TISA

Response by TISA to DP24/3: Pensions: Adapting our requirements for a changing market

Renny Biggins, Head of Retirement

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving 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.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

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 approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include 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 four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **four distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

4. **Corporate Responsibility**
   Exploring issues that directly impact society, the environment, and the economy.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** https://www.tisa.uk.com/about-tisa/

Executive Summary

TISA welcomes the opportunity to respond to the FCA consultation - DP24/3: Pensions: Adapting our requirements for a changing market.

Modellers

The role of digital services has played a significant part in the changing landscape we have seen and continue to experience in DC pensions, with these creating increased opportunities to engage with consumers and drive up levels of understanding and confidence.

Modellers and other tools, which allow consumers to engage in a dynamic way and undertake scenario planning play a crucial role in the decision-making process for the mass market and as such, we are pleased to see changes to these rules being considered within this DP.

Considering this more holistically, we have over 18 million active members within the Auto Enrolment framework, all of whom are exposed to the same levels of risk and need easy access to the same levels of support. Whilst this DP is focused on contract-based schemes, it is essential that outputs from this are also considered by DWP and TPR, to ensure there remains a continued drive to align consumer journeys and outcomes i.e. providers of modellers should all be subject to the same rules, irrespective of whether they are regulated by TPR or FCA. The importance of this consistency is already recognised to a degree, with Pension Dashboard projections required to align to existing FRC SMPI rules.

The eventual rollout of Pension Dashboards is greatly anticipated, with a high expectation placed on them playing a prominent role in driving up levels of engagement, understanding and confidence in the pensions framework and saving for retirement. Millions of consumers will see their pension entitlements converted into a projected retirement income in a consistent way, using SMPI calculations. The natural next step will be to seek support to help them make sense of the information. For many, this will take the form of simply clicking on a Dashboard link to a provider's 'post-view' services where they will be able to access tools and modellers. Although the individual is moving away from Dashboard services, the whole process should be fairly seamless and feel like it remains part of the same journey. It would, therefore, be confusing for modellers to be projecting future fund values on a different basis to what the individual had just seen in the Dashboard, two clicks ago.

Not only do we need projection calculation consistency across regulatory regimes, it is also needed across all forms of illustrations, where projected retirement funds are displayed i.e. Key Features/SMPI/Modelling tools. This alignment will help ensure consumers are not experiencing misleading or confusing outcomes through their journeys, whether this is through a digital route or otherwise. This review provides the perfect opportunity to achieve this by aligning the requirements for Key Features illustrations to SMPI. Whilst this would mitigate an existing issue, flexibility should be introduced to enable firms to innovate and develop engaging propositions that allow consumers to scenario plan, including the ability to change variables such as growth rates and view projected outcomes on a stochastic modelling basis.

Transfers

For pension transfers, a holistic approach that is reflective of today's pension transfer market is also needed to address consumer harm, given that these will frequently involve both contract-based and trust-based arrangements. Whilst the FCA focus is very welcome, this only typically covers half the journey and consideration of the regulatory interaction between both regimes to ensure a streamlined, safe and consistent transfer journey is crucial. We believe that regulators could encourage more firms to adopt electronic solutions, delivering straight-through-processing wherever possible; support the work of membership bodies like TeX and STAR in their drive to improve best practices; help to drive out poor practices and bad behaviours amongst a minority of firms; and support simplification of the legislative and regulatory requirements for transfers.

SIPPs

The SIPP landscape, much like DC Pensions more generally, has experienced significant change in recent years as digital and platform propositions have become more prevalent.

At the time of pension simplification in 2006, SIPPs were typically Bespoke products that were appropriate for and used by more sophisticated and wealthy investors, who benefitted from flexible investment and retirement options. A combination of regulation, consolidation and technology made these products more accessible to the mass market and the broad definition for a SIPP means that there is no distinct difference between these and personal pensions. As such, the target market for SIPPs now covers both ends of the spectrum and that creates regulatory challenges in developing interventions, which are typically only targeted at a sub-section of the SIPP market.

During the growth phase of SIPPs, we did see issues arising with a few bespoke SIPP operators, relating to due diligence and the acceptance of non-appropriate assets onto their books of business which subsequently failed. However ongoing consolidation and regulatory interventions have largely removed these areas of concern and as such, do not exist as a potential consumer harm in the way that they did several years ago.

