Response by TISA to the FCA consultation:

CP24/16 - The Value for Money Framework

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About TISA

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

Supporting the financial journey through life

Our ambition is to improve the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA is a **not-for-profit membership organisation** and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. **We have over 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, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on three strategic pillars of work to best support the consumer and UK financial services, TISA has become a major industry delivery organisation for consumer focused and digital industry infrastructure initiatives. Our three pillars of work remain at the forefront of everything we do:

- **STRATEGIC**
  Build **Strategic policy initiatives that influence policy makers** 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.

- **TECHNICAL**
  Provide **expert technical support 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 ISAs, Consumer Duty, client assets, responsible & sustainable investing, operational resilience, vulnerable customers, governance, conduct & culture, plus a range of other areas.

- **DIGITAL**:
  To transform our industry architecture by building **digital transformation initiatives** that are driving ground-breaking innovation. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives, with projects including **Digital ID** and **Open Savings, Investments & Pensions (OSIP)**. This reflects TISA's commitment to open standards and independent governance.

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Executive Summary

TISA welcomes the opportunity to respond to the FCA consultation CP24/16 - The Value for Money framework.

We fully support initiatives which are designed to positively impact on consumer outcomes and as such, are pleased to see the progression of the Value of Money (VfM) framework. If positioned correctly, the framework will significantly change the workplace DC market and improve member outcomes by ensuring only workplace schemes which demonstrate VfM can continue to operate. We would expect this to accelerate the speed of scheme consolidation, however it should be recognised that smaller schemes can provide VfM. The smaller scale means that these schemes and their trustee boards can form closer ties with the sponsoring employer and provide a more focused proposition to that which a multi-employer scheme can offer.

A key observation is the proposed volume of data that the framework will comprise. Research shows that we are limited to the amount of data we can consciously handle at any one time and we incorrectly believe we can focus and filter large volumes consciously.[1] As such, we believe the sheer volume of proposed data is excessive and risks overwhelming governance boards, potentially resulting in meaningful data and trends getting missed.

We understand that until functioning in an operational environment, it is challenging to identify the key metrics that will be needed for each of the components. We believe the data needs to be rationalised and the framework start smaller in terms of data capture, with the potential for metrics to be refined over time.

Considering this and the importance of getting it right for industry and consumers, we believe a phased approach would be more appropriate. We recommend a reduced disclosure framework is rolled out in a 'pseudo live' environment to open workplace schemes and consolidators to test the framework behind closed doors. This provides:

1. An invaluable environment where learnings for industry and regulators could take place without scrutiny from 3rd parties.
2. The opportunity for schemes to make improvements and for the regulators to make changes to the framework and publish relevant industry guidance.

Once there is confidence in the framework, it can be extended to all open workplace schemes and consolidators. Given the significant increase we have seen in DC consolidator schemes and their assets under management in recent years, we believe these should be included in the initial rollout of the framework.
We recommend legacy books and their associated quirks are brought into scope at a later date.

The VfM assessment itself will be a significant undertaking, comprising the disclosure of very high volumes of data and the need for this to be dissected and interpreted by governance boards, combined with the skills to apply contextualisation and subjectivity where appropriate. Whilst we agree on the need for a straightforward rating system, we believe the proposed RAG rating is overly simplistic. This creates a cliff-edge for multi-employer schemes, due to the commercial impact associated with an amber rating. We believe a more proportionate approach would be to introduce an additional rating, which provides all schemes which have been identified as having non-material issues the ability to continue operating as normal. Furthermore, if wider material impacts are identified and an amber rating is given, we recommend a 1-year grace period is given, which provides the opportunity for the necessary improvements to be made and evidenced without the suspension of new business.

[1] https://www.availadvisors.com/category/data-driven-decision-making/

At a higher level, we need to consider the pipeline of change that we see coming through into the DC landscape including Pension Dashboards, Small Pots, Decumulation, UK Investment, Targeted Support and how these interact with each other. We believe there are positive synergies created through this schedule of change but in some areas, it appears that conflicts may arise. This can be illustrated with the need to offer competitive investment performance for VfM with a backdrop of a drive for pension schemes to increase investment into UK assets (which have often underperformed against their global counterparts). It would be beneficial to understand how these competing priorities are viewed by policymakers and how they should be managed by industry, for the benefit of their customers.

These changes collectively mean that the DC workplace pensions market is well placed to continue to develop and deliver better outcomes for savers by increasing levels of confidence, understanding and engagement. We look forward to ongoing engagement with industry, the regulators, the government and other decision makers, as we continue with our mission to improve the financial wellbeing of UK households.

Question responses:

Scope and thresholds

Question 1: Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?

The creation of the proposed VfM framework is a significant undertaking, comprising the disclosure of very high volumes of data and the need for this to be dissected and interpreted by governance boards, combined with the skills to apply contextualisation and subjectivity where appropriate.

It will clearly take time for this to become embedded and refined to deliver on its objectives. Given the complexity and number of moving parts contained within the proposed framework, it would be prudent to implement this on a phased basis – in terms of scheme eligibility and framework requirements. This would help reduce the impact of unintended consumer and industry consequences which become apparent once the framework is functioning in an operational environment. It would also provide time for the regulators to provide relevant industry guidance in response to their findings.

