Response by TISA to the DWP/HMT consultation:

Pensions Investment Review: Unlocking the UK pensions market for growth

renny.biggins@tisa.uk.com

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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.

More here**:** **https://www.tisa.uk.com/about-tisa/**

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Executive Summary

TISA welcomes the opportunity to respond to the DWP/HMT consultation - Pensions Investment Review: Unlocking the UK pensions market for growth.

Given the fragmented nature of the pensions landscape today, we agree that a more consolidated market will broadly generate better consumer outcomes. A key to this success is the way in which consolidation is approached and how it is achieved. The Value for Money (VfM) framework will deliver scheme consolidation through a consumer focused approach and as such, ticks both boxes We are less clear on the primary objectives for the proposals contained in this consultation relating to default funds and arrangements which are targeted at multi-employer schemes only. If member outcomes were the key driver, it would be logical to apply this to all DC workplace schemes. However, based on existing proposals. you will have future scenarios where multi-employer schemes delivering strong VfM with £millions of AUM are forced to close due to not achieving the required scale, while much smaller single-employer trust schemes can continue to operate where they are demonstrating VfM. Whilst we are not advocating for the closure of all single employer trust schemes, the proposals would create an uneven playing field between scheme types, with some employers potentially moving away from multi-employer schemes to a single trust structure to regain control over default investment selection.

It appears that the main driver for the latest proposals is to stimulate investment into UK Infrastructure and Private Equity. We fully understand and support this objective if it can be aligned with member outcomes, however it should be recognised that scale does not automatically translate into UK private asset investment. Economies of scale will make some asset classes easier to access but ultimately, schemes have a duty placed on them to make decisions which benefit their members and if it can be demonstrated that non-UK investments are more appropriate, they should invest in those.

The interaction between these proposals and other pipeline change should be considered and a strategic schedule for change introduced, with member outcomes placed at its centre. For instance, VfM will require firms to undertake assessments on a number of their default arrangements – which could stretch into the hundreds. However, proposals contained in this consultation seek to restrict the number of default arrangements – perhaps down to 10 or less, so there is an immediate misalignment between the two. Furthermore, Small Pot consolidation is due to feature in the Pension Schemes Bill 2025, however 'mega-fund' proposals may significantly reduce the number of multi-employer schemes operating in the future, which would, in part, solve the proliferation of small deferred pots. Schemes which may be considering becoming a default consolidator may end up consolidating themselves due to future scale requirements, so it would be logical to pause the Small Pots work, until we know what the final consolidation proposals are, which will then inform analysis on what a future DC landscape could look like in 2030.

2024 saw the biggest exodus from the London Stock Exchange in 15 years with 88 firms removing UK as their main listing. Pension Schemes are well placed to help the LSE recover and increase levels of investment into UK private assets but they only form one part of a wider picture. UK policies need to generate a genuine desire for firms to list in the UK and boost levels of private enterprise and national infrastructure projects, which in turn will generate investment opportunities for pension schemes.

We would be pleased to discuss any or all aspects of our response with you and look forward to contributing to your ongoing work, as we continue to work on our primary objective to improve the financial wellbeing of UK citizens and supporting you deliver on your primary objective of economic growth.

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Question responses:

Question 1: Do you think that providers should be restricted to a limited number of default funds, and if not why? Please consider any equality considerations, conditions and to what extent saver choice could be impacted.

The primary consideration with the current schedule of regulatory change should focus on member outcomes, however this seems to have been superseded with scheme consolidation and UK investment, with the two not fully aligning.

Whilst scale could help schemes access some private markets at a lower price, larger schemes do not automatically translate into greater investment into UK infrastructure and private equity. Ultimately, schemes will determine what the appropriate default investment mix is for their members and where schemes have a similar demographic, this mix could be broadly the same irrespective of the scheme size.

There remains confusion around the level at which the proposals would apply. Restricting the number of default funds would have an impact on the diversification that schemes could achieve within a default arrangement. These arrangements can consist of several underlying funds and fund types, which can operate entirely independently to pension schemes. It is not unusual for providers which operate multiple workplace schemes to use the same default funds for their default arrangements, whilst separate providers may also select the same underlying funds for their default arrangements, which helps the underlying funds achieve scale. However, if an AUM threshold were to be applied at scheme level, this may force many multi-employer schemes to consolidate which could remove money from these funds and have the opposite impact to the objective.

