TISA

Response by TISA to:
Discussion paper on key elements of the Scale Policy

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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 260-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 **three 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.

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 discussion paper covering key elements of the Scale policy.

We fully support the Government's objective of improving scale, value and efficiency within the defined contribution pensions market. The pensions industry is already undergoing significant structural change, driven by consolidation, the Value for Money framework and wider pensions reforms. Against this backdrop, any new scale and consolidation requirements should be carefully designed to support better member outcomes, avoid unintended consequences and recognise how pension schemes and investment structures operate in practice.

A central theme of our response is that scale should be assessed primarily at the level of the underlying assets and investment building blocks, rather than solely through individual default arrangements. Many workplace pension schemes already achieve substantial scale through shared investment structures that span multiple arrangements and product types, including Master Trusts, Group Personal Pensions, SIPPs and other connected schemes. Focusing exclusively on arrangement-level assets risks understating the scale benefits that already exist and could incentivise unnecessary consolidation that does not improve outcomes for members.

While we support measures that facilitate appropriate consolidation, we are concerned that some aspects of the wider regulatory framework, including the proposed chain-linking approach within the Value for Money regime, may unintentionally discourage providers from consolidating default arrangements. We also believe it would be premature to undertake a broader Fragmentation Review before the impact of the scale and Value for Money reforms has been fully understood. Policymakers should first assess the extent to which existing reforms address fragmentation before considering further intervention.

The framework should remain flexible enough to accommodate legitimate variations in default arrangements where these continue to utilise common underlying investments and deliver scale benefits. Variations reflecting employer preferences, member characteristics, risk profiles or retirement outcomes should not be treated as evidence of harmful fragmentation where they are built upon the same investment infrastructure. An overly prescriptive approach could increase operational complexity, reduce innovation and potentially weaken member outcomes.

Looking ahead, the pensions market will continue to evolve through consolidation, changing consumer behaviours and advances in technology, including artificial intelligence. The regulatory framework should therefore be sufficiently future-focused and adaptable to remain effective as the market develops. Any approach to assessing scale and consolidation should be guided by the principles of proportionality, flexibility and a clear focus on delivering better outcomes for pension savers.

Finally, successful implementation will require recognition of the practical challenges associated with combining assets and investment arrangements across different regulatory structures, particularly between trust-based and contract-based schemes. Clear governance arrangements, consistent regulatory expectations and realistic implementation timelines will be essential to ensure the policy achieves its objectives without creating unnecessary complexity or unintended consequences for providers, employers or members.

Question responses

Q1: Currently, how many default arrangements do you have in your scheme or schemes that are used for AE? Do they include assets from more than one scheme? If so, why?

The number of default arrangements varies significantly by scheme type and size, with larger schemes often operating hundreds. It is common for these arrangements to invest in underlying assets that are shared across multiple schemes, including SIPPs, Single Employer Trusts, Master Trust, GPP and Stakeholder.

As a result, asset-level scale can be substantially greater than by measurement through MSDA alone.

Default arrangements may include members who are outside the automatic enrolment (AE) framework. For example, an employer may use the arrangement for additional voluntary contributions or as a top-up scheme. It may also contain deferred members who have been transferred from a previous scheme. In such cases, thes members would not form part of the AE section.

However, for the purposes of assessing scale, the reason a member is in the default arrangement should not be relevant.

Q2: Will you be consolidating any of your default arrangements used for AE ahead of 2030? Are there any practical challenges to this?

The proposed contractual override will be a key enabler of default arrangement consolidation within FCA-regulated pension schemes.

The chain-linking requirements set out in the current Value for Money consultation could act as a significant deterrent to consolidation. Where assets from an underperforming default arrangement are transferred into a stronger default, the performance and assessment outcomes of the receiving default could be adversely affected by the consolidating arrangement(s). As a result, providers may be discouraged from consolidating defaults and instead choose to wait until the chain-linking period has expired, which could take up to three years.

We are unclear on the specific objectives and intended outcomes of the proposed Fragmentation Review. In particular, it is not evident what market failures or residual fragmentation issues the Review is intended to address, given the extensive consolidation expected as a result of the Scale and Value for Money reforms. We believe it would be more appropriate for any Fragmentation Review to take place after the Scale requirements have been implemented and embedded. Conducting the Review before these reforms have taken effect risks assessing a market that is in the process of significant structural change, making it difficult to accurately identify the extent and nature of any remaining fragmentation.

Delaying the Review would allow policymakers and regulators to evaluate the effectiveness of the Scale reforms, understand how schemes and providers have responded, and assess the characteristics of any default arrangements that remain outside the scope of consolidation. This would provide a stronger evidence base for determining whether further intervention is necessary and, if so, what form it should take.

