TISA

Response by TISA to:
Stronger nudge to pensions guidance

Renny Biggins, Head of Retirement
renny.biggins@tisa.uk.com – 07802 324962

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** 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 consultation – Stronger nudge to pensions guidance.

We recognise the significant importance of consumers accessing impartial guidance or regulated advice prior to making retirement decisions and strongly support ways in which we can enhance the framework to achieve better consumer outcomes.

There are several differences which exist with these stronger nudge proposals and those issued in the FCA consultation. It is essential to industry and consumers that there is consistency in the requirements to remove complexities where transfers span across both regulatory regimes and ensure nudges achieve their objective. The alignment of these should be considered a priority.

If we consider this from the consumer perceptive, nudges are currently provided towards guidance and advice at various trigger points from age 50 onwards in the approaching and at retirement journeys. We need to consider how effective these nudges are and whether they can be delivered at more meaningful stages, prior to retirement decisions having been reached.

Industry research shows the timing of the nudge makes a significant difference in the take-up of guidance and advice. For this to be most effective, it needs to come at the point an individual is considering retirement options and makes initial contact with their provider for further information. The retirement access method has not been decided upon and guidance is therefore likely to be seen as a beneficial option to take.

Nudges given after an access decision has been reached are not likely to be seen as beneficial, which is why we see low take up – even with the stronger nudge trials. This could lead to negative perceptions and whilst not mandatory, it extends the process and may be seen as an additional barrier to accessing pension funds.

Whilst pension scheme members are not a homogenous group, their needs and requirements to support retirement decision making will be broadly similar. It will be commonplace for transfers to take place between schemes regulated by the FCA and TPR – e.g. a Master Trust to a Group Personal Pension. The approaches taken to implementing these which will introduce different stronger nudge requirements based on scheme type. This introduces significant complexity for everyone involved in the process and the effectiveness of the proposals are severely compromised.

The fragmented nature of regulatory change has resulted in several consultations recently being issued which have overlap - the interaction between the stronger nudge and scams guidance being an example. Whilst this has been acknowledged in this stronger nudge consultation, the consumer journey does not flow and consists of signposting to a mixture of optional and mandatory MaPS guidance sessions, possibly from ceding and receiving schemes. This is not a good consumer experience and introduces yet further complexity to an area that is not generally understood by typical scheme members.

Industry and government should be considering how to simplify and streamline processes, ensuring that the consumer is placed at the centre, with consistency achieved across occupational and individual DC scheme types. A collaborative and holistic review of the entire consumer journey is required to ensure that the consumer is receiving the correct support and nudges at the right time and is not experiencing a disjointed journey which is a result of successive and piecemeal regulatory change.

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

Question responses

Question 1. Do you agree with our proposed approach to defining when the Stronger Nudge should be delivered? If not, what changes do you consider necessary?

There are several differences which exist with these stronger nudge proposals and those issued in the FCA consultation. It is essential to industry and consumers that there is consistency in the requirements to remove complexities where transfers span across both regulatory regimes and ensure nudges achieve their objective. The differences identified are listed in the appendix.

Research by some of our member firms show it is generally the receiving scheme who are contacted to initiate transfer proceedings – up to 90% of the time. It would therefore be more effective and streamlined for this scheme to deliver the nudge. Where consolidation exercises are undertaken immediately prior to access, this also removes the outcome where a scheme member is receiving the stronger nudge from every ceding scheme they are consolidating.

We agree with the opt out exemption for individuals who have received regulated financial advice in connection with the application. However, it appears there would still be a requirement for the provider (which may also be providing the advice) to explain what pensions guidance is and offer to book an appointment. For an advised journey, this does not seem an appropriate step to undertake.

Consolidation exercises often taken place as the first step in the retirement plan. This could comprise just one transfer into an existing scheme or multiple transfers into a new or existing scheme. Whilst access may be the ultimate reason for consolidation, this may not actually occur until several months after transfer. Some guidance on how schemes should interpret this exemption would be beneficial and also, given the separate regulatory approaches undertaken to the stronger nudge, is it considered consolidation where only one occupational scheme and multiple individual plans are involved?