Furthermore, strategies involving target dated funds and life-styling require more than a single fund to operate them. If any form of threshold were to apply, we believe this needs to be at least arrangement level and ideally pension scheme level, to allow schemes to develop appropriate investment defaults for their membership.

Our preferred approach to support a less fragmented multi-employer market is for schemes to be authorised to operate through a regime which requires them to submit a business plan, which outlines their strategy for continued growth and innovation. Master Trusts are already required to submit a plan which includes growth intentions, so this regime could be extended. Guidelines would be required to help firms understand what would constitute a successful submission. This approach would enable smaller schemes which potentially cannot meet particularly aggressive scale thresholds but nonetheless provide Value for Money and are strong innovators the ability to continue to operate.

Question 2: The proposed approach at default fund level could mean that the number of default arrangements would remain unchanged. Will imposing the requirement at this level have any impacts on the diversity of investments or the pricing offered to employers?

Restricting the number of funds which can be used within a default arrangement would restrict the ability to diversify and potentially impact on the default strategy and its underlying objectives. Particularly if the default threshold is low and schemes adopt a target date fund or life-styling strategy and run several default arrangements.

We believe the pricing offered to employers would be largely unaffected as this is mainly impacted by the administration charge, which is a catch-all for charges which accrue outside of investment charges.

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Question 3: What do you think is the appropriate minimum size of AUM at default fund level within MTs/GPPs for these schemes to achieve better outcomes for members and maximise investment opportunities in productive assets?

As mentioned, we do not believe there should be a restriction on the number of default funds a scheme can operate within their default arrangements. NEST, for example, has up to 50 funds within their default arrangement at any one time. If you applied a de-minimis at fund level, the whole arrangement would collapse.

A life-styling arrangement which de-risks as the member nears retirement will always consist of multiple funds. It is unlikely that the individual funds (and especially the de-risked element) will achieve scale remotely near the sort of figures being mentioned in the consultation.

It is also worth considering that whilst national infrastructure projects may increase the options for schemes to invest in UK, it is the scheme and the associated board that will make this decision i.e. the default fund is not the decision-making entity.

This all leads us to recommend that any agreed de-minimis should apply at a higher level of default arrangement or preferably, scheme level.

Question 4: Are any other flexibilities or conditions needed regarding the minimum size of AUM (for example, should it be disapplied in circumstances at regulators discretion for example to enable an innovator to provide competitive challenge in the market or be disapplied in case of a market shock or another specified circumstance)?

Taking an approach where a scheme is authorised to operate based on a business plan which would include growth intentions and innovation plans would enable the decision to be made on a more holistic basis, where factors other than scale could be taken into account. Master Trusts are already required to submit a plan which includes growth intentions, so this regime could be extended

A healthy functioning market should allow new challengers, innovators and disruptors to enter the market which enables it to retain the consumer benefits that competition brings.

Question 5: Do you think there should be targets for (i) achieving a reduction in default fund numbers down to a single fund and, (ii) setting incremental minimum AUM?

If the agreed approach is to restrict the number of default funds a scheme can operate, this would need be undertaken through a phased basis to minimise consumer impact and allow schemes the time to make decisions and implement them.

Question 6: Are there any potential barriers/challenges that should be considered in reaching a minimum size of AUM at default fund level before a future date, such as 2030?

This would depend to an extent on what the level of any minimum AUM was set at, as this would influence the scale of consolidation and the impact this could have on market conditions and member outcomes. Other major barriers/challenges include:

- The process and governance requirements for bulk transfers without consent for contract-based schemes. Decision makers will need to be comfortable they are agreeing to these based on robust guidelines to ensure there is no retrospective comeback from disgruntled members.

- Internal resource capabilities to govern/implement default fund and product transfers.

Question 7: Given the above examples, what exclusions, if any, from a required minimum size of AUM at default fund level and/or the maximum number of default funds requirement should government consider?

As already mentioned, it is important that new rules do not stifle innovation and restrict new entrants from entering the market. Having a less prescribed approach where all multi-employer schemes are authorised to operate through a regime which requires them to submit a business plan, which outlines their strategy for continued growth and innovation would mitigate this risk. Master Trusts are already required to submit a plan which includes growth intentions, so this regime could be extended Guidelines would be required to help firms understand what would constitute a successful submission. This approach would enable smaller schemes which potentially cannot meet particularly aggressive scale thresholds but nonetheless provide Value for Money and are strong innovators the ability to continue to operate.

