



# Response by TISA to: CP23/4 - Value for Money: A framework on metrics, standards, and disclosures

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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 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 240-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, Investments & Pensions**. This reflects TISA's commitment to open standards and independent governance.

## Executive Summary

TISA welcomes the opportunity to respond to the joint DWP, TPR and FCA consultation - Value for Money: A framework on metrics, standards, and disclosures.

As Auto Enrolment continues to mature and the size of assets under management continue to increase, consumer protection and outcomes need to be regularly reviewed and we are pleased to see more work being undertaken in this area.

All scheme members should be invested in pension schemes that deliver good Value for Money (VfM) and receive consistent consumer journeys, irrespective of the regulatory regime they are governed by.

Both regimes should have robust governance processes in place, with IGCs and Trustees responsible for ensuring schemes are delivering good outcomes for their members. The introduction of a VfM framework to bring more consistency to the assessment process can potentially enhance the governance and encourage the consolidation of schemes which cannot deliver the VfM outcomes that others can. However, care is needed to ensure that the metrics used in the assessment are not taken out of context or used in isolation. Schemes do not comprise homogenous memberships and as such, what represents good VfM for one scheme may not for another. It is therefore crucial that the appropriate context accompanies the final agreed metrics to ensure comparisons are accurate and can incorporate the wider picture.

With phase 1 being targeted at professional audiences, the potential risks of data misuse are reduced, as this group should already have an understanding of the limitations and incomplete pictures that metrics provide in isolation. And whilst the final metrics will be prescribed, the methodology employed to incorporate these into the assessment should not be, as different schemes and memberships have different priorities and requirements. These should already be taken into account during the current annual assessment process.

Consideration also needs to be given to the potential risks of encouraging use of this data to non-professional audiences such as consumers and the media. Making decisions with partial or no knowledge, using only some of the data and particularly shorter-term measures is likely to lead to poor longer-term outcomes. This becomes a major consideration for phase 2. For phase 1 we would therefore recommend the metrics are hosted in a centralised location which is not easily accessible to anyone other than the target audience.

In terms of the metrics themselves, there are already some industry initiatives operating that were created to provide transparency in service standards and the promotion of good practice. Star, which is a cross-industry body and supported by Government is a prime example of such an initiative for pension transfers. The VfM framework should engage with Star and similar bodies, who are well placed to provide positive contributions and help progress the framework.

When considering related regulatory initiatives, the Consumer Duty should achieve complimentary outcomes to the proposed VfM framework, however some of the main components of VfM such as investment returns do not fully correlate to the Consumer Duty. Some guidance to help firms implement these whilst understanding the synergies would be beneficial.

We would be pleased to discuss any aspects of our response and look forward to working with you to progress the VfM framework in the coming months and years.

## Question responses

### Chapter 3: Scope, criteria, and outcomes

#### Q1: Do you agree with the proposed phased approach?

We agree that a phased approach is appropriate and it makes sense to initially focus on the areas which have the biggest potential member impact. This primary focus is also important as members have no control over which scheme their employer selects as part of their AE duties.

Whilst there are learnings that could be taken from this phase along with those from the New Consumer Duty, the change in target audience from professional pension professional to consumer significantly changes the framework components for phase 2. Many of the metrics proposed for the Value for Money (VfM) framework cannot be accurately compared without:

1. additional detail to provide context
2. professional knowledge of the pensions market

If the proposed VfM data is assessed without both of these present, data will be misleading, decisions will be based on an incorrect understanding and consumer outcomes will be compromised.

Whilst we would expect IGCs and Trustees to possess both, we would not expect most consumers to have the required knowledge and expertise. **This means that it will not be possible to simply build on phase 1 for phase 2 and whilst this consultation focuses on phase 1, this important aspect needs to be recognised when considering future scope and timeframes.**

The amount of data that will be created through the final proposals also needs to be considered and whether this may have a detrimental impact to the objectives. **Whilst more data provides more transparency and more detail, governance boards will need flexibility to prioritise the metrics which are appropriate to their schemes.**

In terms of the metrics themselves, there are already some industry initiatives operating that were created to provide transparency in service standards and the promotion of good practice. Star, which is a cross-industry body and supported by Government is a prime example of such an initiative for pension transfers. **The VfM framework should engage with Star and similar bodies, who are well placed to provide positive contributions and help progress the framework.**