Stage 1 would essentially 'test' the framework by restricting disclosures to eligible schemes' 3 largest defaults. Assessments would be undertaken in line with the framework requirements and privately shared with the regulators. This provides:

1. An invaluable environment where learnings for industry and regulators could take place without scrutiny from 3rd parties.
2. The opportunity for schemes to make improvements and for the regulators to make changes to the framework and publish relevant industry guidance.

We agree with the proposed exclusion of Executive Pension Plans from the framework. Where SIPPs have been established purposefully for the basis of being the workplace pension scheme, then we agree that these should be included, as the definition of a SIPP is broad. However, accidental workplace SIPPs as covered in section 11 should be excluded and are likely to comprise members who are actively involved with their pension arrangements. Care needs to be taken to ensure the right protections are applied to the right groups, which are typically the unengaged.

Further consideration needs to be given to Bespoke default arrangements, as the design and associated costs of these fall largely outside the control of the scheme. A greater focus could be directed towards the governance of those who are responsible for their design.

Legacy schemes and arrangements come with their own set of unique characteristics which may not be particularly evident in the modern DC landscape. As such, we believe the inclusion of these should be delayed, to allow time for the framework to become embedded for open schemes and arrangements.

Lastly, we see a heavy focus generally being placed on the benefits of both scheme and individual consolidation. Consolidators will continue to play an ever-increasing role in the DC pensions landscape and as such, it is crucial that their members also benefit from the VfM framework.

We recommend that a phased approach should be adopted as below:

1. Stage 1 – pseudo live - open workplace schemes/arrangements and consolidators
2. Stage 2 – live – open workplace schemes/arrangements and consolidators
3. legacy workplace schemes/arrangements

Question 2: Do you agree with the proposed application of the 80% threshold to determine whether legacy arrangements are quasi-defaults? Why or why not? If not, what would you propose?

Whilst we have no strong view, we believe legacy arrangements should be staged at a later date. The outputs and understanding derived from stage 1 may help determine whether the proposed 80% threshold is an appropriate level to use.

Question 3: Do you agree with the proposed 1,000 member threshold? Why or why not? Do you think there are risks around this level, for example excluding too many savers? If you don't agree, what would you suggest?

The setting of a threshold is a balancing act. It needs to be at a level which excludes the numerous micro and smaller default arrangements from the requirements, without setting it too high to exempt default arrangements which are not insignificant in size and collectively represent £billions of assets under management.

We do not strongly disagree with the proposed 1,000 member threshold. However, this will impact on schemes in different ways.

Anecdotally, one large scheme has said this would remove around 90% of the defaults held on their books of business. However, it does need to be recognised that this will still mean that hundreds/thousands of default arrangements will be captured, resulting in the disclosure of significant volumes of data. However, for another large scheme this means that most of their defaults remain in scope.

Ultimately, a proportionate approach is needed to ensure that VfM is targeted at most savers and in particular, those who would benefit from it the most.

Investment performance

Question 4: Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?

There is a charge cap in place and a consensus geared towards the creation of a culture and framework which does not focus solely on costs. Indeed, the DWP Call for Evidence 'Pensions Investment Review' references the move towards 'a consolidated DC market with an increased focus on net investment returns rather than cost.'

Costs and charges feature as a standalone component of VfM and given the volume of data items proposed to be disclosed, there is an opportunity with this consultation to rationalise disclosure requirements where appropriate.

The overarching investment metric which impacts on member outcomes is performance net of all costs and charges and that could be the one investment performance metric that would be the most impactful to governance boards undertaking the VfM assessment.

The proposals mean up to 90 metrics on gross performance form part of the assessment. This seems excessive and in this context, more does not mean better. It will add to the complexity of the assessment and may mean that data that is impactful is harder to identify. Rather than proposing to disclose as many metrics as possible, we should be considering which are the most meaningful and will make a material difference to the VfM assessment.

If it is decided that gross performance metrics must be included, we would recommend these only need to reflect the difference between administration and investment costs for reporting periods of 1, 3, 5 and 10 years with future feedback from governance boards influencing any changes to these metrics. We do not believe that the additional years add any value to assessments. Whilst the 1 year is a very short-term measure, it is the latest indicator of performance and may provide valuable insights into immediate improvements – especially for arrangements rated amber.

Question 5: Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?

We have no strong views on the methodology. Ultimately, the disclosure should allow governance boards to ascertain if the investment return and associated risk of the default is performing the same, better or worse than its comparators.

Question 6: Do you agree with the proposed requirement for chain-linking? Why or why not? If not, what would you propose?

We do understand the reasoning behind these proposals, which seek to disclose performance that the member experiences and remove the opportunities to game the system.

There are various reasons why schemes would want to make changes to their default. This could include performance issues, innovation or changes in regulation. If a weighted average of historic performance is disclosed where changes/transfers are made, the issue this creates is that it does not reflect the actual performance of either of the arrangements, so saver experience is not accurately captured.

Where changes occur, past performance of the old arrangement still exists. To preserve the integrity of the data, we recommend that this continues to be disclosed along with the new in-scope arrangement data. This provides an accurate representation of saver experience whilst also capturing the changes that have been introduced.