Question 8: With regards to the proposals in this chapter, we anticipate the need for mechanisms to encourage innovation and competition, and for safeguards to protect against systemic risk. Are there other key risks that we need to consider? How do we mitigate against them?

We need to consider other pipeline regulatory change and ensure these are complimentary. These proposals have the potential to change the multi-employer scheme landscape more quickly and extensively than Value for Money (VfM). However, these schemes will still be subject to VfM and consideration needs to be given how that framework needs to adapt to a consolidated market. For example, if we reach a position where we have a low number of big multi-employer schemes operating, the current proposed impact of achieving an amber VfM rating and closing to new business would have a significant impact.

Policy makers need to be mindful that we have a host of initiatives currently coming through on an ad-hoc basis. It is important to take a step back and evaluate what the proposed objectives are, where conflicts of interest exist, what the future landscape might look like and how these should be joined up to create a cohesive framework that works for consumers and industry.

Question 9: Under a minimum AUM model, competition in the market could be more restricted. Would additional exceptions be required to ensure innovation can continue to flourish?

Yes, we would expect based on a minimum AUM model that exemptions would be required to enable new entrants to enter the market and for smaller VfM multi-employer schemes which do not meet the scale requirements but are nonetheless strong innovators the ability to continue to operate. These are essential ingredients for a fully functioning and competitive market, which is needed to drive forward good consumer outcomes.

Question 10: We would welcome views on what further interventions or regulatory changes might be necessary or beneficial to accelerate this process?

A strong emphasis is placed on default arrangements, particularly given the price cap consumer protection, which means it is not a straightforward process to close them down to any existing or potential new employer/member.

Further detail will be required around the process for what happens to a default funds/arrangements which do not meet scale requirements e.g. are they only be closed to new contributions from members that are directed to a new default or will the default need to be closed down completely? If so, what is the process?

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Given the pace of regulatory change we are experiencing, the speed of change should also be influenced by the ability for providers to deal with it.

However ultimately, until we see the final plans and how they interact with other change such as VfM, it is difficult to identify what other interventions or changes are necessary.

Question 11: How would moving to a single price for the same default impact positively or negatively on employers, members and providers?

A basic principle of a competitive market is that scale can influence the price paid for goods or services. Indeed, the consolidation agenda acknowledges this by stating that economies of scale can enhance member outcomes and unlock additional investment opportunities through cheaper access to private markets.

It would therefore seem appropriate for this basic principle to exist in other aspects of the Auto Enrolment framework, which can enable larger employers to negotiate better pricing deals for their workplace pension than smaller employers.

If we moved to a single default price structure for all employers, it would need to be considered how this works for the two-tier market we have today. Currently, some Master Trusts will only accept new employer business if it meets minimum scale requirements. Changes would need to be made to ensure that employers of any size have access to all operating workplace schemes.

Question 12: Under what circumstances should providers be able to transfer savers to a new arrangement without their consent?

Transfers without consent currently operate in the Trust Based World. The Pensions Regulator has issued guidance to help Trustees determine when it is appropriate to undertake such a transfer. This should be reviewed and updated to include FCA regulated schemes. Ultimately, a transfer should take place when a scheme are confident they can evidence it is in the best interest of the members. IGCs and providers will need robust guidance to provide them with the assurance that they are making transfer decisions based on an agreed set principles.

Question 13: Do you think that an independent expert, such as an IGC, should be responsible for undertaking the assessment of whether a transfer is appropriate?

Unlike Trustees, IGCs have no legal responsibilities and will make recommendations to the scheme managers who will make final decisions – this is the case for the proposed VfM framework.

We recommend that transfer decisions should be made collaboratively, ideally with the consent of the scheme and IGC but ultimately, it is the scheme who should have the final decision and where the responsibilities sit.

Question 14: What, if any, changes may be needed to the way an IGC's role, or their responsibilities/powers for them to assess and approve contractual overrides and bulk transfers?

As per our response to Q13, we do not believe that IGCs should have the power to authorise contractual overrides and bulk transfers.

Question 15: What, if any, role should the employer have in the transfer process?