### Chapter 4: Investment performance

#### Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

Yes, we agree that there needs to be backward-looking metrics, to enable the impacts of previous and current investment decisions to be assessed and compared. **Given the focus should be on long-term outcomes, it would not be appropriate to consider including returns covering less than a 5-year period.**

**Q3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?**

There are various measure of risk with volatility being just one. However, there are limitations to all risk-based metrics and in the interests of simplicity, we agree with the proposals. **It would be useful to provide some context to these metrics e.g. other risks exist which are not reflected in these figures such as liquidity, opportunity and inflation risk.**

**Q4: Do you agree with our proposals on “chain-linking” data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?**

Yes, we agree with the proposals which provide transparency and ensure that previous investment decisions are accounted for.

**There may be benefit in separating out current and previous strategies so the investment performance of one does not influence the other in the final metric(s) displayed.** E.g. a previous strategy may have underperformed whereas the current strategy has overperformed. A single metric would not provide the true performance of the current strategy which is arguably the most important, as that is what new members would be exposed to.

**Q5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?**

Yes, we agree with the proposals.

**Q6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?**

We agree with the principle however some financial information firms currently provide this with a breakdown by 16 asset classes. Even with this increased transparency, there is typically 10% classed as ‘other’ so this is likely to be higher under the proposals.

**Q7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?**

Yes, we agree with the inclusion of a forward-looking metric. **There needs to be a prescribed approach to ensure that firms are not using different assumptions for the same assets/risks, which could make identical strategies more or less attractive to an IGC or Trustee board.**

There are a variety of risks to which DC scheme members are exposed and these cannot all be included within the scope of these proposals. Schemes may increase risk exposure to those which are not covered by this metric in order to increase the projected growth return.

## Chapter 5: Costs and charges

**Q8: Are there any barriers to separating out charges in order to disclose the amount paid for services?**

This will create challenge for firms operating bundled charges. The allocation of costs to certain cost centres can be subjective and firms could distribute these in a way that makes certain charging elements appear better VfM than they actually are.

**An element of guidance would be beneficial to help firms adopt consistent approaches in these instances.**

**Q9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?**

Firms adopt charging strategies which are appropriate for their membership. The conversion of these charges into an annual percentage may be misleading, as the combination charging strategy may be particularly beneficial to schemes with members which have large pot values for instance but if selected for a scheme which largely comprises small pots, this may not represent good VfM. **Context will be required in these instances to ensure the actual charging structure that applies can be determined in addition to the single metric.**

**Q10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?**

There does need to be a way in which employers are grouped to cut down on the amount of data that is supplied and viewed. **Potentially this could be grouped by the level of charges which apply rather than by employer AUM.**

## Chapter 6: Quality of services

**Q11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?**

We need to be mindful that engagement will often be triggered by factors that are outside the control of the provider such as:

- Size of pot
- Proximity to retirement
- Employment sector worked in
- Engagement of employer with employees
- Active vs deferred pot

We agree that measuring engagement and actions is a good approach for schemes to adopt, but comparisons through metrics may produce inconsistent outcomes, without further context being provided.

**Other areas to consider measuring include effectiveness off digital propositions and call centres.**

**Q12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?**

We need to be mindful that engagement will often be triggered by factors that are outside the control of the provider such as:

- Size of pot
- Proximity to retirement
- Employment sector worked in
- Engagement of employer with employees
- Active vs deferred pot

We agree that measuring engagement and actions is a good approach for schemes to adopt, but comparisons through metrics may produce inconsistent outcomes, without further context being provided.

**Other areas to consider measuring include effectiveness off digital propositions and call centre operations.**

We agree there should be no standalone governance metric.

## **Chapter 7: Disclosure templates and publication timings**

**Q13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?**

The overarching concern with a large amount of data being publicly available is the potential for unintentional misuse by non-professional audiences such as the media and consumers, in particular where insufficient context is provided.

The potential publishing of any data which is converted into league tables risks firms adopting herd mentality, with approaches solely designed to meet the benchmarks rather than adopting a more risk-based approach which is appropriate for their membership. From an investment perspective, this could then lead to a high concentration of funds invested in particular asset classes which creates its own set of risks should those classes underperform or fail

Having the data stored in a centralised location which is only available to the target audience enables comparisons to be undertaken more effectively. **If an existing financial information firm which already hosts industry data is used without cost to industry, this would be the preferred approach.**

**Q14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?**

Whilst the proposals mean the data could be several months old at the point of publishing, we need to be cognisant that should be used to drive long-term decision making, As such, the time lag in data supply should not be weighted to heavily.