By and large the SIPP market operates within the regulatory parameters and as intended, however there remains confusion over the definition of a SIPP and what differentiates it from a personal pension. And its broad coverage means some regulatory initiatives are more appropriate for some SIPP members than others. Anecdotal evidence shows that whilst Investment Pathways have achieved some success within the mass market where members are typically unengaged (Simple and Ready-made), they have had very limited success within the Bespoke SIPP market, where members are typically engaged and have a greater understanding of investing. Redefining SIPP products to align with their target market would allow for more targeted regulation and ultimately ensure retirement journeys for existing SIPP members are reflective of the product they are in. This will help increase consumer engagement, understanding and ultimately retirement outcomes.

Question responses

Question 1: What are your views on whether, and if so how, our rules should change to allow consumers to benefit from engaging digital tools and modellers with sufficient protections from the risks associated with projections? We invite stakeholders to respond using the prompts suggested throughout Chapter 3.

Existing rules were constructed for static paper-based illustrations. Whilst from a regulatory perspective they contain valuable information, the combination of the required disclosures and the prescribed wording risk turning people off from reading them. This in itself is a key harm, given the importance that they play in the decision-making process.

The introduction of digital services has created a new dimension for consumers to engage with their finances and is the preferred method of engagement for an ever-growing cohort. This dynamic medium allows us to benefit from the fundamental principles of what illustrations are looking to achieve, whilst creating the opportunity for consumers to create and experience an engaging client journey, through the use of pictorial aids and sliders to undertake personalised scenario planning.

The importance that modellers and tools do and will increasingly play in the decision-making process cannot be understated, particularly given the future introduction of Pension Dashboards, where millions of consumers will have easy access to these tools through 'post-view' services.

As such, it is crucial that revised rules for modellers adopt an appropriate mixture of prescription and flexibility. Currently, the rules require firms to determine an appropriate intermediate growth rate for the underlying funds that is capped at 5%, with a +/- 3% differential for the lower and higher rates with all 3 being displayed. Whilst the cap is somewhat restrictive in nature, it does allow for some flexibility and importantly prohibits firms from adopting wildly different growth rates and potentially gaining increased New Business due to employing a more optimistic approach to valuing any given fund(s) performance in future years. Given that the results may be projected several decades into the future, even a seemingly small difference in expected growth can result in a big difference in projected fund value at retirement. An element of prescription to ensure all firms are approaching these calculations in the same way is essential.

However, it is equally as important that firms are allowed to create engaging journeys when using these modellers and tools. Whilst there needs to be some prescription around what needs to be included, the way in which this is presented and accessed is where innovation can be encouraged to flourish. The dynamic medium enables illustrations to still present the relevant information where appropriate, however it importantly means it does not have to all be displayed on the screen at the same time. For instance, it would seem logical for the projected fund using the intermediate growth rate to be initially displayed. Consumers could then have the option to click on the higher or lower rate if they so choose and be given the opportunity to input their own growth rates.

Similarly, if they are considering taking a guaranteed income for life at retirement, they could click on a link which provides details on what income an annuity could provide.

Allowing firms to offer the options of stochastic and deterministic modelling would also be welcome and provides an additional perspective from which to scenario plan.

Underpinning all of this is the need for firms to have the flexibility to describe the information they are displaying in a way which is demonstrably engaging and aids consumer understanding. This review provides the opportunity to remove much of the infamous jargon for which pension communications are known and be the catalyst for further disclosure reform.

We would also recommend that software providers who are responsible for developing modelling tools fall under FCA oversight, to ensure they are delivering accurate journeys which fall within the regulatory parameters.

Question 2: What are your views on our DC pension transfers and consolidation discussion in Chapter 4? We invite stakeholders to respond using the prompts suggested throughout Chapter 4.

The transfer process by and large works well, ensuring members are protected from scams and the increasing use of electronic transfers has led to an decrease in turnaround times.

However, consumers may still be exposed to several harms throughout the process for various reasons.