This should replicate how it currently works in the Trust Based world. Employers should be notified with appropriate notice periods provided to enable them to inform their employees of the transfer and consider and implement any deemed course of action triggered by the pending bulk transfer.

Question 16: For active schemes, would a transfer require a new contract between the employer and provider?

Where the transfer is to a different provider, then we believe there would be various contractual requirements that would need to be completed.

Question 17: What procedural safeguards would be needed to ensure that a new pension arrangement is suitable and in the best interests of members? What other parties should be involved and/or responsible for deciding the new arrangement?

This should replicate where possible, the process that exists for DC Trust Based schemes, with the guidelines reviewed to ensure they are appropriate and robust for scheme members of both regulatory regimes.

Question 18: Do you foresee any issues with regards to transferring savers from contract-based arrangements to either other contract-based arrangements or trust-based arrangements? If so, what issues?

Where wind-ups occur, schemes should have the freedom to transfer to whichever scheme they think is appropriate irrespective of the regulatory regime it is governed by. This would include transferring from a trust-based scheme to a contract -based scheme.

Currently, the disclosure requirements which exist regarding pre and post-sale documentation are not aligned across the two regimes, with FCA disclosure requirements being greater than TPR. These should become more aligned, with a focus on meaningful communications which do not overwhelm scheme members when a bulk transfer occurs.

Question 19: What safeguards and measures should be put in place to ensure that consumers are protected?

Joint FCA/DWP/TPR bulk transfer guidelines should be sufficiently robust to ensure consumers are protected.

Scheme members are not a homogenous group and as such, some may benefit to a greater or lesser degree from a bulk transfer. However, further enhancements to the Auto Enrolment governance framework such as the introduction of VfM should ensure that all transferring members will continue to benefit from being in a well run and governed pension scheme i.e. it is deemed to be providing VfM.

The bulk transfer guidelines should also be sufficiently robust to ensure that schemes have the confidence to determine the scenarios for when a bulk transfer is appropriate and what needs to be documented to evidence the decision.

A bulk transfer framework built on strong governance and clear guidelines should provide appropriate levels of protection to pension schemes and consumers.

Question 20: Are there any specific circumstances in which a transfer should not be allowed to take place, or savers should be able to opt out?

Where a scheme is being forced to consolidate due to achieving a red rating for VfM, it would not be appropriate to allow an opt-out.

Other scenarios should be considered, for instance where death claims are outstanding, or members are nearing retirement and making decisions based on existing scheme options.

Protections need to be considered such as the new age 55 protection for 2028 (where providers can choose whether or not to administer it) and how this would work, to ensure they are not lost on transfer

Question 21: What complications could arise if savers have the choice to opt-out of a transfer and remain in their current arrangement?

There should be some transfers where opt-outs are not allowed, for instance where a wind-up and bulk transfer is triggered through a red VfM rating.

The various scenarios associated with bulk-transfers at scheme, arrangement and employer level need to be considered, along with what happens to a default arrangement once the members have had their contributions (and assets) transferred elsewhere. Regulations mean that typically a default fund will remain open and classed as a default which other savers could use. The proposals contained within this consultation would require these regulations to be reviewed and updated to align to the new landscape.

Given that most scheme members do not receive regulated advice, schemes should be geared up and ready to support members who are going through bulk transfers, as this activity may trigger concerns and anxiety which result in them contacting their existing scheme.

Question 22: In what circumstances do you think that consumers/savers should have the right to compensation or an individual right of recourse enforceable in court?

As outlined above, the guidelines for undertaking bulk transfers without consent need to be robust and provide the comfort that where these are adhered to, then no compensation or recourse should be available. This should include scenarios such as regret risk based on future unknown events or where charges may be marginally higher in a new scheme.

Where it can be demonstrated that a decision was made negligently to undertake a transfer, then recourse should be available.

Question 23: What safeguards from trust-based bulk transfers may be appropriate for contractual overrides, so that similar consumer protections apply?

Existing DWP guidelines should be reviewed and updated so these are robust and cover both regulatory regimes. All members should have the same consumer protections irrespective of the ceding and receiving scheme's legal structure. Bulk transfers for trust-based schemes have been allowed since 1991, so it's important that the governance and consumer protection framework that currently exists is updated to cater for contract-based schemes, rather than create a whole separate regime.