Where a transfer does trigger the stronger nudge (and possibly a scams guidance requirement), another nudge will be provided by the receiving scheme before access is allowed. As mentioned in the Executive Summary, the timing and number of nudges provided need to be considered more widely to consider outcomes and consequences.

Question 2. Do you agree with our proposed approach to appointment bookings? If not, what changes do you consider necessary?

The flexibility to enable firms to embed this entirely within an online journey is welcome.

However, the variables which could exist need to be considered. The process and dialogue between provider and member could become protracted trying to find a suitable time and available booking slot and there is uncertainty in the process should the original booking not be attended. It would be beneficial if some further guidance to cover these sorts of eventualities could be provided.

Question 3. Do you agree with proposed approach to requiring an opt out in a separate interaction? If not, what changes do you consider necessary?

No, whilst we understand why an opt-out has been proposed, the nudge is given at a point when the decision on when and how to access has been made.

The introduction of a separate interaction to confirm the opt-out, which could take place literally immediately after the nudge has been given will not be effective and is likely to lead to negative outcomes and create perceived barriers to access.

The opt-out should not require a separate communication if this can be incorporated within the client journey.

It is worth pointing out that when a member accesses their pension for the first time, a cooling off period does apply so it is possible for the withdrawal to be repaid and the transaction reversed if they change their mind within this period.

Question 4. Do you agree with our proposed approach to prevent trustees and managers proceeding with the application until they are in receipt of confirmation that the individual has opted-out or received appropriate pensions guidance? If not, what changes do you consider necessary?

Yes, but could some further detail be provided to confirm what evidence will be required to confirm attendance of a pensions guidance appointment.

Please also see our response to Q3.

Question 5. Are the proposed exemptions sufficient? If not, what changes do you consider necessary?

The exemption for consolidation will be difficult to achieve without further guidance in this area. Please see our response to Q1.

We agree with the opt out exemption for individuals who have received regulated financial advice in connection with the application. However, it appears there would still be a requirement for the provider (which may also be providing the advice) to explain what pensions guidance is and offer to book an appointment. For an advised journey, this does not seem an appropriate step to undertake.

Similarly, Serious Il Health claims still need to go through the process of the provider explaining pensions guidance and offering to book an appointment. There is a small exemption meaning the opt out can be communicated in the same transaction, however given the nature of Serious Ill Health claims, we do not consider the stronger nudge is appropriate and the claim should be processed without these additional and unnecessary delays.

Question 6. Is an exemption for small pots necessary? If so, how should a small pot be defined?

It seems appropriate that this exemption is included. The government/industry Small Pots initiative which is currently running should be consulted as that group is in the process of determining the industry definition for a small pot based on statistical analysis and we need consistency in this area.

Question 7. Will our proposed exemption for those accessing their pension benefits as a Serious Ill Health Lump Sum cover all those who should be exempted from the enhanced opt out on ill health grounds? If not, what changes do you consider necessary?

Yes this is appropriate but please see our response to Q5.

Question 8. Do you believe our proposed approach to record keeping is proportionate? If not, what changes do you consider necessary?

The proposed journey does provide the opportunity for useful data to be collected which could be used in future policymaking. Where the nudge is triggered by an access request, it would be useful to identify the correlation between the take-up of guidance and the chosen method of access. This could identify trends e.g. do consumers who attend a guidance session tend to enter drawdown and do consumers who opt out tend to make full encashment?

We recognise the increased burden of regulatory reporting on firms and are not recommending that these form additional reporting requirements. However, it is worth exploring the additional data available from the proposed revised journey and how it can be obtained.

More specifically in the proposals, it appears that a person who is exempt from the nudge should be recorded as an opt out. This doesn't seem to be an appropriate classification and would ask for clarification if our interpretation is correct.