1. **Loss of protected benefits on transfer.** The existing process will typically consist of the member contacting the receiving scheme to inform them they wish to transfer some pension benefits to them. This could be a scheme for which the member already holds benefits or a new scheme e.g. triggered by an advert to consolidate all of your pensions into a single pot. There are multiple reasons for transfer but crucially at the time the ceding scheme is contacted by the receiving scheme to request the transfer or scheme information, the decision has already been made by the member. Ceding providers should notify the member of any protected benefits or features that may be lost on transfer and ask them to acknowledge this and confirm if it is still to proceed which is in keeping with the Consumer Duty, however there is no way to measure if the member has a full understanding of what it is they will be losing. To implement this into the transfer process would create further significant delays and arguably, would need the involvement of regulated advice. Individuals may agree to continue with the transfer irrespective of the loss of protected benefits as their decision is already made and they don't want to add additional delays to the process. Furthermore, there is no way to know if the member has considered other aspects of the receiving scheme proposition such as charges, retirement options, online options etc. Whilst Value for Money should mitigate some of these issues in the workplace market, it is not currently being extended to the individual pension market. The receiving scheme will benefit from the transfer and as such, we recommend a process is considered which places a responsibility on both schemes to collectively demonstrate that the member has undertaken the transfer on an 'informed consent' basis. Importantly, we are not looking to add further delays to an already regulatory driven journey but with the future introduction of Pension Dashboards and Targeted Support combined with an increased use of digital technology and potential AI, we should be considering how we can make best use of these to drive forward a safe and streamlined transfer journey. Ultimately, we need to strike the right balance between member security and efficiency.

   Potentially, more information could be provided with Annual Statements to remind customers of any benefits or protections within their pension, confirming current fees and link this to reflecting on its potential impact if they were to consider transferring to another policy. Receiving providers, as part of their due diligence, can then remind their new customer to review any relevant information in their most recent Annual Statement from their existing provider.

   It is also important to remember that there is a non-measurable benefit in bringing pension pots together as it is likely to increase the engagement with that pension, especially if it is receiving regular contributions (potentially from their existing employer).

2. **Issues with due diligence.** These processes will vary from firm to firm and given the prevalence of scams, need to be robust. We have seen a rise in consolidator schemes in recent years. Whilst consolidation is generally considered to be a good outcome for consumers, concerns have been raised by members and ceding schemes in some instances, for instance where consolidation has taken place but due to unclear communications, the member thought they were only going through a pension tracing exercise. Instances like this do require firms to reflect this potential harm in their due diligence processes. If these harms could be mitigated, it could result in a more streamlined process.

   Typically 'white lists' will be created which comprise schemes that have passed previous due diligence checks. This should enable future transfers to those schemes to proceed without the need for further checks, which can significantly delay the process. The introduction of the anti-scams regulations and the associated red/amber flags has impacted on the due diligence process and in some cases, pension schemes and members are experiencing delays due to seemingly excessive due diligence. This will typically be where lengthy processes are repeatedly carried out on the receiving scheme, despite having gained clearance from previous checks. This could, in part, be due to evidence of concerns such as the pension tracing example above, however, this would appear to be unreasonably excessive at times and should be addressed.

Incentives should not (by default) be assumed to be bad for the consumer. For many consumers, attracted by the offer of an incentive, their current ready-cash situation might mean that they value it over longer-term benefits from their pension. It is important to ensure that the customer is reminded of any benefits / protections and comparison of fees before they confirm they wish to go ahead. It should not be for pension schemes to determine whether or not an offer of an incentive is good or bad for the individual. The red flag incentive wording could be amended slightly to provide more context to when this should be triggered - this could simply be achieved through adding 'inappropriate' before incentive.

We believe that regulators could encourage more firms to adopt electronic solutions, delivering straight-through-processing wherever possible; support the work of membership bodies like TeX and STAR in their drive to improve best practices; help to drive out poor practices and bad behaviours amongst a minority of firms; and support simplification of the legislative and regulatory requirements for transfers.

Question 3: What are your views on the spectrum of SIPP products available, ensuring they are offered to the right consumers and the differing support needs of consumers across the range of SIPP products? We invite stakeholders to respond using the prompts suggested in paragraphs 5.14 to 5.18.

We broadly agree with the FCA view of the type of SIPP products that are currently operating in the market. Notably, there has been a general move away from SIPPS investing in non-standard assets, with a higher focus being placed on the provision of access to Discretionary Fund Management services (DFM).

Whilst Commercial Property remains a popular investment within these SIPPs, Handbook Notice 28 drew a distinction between this and other types of non-standard assets.

