additional cost consequences on members?

There should be no need to incentivise where the annual assessment shows that members are receiving good VfM. Where a scheme has determined it is in its members best interests to consolidate, there needs to be some investigation into how 'small pots' involved in the transfer could be linked to any small pot consolidation process that is in place. This should be an area that is considered within the government/industry project which is currently running.

Question 5:

How can we mitigate any risks associated with scheme consolidation?

Scheme members are not homogenous groups. They will differ in various ways including age, pot size and membership status, and each will have their own definition of what constitutes VfM. An assessment taken at scheme level will always mean there will be a mixture of winners and losers irrespective of the outcome.

Where a consolidation does take place, this is an opportunity to engage with the underlying members, particularly deferred members who may have disengaged with their savings within the scheme. It may well be the case that for this group, the receiving scheme may not represent as much VfM as the scheme they are currently in e.g. for a deferred member close to retirement, the receiving scheme may not offer a retirement proposition that is as comprehensive as the existing scheme.

This could link into other engagement initiatives that are currently running, such as pension dashboards.

As mentioned in Q4, there should also be consideration given to how those identified as having 'small pots' who are involved in consolidation exercises are brought into scope of the existing project.
Question 6:

What other international good practice exists? N/A

Question 7:

How important is scheme consolidation in driving better member outcomes?

What more can government and industry do to move away from a narrow focus on low costs and charges to a broader assessment of value for money that encompasses investment strategies whether innovative or otherwise and overall net returns?

New measures have already been introduced to commence in Autumn 2021, where occupational DC schemes with assets below £100 million will undertake a more detailed value for member assessment. The intention behind these requirements is to move away from a costs & charges focus to a more holistic consideration of the benefits provided by a scheme to its members.

It would be prudent to wait for these to be implemented and the effectiveness of these changes monitored, before considering the introduction of further change.

Where consolidation takes place, it will be important that when engaging with scheme members, employers can clearly articulate the member benefits that are being derived from the transfer. Lower costs can be easily conveyed, however other aspects of VfM which are less tangible will be more challenging to describe.

Question 8:

How can government, regulators and industry incentivise scheme consolidation?

As previously mentioned, there should be no requirement to incentivise the consolidation of pension schemes of any size if VfM assessments are functioning as intended.

TPR do have the power to force schemes to wind-up - the governance of the assessments will be crucial in ensuring that those schemes who are underperforming either take steps to improve or wind-up.

Any incentivisation could also lead to the risk of breaching competition law.

Several Master Trusts would fall into this category based on AUM, however the consultation alludes to new VfM requirements and incentivisation for single-employer schemes. Is the intention to exclude Master Trusts from the schemes impacted by these proposals?

Setting a floor on net returns below which schemes must explore winding up is a suggestion which causes some concern. If you look at 3- and 5-year default fund performance from Master Trusts which have AUM in excess of £5 billion, there is considerable disparity between the lowest and highest performing schemes. There will always be periods of poor market performance and default investment strategies will be designed to hedge against one or many different risk areas. As pensions are a long-term investment, over what period would this need to be measured?

Question 9:

Is there anything else, not covered in the other questions, that the government should consider?

Whilst we do not believe any VfM change should be considered at this time due the forthcoming changes which have yet to be implemented, it is important that we continue to work on enhancing member outcomes. What members consider important needs to be factored into future VfM definitions – ESG considerations being one aspect that is clearly engaging members currently.

Given the ongoing strategic alignment of FCA and TPR, it would be appropriate that where possible, changes are implemented across the board to ensure that members are provided with the same protections and opportunities.