Question 7: Do you agree with the approach to in-scope legacy arrangement features? Why or why not? If not, what alternative approach would you suggest?

We agree with the importance to disclose valuable guarantees which may apply to these arrangements to ensure they can be factored into the assessment.

With regards to With Profits, a short explanation of the approach taken to the application of bonuses and adjustments would be helpful to reflect the differences that can exist between providers.

Question 8: Do you have further feedback on the incorporation of forward-looking metrics within the Framework? If included, how prescriptive do you think we should be on assumptions and methodology, and what would you propose?

This is challenging, as past performance is no indication of future performance but forward-looking metrics can introduce an element of gaming and be wildly inaccurate. If an agreed approach can be developed that enables forward looking metrics to be calculated on a realistic and consistent basis across industry, then this would provide potentially valuable insights to compliment past performance and could make a material difference to VfM assessments. As past performance would no longer be the sole focus, it would be appropriate to scale back on the number of historic metrics disclosed.

We believe more work should be undertaken in this area.

Asset allocation disclosures

Question 9: Do you agree with the approach to asset allocation disclosures? Why or why not? If not, what would you suggest? Do you think asset allocation disclosures will support better decisions in the interests of savers?

Whilst there appears no practical problem for firms in disclosing this data, we do question its inclusion given it does not form a direct part of the VfM assessment. Although a default's performance will be dependent on the underlying assets, it is the performance metrics which are the important outcome to measure.

Asset allocation could form part of step 4 where relevant 'wider considerations' can be included, however care should be taken that other potentially conflicting initiatives do not skew VfM objectives. E.g. poor investment performance results in an amber rating, however as the asset allocation has a greater than average UK allocation (which is underperforming compared to international equivalents), the IGC or trustee decides at step 4 this overrides performance due to government aspirations and moves it up to green. The following year, the scheme has the same asset allocation and still underperforms for the same reasons but there remains a firm national focus to invest in UK plc so it remains green. However, from a member perspective, they are suffering from poor investment performance and the framework is failing them. Governance boards will need guidance to help them with their approach where other government initiatives could cause a conflict of interest.

The addition of extra data which appears to align more to the current focus on UK Investment and has no influence over VfM adds unnecessary complication to the framework. Asset allocation for default funds can be obtained from other sources if this is needed to influence other non-VfM related government objectives.

Question 10: Do you agree that asset allocation disclosures should be limited to firm designed in scope arrangements only? Why or why not? If not, how would you broaden this requirement and to what arrangements?

We agree that Bespoke arrangements should be excluded from asset allocation disclosures. A single Bespoke strategy may be used by multiple employers (e.g. one adviser may use the same self-designed default strategy for several of their employer clients). It is important to recognise this and ensure that any asset allocation requirements only relate to default strategies designed by the firm.

Question 11: Do you agree that we should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR points? Will this be of use to firms, and will it be an added burden to disclose?

We agree with the proposals and believe the proposed requirements means a firm would disclose asset allocation for the whole arrangement at the YTR points of 30, 5 and 0. Where a de-risking strategy is adopted, we do not believe disclosure is required for every year of the de-risking period in addition but would appreciate confirmation of this.

Question 12: Do you agree with the proposed definitions for UK assets? If not, what would you propose?

It would be helpful to understand exactly what the government objectives are with regards to UK investment. The definitions would suggest that the focus is more on improving the London Stock Exchange, rather than investment into UK plc and greater business opportunities, encouraging a thriving economy and improving UK wellbeing, driven by outputs from UK industry.

If the objectives could be clarified, this would then drive the definitions.

Question 13: Do you think we should break out 'Quoted but not listed' (eg AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much?

No, we do not think this would provide any meaningful impact to the VfM framework and only add to the large amount of disclosure already proposed.

Costs and charges

Question 14: Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?

We do not generally disagree with the metrics that have been proposed. However, we do not see any merit in disclosing costs and charges which date back several years. For VfM assessment purposes, governance boards will be interested in what the costs and charges were for the previous year. Going back 15 years, does not in our view, provide additional information that will make a material difference to the framework assessment.

Legacy arrangements may comprise various historic charging structures which adds to the complexity and removes perceived benefits of historic disclosure. This supports our recommendation of a phased approach with legacy arrangements being deferred to our proposed stage 2.

Furthermore, we note that it has been acknowledged "Savers are likely to spend much of their pension saving journey in the growth phase and total costs and charges may not differ very substantially in later phases." We would therefore question why single employer schemes have additional reporting requirements placed on them as the same principle surely applies to all schemes?

Question 15: Do you agree that historic costs and charges information should be calculated in the first year of implementation, rather than waiting for this data to build over time? Please explain your answer. If you do not agree with either approach, what alternative would you suggest?

As outlined in our response to Q14, we do not believe historic costs and charges data looking back up to 15 years will play a material role in VfM assessments. The final set of agreed data items should be available for use from the outset.

Question 16: Do you agree with our proposed approach to converting combination charging structures to annual percentage charges? Why or why not? If not, what alternative would you suggest?