**The final deadlines should avoid the creation of additional work during quarter 1 which is traditionally a highly busy period for providers.**

## Chapter 8: Assessing Value for Money

**Q15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?**

Both approaches have their pros and cons.

The important principle to adhere to is ensuring that the relevant context is provided to allow comparisons to be undertaken on the correct basis. **Care must be taken to ensure the framework doesn't drive a 'race to the middle' where caution is disproportionately high to avoid potential ramifications of not meeting a particular industry metric.**

**Q16: Do you agree with the step-by-step process we have outlined, including the additional consideration?**

The process is prescriptive and as previously mentioned, it is crucial that context is provided and built into the assessment process. Governance boards should be able to determine the metrics which are appropriate for their schemes and the suitable comparator schemes to use in the assessment (if this approach is confirmed).

When considering related regulatory initiatives, the Consumer Duty should achieve complimentary outcomes to the proposed VfM framework, however some of the main components of VfM such as investment returns do not fully correlate to the Consumer Duty. **Some guidance to help firms implement these whilst understanding the synergies would be beneficial.**

**Q17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?**

**The proposed RAG approach significantly understates the complexity of the whole process and given the target professional audience, is not required.** Even where schemes are confident they are providing VfM, they are likely to rate themselves as Amber as there are always improvements that will be sought and made.

**Q18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?**

As a principle, all savers should have consistent outcomes irrespective of the different legal structures that are in place for Contract and Trust based schemes and expect to be in a scheme which provides good VfM. **Given the Consumer Duty is set to increase consumer protection for Contract Based and some Trust-Based scheme members, it would be beneficial to outline how this compliments the proposed VfM framework and highlight instances where a misalignment may occur and how this can be mitigated.**

The inability to bulk transfer contract-based schemes without member consent should be considered with appropriate steps put in place to ensure this doesn't create a barrier to members achieving better outcomes elsewhere.



**Q19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?**

Yes, we agree with this approach.

## **Chapter 9: The VFM framework and Chair's Statement**

**Q20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?**

The ever-increasing content of the Chair's Statement has become a significant regulatory document which serves several purposes for multiple audiences. Any plans to simplify this and reduce duplication is welcome, however we are not convinced that this is the right place for a member targeted communication.

**Given the focus for phase 1 is a professional audience, we would suggest that member-focused proposals remain out of scope for this consultation.**

**Q21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?**

Yes, as you will be aware, there is significant duplication with the VfM proposals and existing Chair's Statement disclosure requirements including details on costs and charges.

## **Chapter 10: FCA specific issues**

**Q22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?**

Given that members of these schemes will have made a proactive decision and opted for an arrangement outside of the standard Auto Enrolment framework, we agree that these should be excluded. **This also extends to Personal Pensions and we would therefore suggest that the remit of the VfM framework for phase 1 is targeted at qualifying workplace schemes only.**

**Q23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?**

Given the focus for phase 1 is a professional audience, we would suggest that member-focused proposals remain out of scope for this consultation.

**Q24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?**

We believe the provider is responsible for publication of the framework data.

## Chapter 11: Impacts

**Q25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?**

N/A

**Q26: Do you agree with our assumptions regarding who will be affected by the framework?**

Yes, we agree and would also add regulated advisers and benefit consultants who may need to adapt their processes.

**Q27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?**

N/A

**Q28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?**

Given the framework has not yet been finalised, it is too early to speculate on benefits vs costs. If the framework doesn't change the outcomes of Trustee and IGC assessments, then it is unlikely to drive any change in employer behaviour.

The framework will need to be reviewed on an ongoing basis post implementation, as the outcomes from these will help identify answers to this question.

**Q29: Are there additional benefits we have not identified?**

N/A

**Q30: Do you have any comments on the positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?**

Schemes do not comprise homogenous memberships and as such, what represents good VfM for one scheme or member may not for another e.g. a scheme operating net pay creates inequalities for members who earn below and above the personal allowance.

From a Consumer Duty perspective, firms should consider characteristics associated with the drivers of vulnerability that may be present in their customer base and target market and also have processes in place to support those groups. This highlights how the synergies of Consumer Duty and VfM can work together to produce good outcomes for all.