The definition of a SIPP creates regulatory challenges and blurs the lines between what is a SIPP and what is a Personal Pension. The definition enables nearly any Personal Pension to market themselves as a SIPP and as such, there is no clear boundary between these product types. Furthermore, the broad definition has resulted in the Target Market for SIPPs covering pretty much every Target Market available for retail pensions, which adds significant complication to SIPP regulation.

We recommend the definition of a SIPP is reviewed and updated to reflect the different categories available. Where consumer harm is identified within one or more of these categories, FCA intervention could focus on these areas, rather than having to apply it across the whole SIPP Market and risk introducing regulation which is not relevant to certain SIPP products and/or consumers. Our suggestion is that the definition should differentiate current SIPP products through the way in which investments are selected or offered. Ideally, we would like to reach an outcome where Bespoke SIPPs continue to be recognised as such and the other types of SIPP which offer reduced investment selection or ready-made options fall into the Personal Pension definition.

Question 4: What are your views on setting out the due diligence obligations that already apply to SIPP operators in more detailed Handbook rules? We invite stakeholders to respond using the prompts suggested under paragraph 5.29.

As mentioned in our response to Q3, we believe that there has been a shift over the last 15 years for SIPPs to move away from non-standard asset investment. This is in part due to high-profile investment failures which have previously occurred and an ever-changing DC and regulatory landscape, which places consumer outcomes at its heart. We therefore believe that the consumer due diligence harms that existed in circa 2010 have been incrementally reduced over the years, resulting in a negligible position today.

However, in any well-functioning market, there will always be instances where regulations are breached, either intentionally or otherwise. We believe this is the case here and do not believe there are systemic or wide-ranging instances of this occurring. As such, we believe this needs to be addressed through effective regulation and enforcement on those firms where you have identified there to be an issue. Should it transpire there is a wider ranging problem that exists, the redefinition of a SIPP would help ensure more targeted regulatory interventions. Additionally, future interventions should not place additional burdens on other firms that are operating without issue in the same sector.

Question 5: What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements in place for pension scheme monies? We invite stakeholders to respond using the prompts suggested under paragraph 5.44.

Our understanding is that all SIPP operators undertake regular reconciliations of pension scheme monies and there are no widespread concerns about irregular or incorrect practises being adopted.

However, in any well-functioning market, there will always be instances where regulations are breached, either intentionally or otherwise. We believe this is the case here and do not believe there are systemic or wide-ranging instances of this occurring. As such, we believe this needs to be addressed through effective regulation and enforcement on those firms where you have identified there to be an issue. Should it transpire there is a wider ranging problem that exists, the redefinition of a SIPP would help ensure more targeted regulatory interventions. Additionally, future interventions should not place additional burdens on other firms that are operating without issue in the same sector.

Question 6: What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements for scheme assets? We invite stakeholders to both respond to both questions using the prompts suggested under paragraph 5.55.

In a well-functioning market where all entities within the value chain are appropriately regulated, there has to be a reliance placed on the governance framework operating effectively and intervening where firms are not meeting their regulatory requirements. SIPP operators do conduct due diligence on third parties that they use and these will be reviewed on a periodic basis. Where third-parties are FCA regulated and in order to deliver a streamlined and efficient service, it is right that SIPP providers place a reliance on them to meet their obligations.

Custodians and DFMs will have specific permissions and requirements placed on them based on their activities and if they are not operating within their regulatory parameters, the wider SIPP framework should be relying on effective regulatory intervention from the FCA.

If it is determined that further interventions are required at this time, they should be targeted at the firms which are failing to meet their regulatory requirements, rather than SIPP operators who have selected them based on a combination of due diligence and FCA authorisation status.

Question 7: If you have received complaints about any of the issues in relation to scheme assets, please outline if you think we should make any new rules or clarify existing rules to address them. Please be specific about which rules you would want us to explore further.

N/A

Question 8: Do you have any views on a) what the new (additional) costs and burdens would be to firms; and b) any unintended consequences in relation to consumer harm that we should consider when developing our approach?

N/A

Question 9: Are there any other harms not mentioned in this paper that you think will have a significant impact on the SIPPs market going forward?

There are no additional harms that we have identified.

We are mindful, however, that we have a significantly changing DC landscape within workplace pensions with an increasing focus placed on consolidation, to enable increased investment into the UK stock market and productive assets such as infrastructure and private equity. Given the investment flexibility that exists within some SIPP products, we wait with interest to see if this focus extends its scope into the retail sector over time.