Q3: It will be important that all schemes value assets in their MSDA in a consistent way. Our intent is that this will be assets under management (AUM). Does this present any issues? Do you consider a different method would be preferable? And if so, why?

We agree that AUM is an appropriate metric to use.

We recommend a standardised approach to asset valuation, using a consistent pricing point and methodology, particularly for less liquid assets.

Where a particular asset is used both within the MSDA and for other investment purposes, requiring schemes to identify and segregate the proportion attributable solely to the MSDA may be challenging. In many cases, assets are pooled across multiple investment strategies and arrangements, meaning that disaggregating the MSDA element could introduce significant operational complexity and additional cost. Any such requirement should therefore be proportionate and recognise the practical difficulties involved, particularly where the underlying asset is delivering scale benefits across a range of arrangements.

Q4: The intent is that the MSDA is made up of assets in an authorised Master Trust or GPP. In developing the detailed regulations, are there other assets that we should consider for inclusion in the MSDA? If so, why?

The objective should be to achieve scale at the asset or building-block level, rather than solely at the arrangement level. The ability to meet this objective is enhanced where assets are shared across multiple workplace pension arrangements and connected schemes investing in the same underlying funds within the MSDA. This should include bespoke arrangements, including those that are effectively identical to the MSDA but white-labelled, as well as connected pension schemes such as SIPPs, personal pensions and stakeholder pensions.

Consistent with this overarching principle, consideration should also be given to including assets from unconnected schemes that utilise the same underlying investment building blocks. This could include Single Employer Trusts and other Multi-Employer Schemes. Where scale benefits are being generated through investment in the same assets, those assets should be recognised within the overall AUM calculation regardless of the legal structure through which they are accessed.

Assessing scale at the asset or building-block level better delivers the underlying policy intent. It would also enable smaller Multi-Employer Schemes that cannot meet the scale requirement independently to benefit from the efficiencies associated with larger pools of capital. Where such schemes are delivering good value and positive outcomes for members, it would seem disproportionate to require them to wind up solely because they do not meet an arbitrary AUM threshold at the arrangement level.

This approach would also reduce the need for consolidation simply to satisfy a scale test. Consolidation will not always be in members' best interests and, in some circumstances, could be driven by regulatory requirements rather than member outcomes. There is a risk that employers could be forced into arrangements that weaken member outcomes or encourage a move towards Single Employer Trust structures in order to retain greater control over investment strategy and scheme design.

Finally, consideration should be given to future developments that may fundamentally alter how scale is achieved and maintained. In particular, advances in artificial intelligence could significantly increase member engagement with retirement saving decisions. Within a relatively short timeframe, individuals may delegate aspects of their financial decision-making to AI-enabled agents, including pension contribution levels, investment selection and ongoing portfolio management. As a result, default arrangements, which currently rely on high levels of member disengagement, could experience material asset flows as AI-driven decisions become more commonplace. While this may appear speculative, the technology is advancing rapidly and the pensions framework should be sufficiently flexible to accommodate these developments, rather than being designed solely around current behavioural patterns.

Q5: In your AE default arrangement(s) – as well as allowing for variance by age – do you include other factors? If so, how have these varying factors been incorporated into your investment strategy? And how do you seek to mitigate the loss of scale benefits?

Some schemes may offer variations of the default arrangement to accommodate specific employer requirements. For example, an employer may wish to adopt the MSDA while allocating a slightly higher proportion of assets to private markets. In such cases, the underlying assets remain the same, with only the asset allocation differing. These arrangements are sometimes offered as a premium version of the MSDA and may be accessed through an advised solution.

Similarly, although less common, schemes may offer a range of standardised MSDA variants reflecting different risk appetites, such as cautious, balanced and adventurous strategies. Again, the underlying investment building blocks remain unchanged, with differences arising only from the weighting of those assets within the portfolio.

In both cases, the scale benefits are derived from investment in the same underlying assets and investment infrastructure. As a result, all such variants should be treated as part of the MSDA for AUM and scale-assessment purposes. Assessing scale at the asset or building-block level ensures that economically equivalent arrangements are recognised consistently and that minor variations in asset allocation do not artificially fragment assets when measuring scale.

There may also be variations in asset allocation arising from differing decumulation strategies. Default arrangements may be designed to support a range of retirement outcomes, including drawdown, annuity purchase, full cash-out, or a universal approach. These differences can result in material variations in investment strategy and asset composition but should be included within the CIS.

Q6: If the only permitted variation for the CIS is by age (to accommodate lifestyling and target date funds), would this present any challenges? If so, please explain.