We agree that an approach to convert combination charges to an annual percentage is required to enable governance boards to undertake comparisons. However, we do not agree with the proposed approach.

Forward looking metrics are currently out of scope however the conversion relies on firms projecting into the future until such time as an arrangement is in balance. There appears no guidance for this, so schemes are likely to adopt different strategies. Potentially, firms may not decide an arrangement is not in balance for 20 or 30 years, whilst a different strategy could determine it would only take 10 years. It is important that a consistent approach is used to ensure the outputs are fair and not misleading.
Additionally, for smaller schemes there are likely to be employer borne charges that exist. NEST benefits from being backed by the government and as such, does not operate with the same commercial pressures that other workplace schemes have. As such, the lack of a level-playing field between NEST and other schemes means that from a VfM perspective, it may not be considered an appropriate scheme to be used for comparison purposes.

We would recommend that further work is undertaken in this area, to achieve an approach which achieves consistent and fair outcomes.

Question 17: Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?

We have no strong views on the proposed approach. It is important that the work involved to meet the unbundling requirements are proportionate to the weighting that they will be given in the assessment process. Care should be taken to ensure that where charges are not available on a standalone basis, the unbundling approach does not lead to unrealistic splits between investment and administration charges.

Question 18: Do you agree with the proposed approach to multiemployer cohorts? Why or why not? If not, what alternative would you suggest?

We note that it has been acknowledged "Savers are likely to spend much of their pension saving journey in the growth phase and total costs and charges may not differ very substantially in later phases." We would therefore question why single employer schemes have additional reporting requirements placed on them as the same principle surely applies to all schemes?

One of the metrics in the table is 'Average contribution per saver (active and deferred) (£).' We would query why deferred members would be included in this as they will not be making contributions. For schemes with large amounts of deferred members, this would make the figures misleading.

Further consideration should be given to any potential consequences of having employer size being determined by the number of active and deferred members, given there is likely to be considerable differences between schemes, which will impact on the disclosed metrics. Typically, older, more established schemes are likely to have a greater proportion of deferred members than newer schemes.

As VfM extends out to include other schemes (we recommend consolidators should also be staged with workplace), the additional challenges that the proposed metrics create will need to be mitigated.

Quality of services

Question 19: Do you agree with the proposals on scope? If not, what alternative approach would you suggest?

Whilst the framework is initially designed for a professional audience and to influence decisions at a scheme level, the Quality of Services component, provides the potential to improve member engagement, understanding and decision making. We therefore agree with the scope and an approach which not only provides some metrics on processing but also focuses on member outcomes.

It will not be possible for metrics to cover an entire scheme proposition, so we should be focusing on metrics which can broadly illustrate processing quality and the quality of services and communications. Step 4 of the assessment process does allow for wider considerations to be taken into account.

We broadly agree with the set of proposals and what they are looking to achieve, however some refinement will be needed, which we illustrate in the following responses to this section.

Additionally, firms will have created various ways in which to measure service quality as part of their Consumer Duty obligations. The VfM framework should be looking to compliment work already undertaken.

Question 20: Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?

Yes, we agree with the proposed indicators of service quality.

Question 21: For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.

<u>Savers can be confident that transactions are secure, prompt, and accurate</u>

Payments in and investment of contributions: from the point of payment of monies into the scheme to the point at which the monies are received by the appropriate investment fund.

We agree with the metric but it should be made clear that the clock does not start ticking until complete requirements are met e.g. a cheque could be received in respect of a third-party contribution but the payer has not been through money laundering / know your customer checks. Whilst the scheme has received the money, it cannot be processed as a contribution until AML requirements have been met.

Transfer between schemes: from the point of a formal request for a transfer to the point at which the saver's details and benefit have been successfully received by the receiving scheme.

There are various requirements that need to be met before a transfer out can be processed. The metric needs to make it clear that the clock does not start ticking until all transfer requirements have been met.

This will need to be split between cash and in-specie transfers. The latter is more complicated and is reflected in the timescales it takes to process. If not split, this will not portray a clear and accurate picture.

Smaller schemes are experiencing difficulties in receiving transfer funds from some schemes due to excessive due diligence. There is also a discrepancy between guidance and legislation in the application of the anti-scam transfer regulations, with some schemes referring to Money Helper where Amber flags are raised, even if advice has been taken or they are satisfied the transfer does not form part of a scam process. Other schemes may take a more pragmatic approach and where scheme rules allow, process the transfer on a non-statutory basis where they are satisfied it is a genuine transfer. Further work is needed to streamline the process to ensure regulations reflect the guidance and referrals to MoneyHelper are only made where appropriate.

Transfers and switches between investments: from the point of a formal request for a transfer to an alternative investment to the point at which the transfer is successfully received by the alternative investment.

It needs to be made clear that the clock does not start ticking until all scheme requirements have been met.

Payments out to beneficiaries: from the point a request is made for payment to be issued, to the point at which the payment is received by the beneficiary's receiving account.

It needs to be made clear that the clock does not start ticking until all scheme requirements have been met.

Savers are satisfied with the service they receive

Negative metrics – complaint metrics. Number received/ % of members raised at least 1/e2e time to close it/range of e2e times/SLA for closure/number not closed within SLA.
Number escalated to Ombudsman/number determined by ombudsman/number upheld/number partly upheld.