In the communications which are sent to members, it should be made clear that they do have other options available to them, should they wish to select an alternative outcome for their workplace pension.

Given that most scheme members do not receive regulated advice, schemes should be geared up and ready to support members who are going through bulk transfers, as this activity may trigger concerns and anxiety which result in them contacting their existing scheme.

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Question 24: Where the transfer is into a trust should the duties of the receiving scheme trustees be extended to ensure terms and conditions balance both the interests of incoming and current members?

All scheme governance boards should be doing the right thing for their members in totality. If customers are not treated fairly, then the regulators have existing powers within their toolkits to address these scenarios. Trustees have a fiduciary duty and contract-based schemes have the Consumer Duty (and Treating Customers Fairly) – which requires consumer outcomes to be places at the heart of the products and services that they are responsible for. If these are functioning as intended, there should be no additional requirements needed to ensure the fair treatment of scheme members,

Question 25: How should the cost of the transfer be borne?

There are various costs which will relate to bulk transfers. These can largely be allocated to:

- Analysis
- Communications
- Implementation

Whilst we would not expect costs to be directly deducted from impacted member pension pots, ultimately the members will indirectly bear most of the associated cost. However, given the transfer should be in members' interests, these costs should be offset through the benefits that they receive in the new scheme.

Question 26: What costs do you expect to be involved in a contractual override/bulk transfer and what factors may influence the level of costs?

There are various costs which will relate to bulk transfers. These can largely be allocated to:

- Analysis
- Communications
- Implementation

Whilst we would not expect costs to be directly deducted from impacted member pension pots, ultimately the members will indirectly bear most of the associated cost. However, given the transfer should be in members' interests, these costs should be offset through the benefits that they should receive in the new scheme.

Question 27: What benefits may a member lose out on because of a bulk transfer? What benefits could they gain?

There are various benefits associated with older style arrangements such as guarantees that do not exist today (GAR) and add-ons such as Waiver of Premium benefit. Conversely, some legacy products may not offer the range of investment, retirement and online options that many newer products offer today. The due diligence undertaken before a bulk-transfer takes place should take all of these points into consideration and conclude whether a transfer provides good member outcomes for their members.

Question 28: What role should the FCA, and where appropriate TPR, have in contractual overrides and the bulk transfer process?

The regulators should have oversight of the regulations and ensure the firms they regulate are adhering to the regulations, whilst dealing appropriately with those that are not.

Question 29: Do you think establishing a named executive with responsibility for retirement outcomes of staff could shift from the focus on cost and improve the quality of employer decision-making on pensions?

Government and industry are spending much time and resource on ensuring the Auto Enrolment framework is well governed and members are receiving good outcomes, irrespective of which scheme they are a member of. In particular, the VfM framework and the proposals to consolidate the multi-employer market mean there should be a reducing need for additional intervention from employers to ensure the workplace scheme they have selected is appropriate for their employees.

Additionally, millions of SMEs, particularly those operating outside of Financial Services will not have the skills, or resource to implement this proposal. This would mean employers would need greater oversight of the VfM assessment and without the necessary skills, the data is likely to be taken out of context and badly informed decisions could result.

We would therefore recommend this approach is not adopted and we focus on ensuring that the Auto Enrolment delivers good outcomes i.e. VfM for all scheme members.

Question 30: What evidence is there that placing a duty on employers to consider value would result in better member outcomes? If such a duty was introduced, what form should it take? Should it apply to a certain size of employer only? How can we ensure it is easier for employers to make value for money comparisons?

We are not aware of any evidence that currently exists.

It may be beneficial to conduct analysis on the current regulated advice sector to see if regulation has resulted in a reduced focus on cost and a greater emphasis placed on value in the round.

Question 31: What evidence is there that regulating the advice that some employers receive on pension selection will better enable them to consider overall value when selecting a scheme?

We are not aware of any evidence that currently exists.

We are aware that some employers employ firms that support them in complying with their duties, provide access to payroll systems etc. There is no question that any advice is being provided and it is important that these firms are not restricted in offering these services on an unregulated basis.

Question 32: What evidence is there that regulating the advice that pension schemes receive on investment strategies would enable more productive asset allocation? What type of regulation would be effective?

We are not aware of any evidence that currently exists.

Questions 33 - 42:

N/A