Industry and Regulators Committee – UK Regulators

Written evidence from The Investment & Saving Alliance (TISA)
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ABOUT TISA

TISA (The Investing and Saving Alliance) is a consumer-focused financial services industry body. Our mission is to work with our industry members to improve **the financial wellbeing of all UK consumers** to **deliver practical solutions** and devise innovative, evidence-based strategic policy proposals for government, policymakers and regulators that address major consumer issues.

TISA membership is **representative of all sectors** of the financial services industry**:** We have **270-member firms** involved in the supply and distribution of savings, investment products and associated services, including the UK's major investment managers, retail banks, insurance companies, pension providers, online platforms, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

A pure consumer focus and our broad-based membership gives TISA a unique perspective on the issues facing firms delivering services to UK financial consumers.

EXECUTIVE SUMMARY

Whilst this inquiry covers the role and effectiveness of the regulators that operate across UK business and trade, our response is focused on the Defined Contribution workplace pension market and the consumer detriment caused by having two separate regulatory regimes – one for contract-based schemes (regulated by the Financial Conduct Authority (FCA)) and one for trust-based schemes (regulated by The Pensions Regulator (TPR)).

It historically made sense to have two separate regulators covering UK registered pensions schemes:

- From an Occupational perspective, Defined Benefit (DB) was prevalent in the private sector, where employees were enrolled into their employer schemes without the exposure to risk throughout accumulation or decumulation. However, the complexity of these schemes regarding accrual and funding meant that strong regulation was still required, whilst the focus on consumer interventions and protections were less needed.

- Defined Contribution (DC) operates in a very different way and these schemes mainly existed for private pension provision, where individuals proactively took these plans out to fund retirement plans and potentially supplement other savings. Unlike DB where the employer bears all the risk, with DC it is the member who takes on a range of risks, often unknowingly.

- It therefore seemed appropriate to have different regulators covering Occupational and Personal Pensions, due to the distinct differences that exist in DB/DC scheme structures and the risks that members and employers are exposed to.

However, the roll-out of Auto Enrolment and the rise in the popularity of Master Trusts and Group Personal Pensions has created a mass market of largely unengaged occupational DC pension savers, which share the same characteristics, are exposed to the same risks and typically need the same regulatory safeguards, protections and easy access to support. As there are two scheme types in the UK which dominate Auto

Enrolment operating across two regulatory regimes, we see pension savers experience different journeys and outcomes.

With employees expected to accrue on average 10 or 11 pension pots over their working career, which will typically span across several different pension providers, it is commonplace for a single employee to hold pension benefits in schemes which are regulated by TPR and the FCA. The differing consumer journeys will, therefore, not only impact different pension savers but an individual pension saver will also experience different journeys for their different pension pots. This only serves to confuse the typical employee and is a barrier to engagement – which is currently low and can be attributed to a lack of understanding/confidence and constant regulatory change.

More generally there are other significant regulatory differences which exist between these scheme types which include:

1. Approaching retirement communications – the timescales for sending these out to scheme members and the content are not aligned. As such, pension savers receive different communications outlining retirement options and the signposting to guidance and advice at different times – there will often be several years difference in the timing of these initial communications

2. Decumulation options – these are well regulated by FCA, however many Master Trusts now offer Drawdown options and have done for several years without there being a regulatory framework to protect scheme members. As such, interventions designed to improve retirement outcomes such as Investment Pathways and Cash Warnings only exist for FCA regulated schemes

3. The New Consumer Duty – this wide ranging FCA initiative creates a framework that puts the consumer at the heart of the proposition. The expected importance of this initiative can be evidenced in that unlike other FCA regulation, this also covers members of TPR regulated Master Trust schemes where the scheme provider is also regulated by the FCA. However, members of Master Trusts which do not also operate within the FCA regulatory regime are not covered by the protection that these regulations deliver.

Pensions regulation is clearly an important part of financial services, that affects all households in the UK, whether through accumulation or decumulation. Money invested in pensions are an important component of long-term investment in the UK. Whilst a more joined up approach has been adopted by DWP/TPR and FCA, differences in the resulting regulation results in different rules and requirements, which are not always joined up. This can create mismatches in outcomes and inconsistent consumer journeys, which ultimately leads to confusion and disengagement – particularly as we are seeing increasing numbers of consumers who are members of schemes which span across both regulatory regimes.

Q6. How effectively do regulators co-operate with one another, and how could this be improved?

In recent months we have seen the Department for Work and Pensions (DWP), TPR and FCA engage more collaboratively and adopt a joined-up approach for consultations and industry meetings where possible. A good example of this is the work being progressed on the creation of the new Value for Money framework.

Whilst this is welcome, the separate regimes necessitate the need for separate regulation which can produce different customer journeys even where they share the same consumer objective. A recent example is the Stronger Nudge which needs to be delivered when a person over age 50 is transferring their pension. The rules place different requirements on the parties involved in the transfers so when a transfer takes place which straddles both regimes, the journey can be disjointed and responsibilities unclear.

It is TISA's recommendation therefore that Pensions regulations for Defined Contribution workplace pensions be rationalised, aligned and that the FCA becomes the regulator. The win for consumers from this will be that all DC pension savers will benefit from consistent consumer journeys, levels of protection and opportunities. This will simplify the pensions framework and will assist in driving up levels of consumer engagement, knowledge and ultimately retirement outcomes.

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