In order for providers to build automated data collection into their revised consumer journeys, it is particularly important for details of the requirements placed on providers to be clearly communicated as soon as possible.

Question 9. Do you agree with our proposed approach for coordinating the Stronger Nudge and Scams Guidance appointments? If not, what changes do you consider necessary?

The fragmented nature of regulatory change has resulted in several consultations recently being issued which have overlap - the interaction between the stronger nudge and scams guidance being an example. Whilst this has been acknowledged in this stronger nudge consultation, the consumer journey does not flow and consists of signposting to a mixture of optional and mandatory MaPS guidance sessions, possibly from ceding and receiving schemes. This is not a good consumer experience and introduces yet further complexity to an area that is not generally understood by typical scheme members.

It would be a better experience if the scams and pension access guidance material could be combined into a single MaPS session for the scheme member.

More generally however, the whole journey needs to be reviewed – please see earlier comments.

Question 10. Do you foresee any problems with the interaction between the Stronger Nudge and existing signposting provisions? If so, what changes do you consider necessary?

Please see earlier comments.

Question 11. Are you content that regulation 2 successfully achieves its purpose? If not, what problems do you foresee and what changes do you consider necessary?

Yes

Question 12. What do you anticipate will be the one-off impact of implementing the Stronger Nudge in to each channel (phone/post/digital) you offer? Where costs are incurred, please provide an estimate and any information you feel would be useful to us in understanding these costs.

Our members will provide further details in their individual responses and discussions with you.

Question 13. What do you anticipate will be the on-going impact of implementing the Stronger Nudge in to each channel (phone/post/digital) you offer? Where costs are incurred, please provide an estimate and any information you feel would be useful to us in understanding these costs.

Our members will provide further details in their individual responses and discussions with you.

Question 14. Where costs are incurred, would you expect the cost to be absorbed, passed on to employers, or passed on to individual members?

Our members will provide further details in their individual responses and discussions with you.

Question 15. Do you anticipate any benefits to your business from implementing the Stronger Nudge? Please provide a monetary value where possible.

Our members will provide further details in their individual responses and discussions with you.

Question 16. Do you anticipate any wider non-monetised impacts from the Stronger Nudge?

Our members will provide further details in their individual responses and discussions with you.

Question 17. Do you believe there are reasons to include a statutory review provision in the proposed regulations?

Yes a statutory review provision, to assess the effectiveness and/or any unintended consequences should be included.

Question 18. Do you consider the proposed regulations achieve the policy intent?

Whilst the stronger nudge trials show there was an increase in the take-up of guidance, this is still low and we could collectively do more to instil MaPS guidance as a normal part of the non-advised consumer thinking and journey.

This requires a holistic and strategic review of the journey which has been created through a series of piecemeal regulatory change with considerations given to how the various nudge trigger points interact across the same and different regulatory regimes.

Consumer modelling will be required to understand consumer outcomes and identify the pinch points in the existing journeys and how these can be ironed out, combined with strong industry and government collaboration.

Question 19. Do you foresee any unintended consequences in our proposed approach?

The timing of the nudge is crucial and the existing triggers, whilst having a limited positive impact, will be perceived by many as an obstacle in pension access.

Question 20. Do you have any comments on the impact of our proposals on protected groups and/or views on how any negative effects may be mitigated?

No comment.

Appendix

DWP stronger nudge proposals	FCA stronger nudge proposals
Serious Ill Health claims are exempt	Not covered
Consolidation exercises not for purpose of access exempt	Not covered
Flexibility in the journey to interact with Scams guidance	Not covered
Ceding scheme to deliver the stronger nudge	Whichever scheme is contacted first to deliver the stronger nudge
Guidance opt out must be a separate transaction	Covers possibility of an opt out period but not proposed
Small pot exemption	Not covered
The booking can be embedded in the online journey	Client contact is required to make the booking
An advised application still requires pensions guidance to be explained to the scheme member with an offer to book it. Only the opt out step is exempt	An advised application can be exempt from the whole nudge process