We agree with the proposed metrics.

Savers are supported to make plans and decisions for their retirement

Percentage (%) of savers using apps, tools, pensions calculators or modellers to support [their] planning and decision making for their retirement within the previous calendar year,

We agree with this proposed metric.

Percentage (%) of savers without safeguarded benefits and with a pot of >£30,000 taking benefits as a taxed lump sum within the previous calendar year.
As the proposed metric stands, this covers individuals taking a taxed lump sum of any size if their pot is over £30,000. Taking a small taxed lump sum is not necessarily a bad outcome and doesn't capture what we were looking to achieve.

This was a metric proposed by TISA but it has got a little lost in translation. Our proposal was ***% of members who have taken a UFPLS of £30,000 or more in the last 12 months.***

For median earners, taking a £30,000 UFPLS is broadly the threshold which takes a member into the higher rate tax bracket. This will not be the right outcome for most members and indicates poor decision making and support. It may also highlight where there is a lack of accessible retirement options available within the scheme. This could be expanded to include the safeguarded benefits aspect and include Drawdown payments.

Savers can amend their pension with ease

Percentage (%) of individual savers that have updated or reviewed their beneficiaries at least once within the previous five calendar years.
Percentage (%) of individual savers that have updated or reviewed their active contributions at least once within the previous five calendar years.

We agree with what these metrics are looking to achieve but it needs to be considered how schemes could identify individuals who have reviewed the beneficiaries and/or contribution level but chosen not to make any changes because it/they are deemed appropriate.

Savers are supported to engage with their pension

Percentage (%) of individual savers that have contacted the scheme at least once in the previous calendar year (via phone, post, application, online portal etc.).
Percentage (%) of individual savers who are registered to a secure portal or application at a date in the previous calendar year.
Percentage (%) of individual savers registered to a secure portal or application that have accessed it at least once within the previous calendar year.

We agree with the proposed metrics.

Question 22: Do you agree with our proposal to include a non-employer related email address and phone number when defining common data? If you don't agree, please explain why not.

Whilst we agree holding non-employer contact details for the member is important, we don't believe there is a need to hold a phone number and an email address. A single non-employer contact option would suffice.

Electronic communication is much more prevalent a preferred method of contact for an ever-increasing cohort of workplace active and deferred scheme members. This is reflected in the proposal for a non-employer email address to form part of the common data set. However, PECR creates significant barriers to effective electronic communications in several areas (see below). As the prevalence of electronic communication has been recognised, there needs to be a similar recognition of the PECR restrictions and a change in the regulation to allow workplace pension schemes to operate on a 'soft opt-in' basis.'

Many workplace savers lack an understanding of the potential benefits of taking action, just saying someone can do something, but not explaining the potential benefits of doing so, is unlikely to make an impression on a large proportion of savers. PECR regulation restricts firms from sending such electronic communications without obtaining explicit member consent. Examples of this restriction include not being able to notify members of a guidance or advice service that would be beneficial and not being able to raise awareness of a risk of harm if the member is not aware that they can consolidate older high charge pension pots into their new workplace pension. Both of these communications could be perceived as having a potential commercial gain which breaches PECR. Where consumer consent is required to send such communications, the consent can be obtained easily in a journey which requires a consumer to actively be involved in the purchase of a financial product. This stage does not exist with Auto Enrolment as the employee is automatically enrolled into a workplace pension scheme. As such, a 'soft opt-in' approach is required to recognise these differences.

Question 23: Do you agree with our proposals for an event-based member satisfaction survey? We would particularly welcome feedback on the trigger events and proposed questions.

Whilst this will be applicable to all pension schemes, asking whether an individual is satisfied with their scheme may trigger a response which is not related to scheme performance. For example, if they are a member of a scheme which has a particularly high employer contribution, this may influence the response.

The methodology employed will also influence responses. How soon after the event they are asked, the way they are contacted (SMS/email/telephone/online) will all impact response rates and response content. A more consistent approach and well defined questions need to be detailed as part of the regulations to ensure consistency in terms of outcomes and approach, allowing for a fairer comparison of the survey outputs.

Question 24: Do you think that a firm should be able to provide a saver specific view of access to tools and saver use across its digital offerings? If not, what metric would you suggest?

If the digital offerings can only be accessed through a client login, this should enable firms to provide a saver specific view. If digital offerings such as general tools and calculators extend beyond a login, this will be challenging to identify users of those services.

Assessment and outcomes

Question 25: Do you agree with our proposed conditions for the selection of comparator arrangements? If not, what would you suggest?

We broadly agree with the proposed conditions for selection of scheme comparators, which allow for an element of discretion to be used by governance boards in their selections.

Question 26: Do you agree with the assessment process we have outlined above? Do you have views on what should be considered a material difference in value relative to comparator arrangements? If you think that RAG ratings will not be sufficiently comparable, what refinements would you suggest?