It would present a challenge to those operating arrangements in the way outlined in Q5.

Q7: If you consider that there should be additional flexibility in the CIS, which factors do you think should be considered and why?

We have set out why scale should be assessed at the asset or building-block level, together with the benefits this approach would deliver for members, employers and schemes.

Introducing additional rules and conditions that create unnecessary complexity risks undermining the objectives of the policy. In particular, overly prescriptive requirements could result in difficult implementation scenarios, increased operational burdens and, ultimately, poorer member outcomes. The focus should remain on achieving the benefits of scale in a practical and proportionate manner, rather than creating artificial distinctions that do not reflect how investment arrangements operate in practice.
It will also be important to provide appropriate exemptions where justified by the nature of the investment strategy. For example, Sharia-compliant funds may face specific constraints in terms of investment options, scale and asset allocation. Any framework should therefore allow sufficient flexibility to accommodate such arrangements and avoid disadvantaging members who choose, or require, these specialist investment options.

Q8: For providers who offer multiple schemes, to what extent would your schemes be captured by applying the test for 'common control' found in Regulation 29(5) of the Occupational Pension Schemes (Master Trusts) Regulations 2018? If they do not satisfy this test, please explain why.

Not all arrangements that may be effectively connected from an operational and investment perspective would necessarily satisfy the legal definition of common control set out in the Master Trust Regulations. In particular, firms may have schemes that are managed under common investment and governance frameworks but are established through separate legal entities, joint ventures or distribution partnerships that fall outside the control test.

This may create inconsistencies whereby schemes with substantially similar investment, operational and member outcome characteristics are treated differently depending on their legal structure. If only connected schemes are intended to benefit from the proposed framework, consideration should be given to whether the definition captures economic and operational connectivity in addition to strict corporate control.

Q9: Do you think there are any particular challenges for connected schemes in combining their default arrangements into an MSDA? And if so, what are they? And what possible solutions do you think there are?

While connected schemes may appear well placed to combine default arrangements into an MSDA, there are important risks and practical considerations that should be recognised.

In particular, some default arrangements have been specifically designed around the characteristics and needs of particular employer cohorts. Combining such arrangements into a single MSDA could result in poorer outcomes for some members if investment strategies become less tailored to their workforce demographics, contribution patterns or retirement objectives. Where employers perceive that consolidation has reduced their ability to influence or obtain an investment strategy suited to their employees, this may create incentives to consider alternative structures, including Single Employer Trust arrangements, in order to regain greater control.

A further challenge arises from the proposed "chain-linking" requirement within the Value for Money framework. For some schemes, consolidation into a single MSDA could have unintended consequences for performance assessment. Where historic performance records need to be linked across arrangements with different investment histories, this may dilute or distort the performance metrics of the resulting MSDA and reduce the attractiveness of consolidation.

One potential solution would be to assess scale and consolidation requirements from a building-block perspective rather than solely at the default arrangement level. This approach would allow schemes to pool assets through common investment components and collective investment vehicles, thereby achieving many of the intended benefits of scale, while retaining flexibility to construct default arrangements that remain appropriate for different member cohorts. Such an approach could support consolidation objectives without unnecessarily compromising member outcomes or employer engagement.

Q10: Are there any practical challenges to connected schemes (Master Trusts and GPPs) in making investment decisions and managing the aggregated assets under the same CIS?

A key challenge is the different governance regimes that apply to trust-based and contract-based schemes. Trustees and IGCs may have different oversight processes, decision-making timetables and evidential requirements, which could make coordinated investment decisions more complex.
To mitigate these challenges, government and regulators should support:

- Clear governance frameworks setting out decision-making responsibilities across trust-based and contract-based arrangements.
- Consistent regulatory expectations for trustees and IGCs overseeing participation in a common CIS.
- Sufficient flexibility for schemes to retain appropriate member-focused variations while benefiting from pooled investment structures.
- Practical implementation timelines that recognise the complexity of transitioning and managing large-scale aggregated investment arrangements.

It is also important to note that performance fee charge cap exemptions apply to certain asset classes held within default arrangements in trust-based schemes, however equivalent exemptions are not available within the contract-based regime. This regulatory inconsistency creates practical challenges when seeking to aggregate assets across schemes that span both regulatory frameworks. Excluding assets or arrangements on the basis of these differences would risk creating an incomplete picture of the scale and composition of assets held within default arrangements.

From a consumer perspective, confusion arising from differing regulatory requirements and assumptions for illustrations is likely to be compounded by the introduction of a CIS. The illustration framework should adopt a consistent set of calculation methodologies and assumptions to enable effective decision-making and avoid creating unnecessary confusion and barriers.