We do not agree with the proposed RAG rating. This creates a cliff-edge for schemes, with no proportionate middle-ground from which to work from. There is a significant commercial impact from day 1 for multi-employer schemes of being found amber in terms of acquiring new business, with no proposed lead time to rectify this. The proposed metrics from which VfM is derived includes long-term investment performance over periods of up to 15 years. If the scheme fails on this component, then even if improvements to investment strategy are made immediately, it could be several years before they manifest themselves in the proposed metrics. The cliff edge created through the proposed RAG rating may influence governance boards' interpretation of what 'material' means, with a more generous or optimistic interpretation being used in a schemes' favour to avoid an arrangement being rated as amber.

The VfM proposals are clearly a complicated framework to navigate. It relies on high volumes of data and the need for this to be dissected and interpreted by governance boards, combined with the skills to apply contextualisation and subjectivity where appropriate. Boiling this down to a RAG rating with a significant and immediate impact for not achieving green is an overly simplistic outcome to such a complicated and wide-ranging piece of work that schemes and governance boards will have to undertake. We would strongly recommend an amended 4 status rating approach which includes an element of proportionality as below:

1. Arrangement passes in all areas – continue to operate as normal. Green Plus

2. Arrangement passes in most areas. There are no systemic or widespread concerns materially impacting on member outcomes. Those responsible for arrangements are made aware they have been marked down and could achieve the highest rating if specified areas are addressed – continue to operate as normal. Green

3. Arrangement failure materially impacts on member outcomes. Those responsible for arrangement are confident it can improve to deliver VfM within 2 years. Provide a 12-month window for arrangement to make the necessary improvements. If this is not met at the next assessment, then the arrangement or impacted employer cohorts close to new business until such time as the improvements are made. *Data is published on the following 31 March, so this provides the opportunity for governance boards to assess and inform those responsible for the arrangement whether they are on the right track towards making sufficient improvement to achieve Green or Green plus at the next assessment.* Amber

4. Arrangement failure materially impacts on member outcomes and governance board agree appropriate improvements will not be forthcoming within 2 years. Red

The RAG status also raises the question of what would happen if NEST (the AE scheme of last resort) was rated amber? This would have a potentially significant impact – would it even be allowed to happen?

Materiality is subjective and what is material to one scheme may not be considered so by another. The size of the default and scheme may determine what is deemed material. The only way to remove ambiguity is to impose benchmarks which clearly define what is acceptable and what isn't. Further consideration should be given to benchmarking once the framework is embedded and trends and general industry performance standards become clearer.

Question 27: Do you agree that a multi-employer arrangement should be rated amber if it fails to deliver value for a material number of savers in relation to at least one employer cohort? If not, what would you suggest?

No, we do not believe this is a proportionate approach. Schemes which are rated amber should be allowed a period of time (suggest 12 months) to achieve green. If the required improvements are not made, then it would be appropriate to close impacted employer cohorts to new business.

We would strongly recommend an amended 4 status rating approach which includes an element of proportionality as below:

1. Arrangement passes in all areas – continue to operate as normal. Green Plus

2. Arrangement passes in most areas. There are no systemic or widespread concerns materially impacting on member outcomes. Those responsible for arrangements are made aware they have been marked down and could achieve the highest rating if specified areas are addressed – continue to operate as normal. Green

3. Arrangement failure materially impacts on member outcomes. Those responsible for arrangement are confident it can improve to deliver VfM within 2 years. Provide a 12-month window for arrangement to make the necessary improvements. If this is not met at the next assessment, then the arrangement or impacted employer cohorts close to new business until such time as the improvements are made. *Data is published on the following 31 March, so this provides the opportunity for governance boards to assess and inform those responsible for the arrangement whether they are on the right track towards making sufficient improvement to achieve Green or Green plus at the next assessment.* Amber

4. Arrangement failure materially impacts on member outcomes and governance board agree appropriate improvements will not be forthcoming within 2 years. Red

Question 28: Do you have any concerns about our proposals for assessing bespoke in-scope arrangements? If you do have concerns, please explain them. If you anticipate negative effects, what can be done to address those?

Whilst we have no strong concerns with the proposals, it needs to be acknowledged that bespoke in-scope arrangements are largely outside of the control of the pension scheme. More focus could be considered on those who are responsible for the creation and ongoing review of the arrangements.

Question 29: Do you agree that IGCs should consider and report on whether their firm's current scale may prevent it from offering value to savers? If not, what would you propose?

We need to be mindful that it could be the scale of the default that causes challenges in meeting the VfM requirements. Whatever governance boards consider has a material impact on the assessment outcome should be disclosed in the report.

Question 30: Do you agree that IGCs should consider how ESG considerations have been taken into account across firm designed in-scope arrangement? Do you think this is sufficient and if not, what would you suggest?

Currently, ESG is proposed to be out of scope for the assessment and as such, it shouldn't be included as a consideration – it only clouds the requirements of the assessment for the governance boards.

If ESG is to be included, it should feature in the investment performance and risk set of metrics. Arguably, not factoring in ESG into the investment strategy is a risk that should be measured and accounted for. We should also be mindful that ESG does feature in COBS requirements and is assessed at scheme level by an IGC – we should be looking to avoid duplication where possible.

Actions for arrangements offering poor value

Question 31: Do you agree that firms should inform employers of amber and red ratings and proposed steps to address the poor value, where an employer's current and past employees are at risk? If not, why not and what would you suggest?

We agree with the proposal for impacted employers to be informed of red ratings. Where an arrangement achieves an amber rating, we have recommended a 1-year period to allow schemes to improve. If after this period they remain amber, then new business would be stopped. It would be appropriate at this stage to notify impacted employers of the amber rating.

There is no requirement for firms to write to schemes which have no active employer contribution, however these employers may still be interested in securing better outcomes for their deferred members. We recommend communications go to all employers irrespective of the status of the scheme and its members.

Question 32: Do you agree that firms should not be allowed to accept business from new employers into an arrangement rated amber or red? If not, why not and what would you suggest?

The proposals create a distinct difference in the commercial and reputational impact of being rated amber for the schemes in scope. Single employer trusts will be largely unaffected with an amber rating in as much as they will not be taking on new employers, so can continue to operate if that is their intention and make the necessary improvements to achieve green.

For multi-employer schemes which may have hundreds or thousands of employers using their default, to stop new business for all employer cohorts, even if most are achieving green is not proportionate. Schemes which are rated amber should be allowed a period of time (suggest 12 months) to achieve green. If the required improvements are not made, then it would be appropriate to close impacted employer cohorts to new business.

We would strongly recommend an amended 4 status rating approach which includes an element of proportionality as below:

1. Arrangement passes in all areas – continue to operate as normal. Green Plus

2. Arrangement passes in most areas. There are no systemic or widespread concerns materially impacting on member outcomes. Those responsible for arrangements are made aware they have been marked down and could achieve the highest rating if specified areas are addressed – continue to operate as normal. Green

3. Arrangement failure materially impacts on member outcomes. Those responsible for arrangement are confident it can improve to deliver VfM within 2 years. Provide a 12-month window for arrangement to make the necessary improvements. If this is not met at the next assessment, then the arrangement or impacted employer cohorts close to new business until such time as the improvements are made. *Data is published on the following 31 March, so this provides the opportunity for governance boards to assess and inform those responsible for the arrangement whether they are on the right track towards making sufficient improvement to achieve Green or Green plus at the next assessment.* Amber

4. Arrangement failure materially impacts on member outcomes and governance board agree appropriate improvements will not be forthcoming within 2 years. Red

The RAG status also raises the question of what would happen if NEST (the AE scheme of last resort) was rated amber? This would have a potentially significant impact – would it even be allowed to happen?

Question 33: Do you agree with our proposed actions and timings for firms with arrangements rated amber or red? If not, what alternative approach would you suggest?

A scheme which has been rated amber means there is an expectation that improvements and a change to green will be achieved within 2 years. However, if this doesn't occur, an enforced move to red does not happen until 3 years later so members could be in schemes underperforming for almost 4 years. This seems an inappropriately long length of time from a member outcome perspective. Where a scheme is deemed amber in year 1, the move to red should occur if it is unable to demonstrate VfM at assessment 3 – this aligns to the expectations which originally applied to deeming the scheme amber.

For multi-employer schemes, being rated as amber due to a particular cohort underperforming currently results in an immediate suspension of new business for the whole arrangement. There needs to be a small window of opportunity for improvement to occur (suggest 12 months) and reassessed before the suspension takes place. The same amber risk is not present for single employer schemes.

One of the challenges with schemes being uprated could be linked to the metric(s) on which they are deemed to not be achieving VfM. If they fail on 10-year investment performance, it may take a period of years for an improvement to manifest itself in the metric. Governance boards will need to use their discretion and acknowledge that whilst improvements may uprate a scheme to Green, it may not be reflected in the metrics for several years and that needs to be factored into future annual assessments.

Question 34: Do you think that we should require firms to transfer savers out of red-rated arrangements, subject to enabling legislative changes? What are the costs associated with the proposed actions and are they proportionate? If you don't agree with our proposed actions, what would you suggest?

Yes, members cannot remain in schemes which are rated red.

Legislation needs to change before the VfM framework is implemented, so members do not remain in schemes for extended periods of time, receiving poor outcomes where a red rating occurs.

Consideration should also be given to other options to allow transfers without consent, such as when SIPP firms wind down and a default provider is typically chosen

Question 35: Do you think that requiring transfer from arrangements could benefit one group of savers to the potential detriment of others? If so, please explain and can you suggest an approach that doesn't risk detriment to some savers?

Given that scheme members are not homogenous groups, there will always be individuals who are impacted more negatively or positively than others.

Notably the loss of certain protections and bonuses (loyalty or with-profits) could be crystallised on consolidation. These are likely to exist to a greater extent in legacy schemes, which is a further justification for delaying the implementation of VfM for these schemes until such time as the framework is embedded and functioning as intended.

Disclosure requirements

Question 36: Do you agree with our proposals for how the Chair's annual reports should be expanded to include the results of VFM assessments? Are there any proposed elements that in practice would not be useful?

This phase of VfM is designed for a professional audience, so there is some merit in disagreeing with the proposal to include details of the framework assessment in a document which is designed to include a member audience.
Whilst we consider a separate report targeted solely at a professional audience to be more appropriate, if it is deemed the Chair report should contain details of the assessment, this should be a short and succinct section which clearly lays out the defaults compared, the RAG rating and a short explanation of how this conclusion was reached in plain language.

It is important to ensure that the timing of these reports align to scheme reporting dates. Master Trusts typically have reporting periods running from 31 March to comply with various TPR reporting requirements, however VfM has a proposed reporting end date of 31 December. An exercise to move all workplace schemes to a single reporting date would be beneficial to ease administrative burdens and drive-up efficiencies. As the framework expands over time to include more scheme types, this is a factor to consider.

To further streamline scheme requirements and avoid duplication, the introduction of the VfM framework should remove the requirement to double up on costs and charges reporting in line with PS20/2.

Question 37: Do you agree with requiring a narrative explanation for the RAG rating for all firm-designed in-scope arrangements including those rated green? Do you think this requirement should be limited to amber and red ratings?

Yes, we agree that explanations should accompany all amber and red ratings. For those rated green, we recommend that this is optional - it would be particularly useful in articulating the reasons for a green rating where the metrics do not suggest this is appropriate.

Question 38: Should IGC Chairs be required to produce a plain-language summary of their reports?

The reports are targeted at a professional audience and as such, do not believe there is a strong need for reports to be produced a plain-language summary. The report should, however, be unambiguous and structured in a way which allows governance boards to undertake effective assessments.

If a summary of the assessment is to be included in the Chair's report, then this should be in plain language, which supports the progress of the framework to include non-professional audiences in future phases.

Question 39: Do you agree with the need for a features table and the contents we are proposing? Are there changes we should consider? Do you think that the disclosure requirements for bespoke arrangements should be different and if so, in what way?

Yes, we agree with this proposal.

Question 40: Do you agree with our proposed approach to publication including requiring publication of a flat file? What other solutions would best support the aims of the Framework in due course?

Yes, this seems a pragmatic approach given the proposed volume of data that the framework will comprise.

Given the concerns surrounding the data being referenced without the relevant context by thirds parties, we are not opposed to the option to have all data stored centrally and only accessible to professional individuals. This would reduce the potential misuse of data which could damage the reputation of schemes and pensions more generally, whilst making the governance of the framework easier to undertake. This is of particular importance as effective governance is crucial to the success of VfM.

Question 41: Do you think we should require machine-readable RAG ratings and potentially other information from the IGC Chair's annual report? What do you think are the benefits and costs or possible negative effects of this?

We have no objections to machine-readable RAG ratings and other information. Given the proposed volume of data being created, machine readable data will help create efficiencies in the assessment process.

However, we do have concerns that this will also simplify the process to create league tables and misuse the framework data in media commentary. Tables are currently published by some industry publications so this is not new, however if decontextualised data is used in more mainstream media, this does have the potential to damage pension schemes, the industry and the public perception of the UK pension framework. For this reason, we believe there is merit in reconsidering the approach to store all data centrally, with access only granted to the intended professional audience.

Amendments to current Handbook requirements

Question 42: Do you agree that the proposed new rules should be under existing requirements for IGCs, with carve outs as appropriate? If not, what alternative approach would you suggest?

Yes, we agree with the proposals.

Question 43: Do you have suggestions for further amendments to existing requirements for IGCs and if so, why do you think these are needed?

The disclosures which will be introduced by the VfM framework will create duplication of disclosure requirements, such as the costs and charges requirements set out in PS20/2. We recommend a review of existing disclosure in this area is undertaken with duplicated or no longer relevant information removed as a reporting requirement.

Question 44: Do you agree that we should exempt "accidental workplace SIPPs" from COBS 19.5 and the requirement for an IGC or GAA? If not, what would you propose?

Yes, we agree with this proposal. SIPP arrangements where no default fund is required should be exempt. IT is important that the framework targets the correct market.

It is not only 'accidental SIPPs' which should be exempt from requirements. It is not uncommon for a SIPP provider to not only operate a workplace pension but also provide the option to instead direct employee and employer contributions to their SIPP. Arrangements such as this should also be exempt.

Future development

Question 45: How do you think the use of data will evolve and what other measures may be needed?

Over time, we believe the framework will be refined through the paring back of disclosures so that only the meaningful data items used by governance boards will be featured.

With new initiatives in the pipeline such as Pension Dashboards, CDC and Decumulation and Targeted Support, we expect these all to overlap with VfM and for the framework to adapt to include these elements.

Question 46: We invite views on the roll out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.

As highlighted in our response to Q1, we believe this phase should be split into separate phases to reflect the different types of arrangements that exist within its scope.

For future phases, we see VfM being extended out to the retail market and include future DC change including Decumulation, CDC, Targeted Support and Pension Dashboards.

Cost Benefit Analysis

Q47: Do you have any comments on our cost benefit analysis?

We agree with the content of the analysis but the costs estimates appear to be on the low side compared to what firms have estimated. We would therefore appreciate greater transparency as to how the FCA has arrived at its estimated costs

Finally, we think it would be useful for the FCA to monitor the actual costs of implementation, to help confirm and refine the accuracy of its cost estimations, both in respect of this piece of work, but also future CBAs and cost estimates.