Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, outlines why the myriad of regulatory input on Defined Contribution pension could be detrimental to a fundamentally effective pension product.
- Jeffrey Mushens, Technical Director at TISA, discusses how TISA have been working with HMRC and HMT on the taxation of rebates.
- Peter Smith, Head of Distribution Engagement at TISA, outlines the resurrection of "The Man from the Pru" in the post-RDR financial world.

DC PENSIONS – REGULATORY OVERKILL?

The Pensions Regulator's (TPR) consultation on its approach to regulation of Defined Contribution pensions closed last week. Reading the paper, it was hard not to argue with its intentions, in the same way that it's hard to argue against motherhood, and apple pie. However, market commentators have expressed some reservations. DC pensions, imperfect as they arguably are, have pretty much "done what they said on the tin" in over 30 years of widespread existence. Unlike Defined Benefit pensions, there is really not too much to go wrong. If charges are reasonable, default fund design appropriate and at-retirement choices are handled well, DC schemes can produce good outcomes. There is a sense here of a regulator in search of work to do.

There is also a sense of increasing regulatory overkill in the arena of contract-based DC schemes, to which some of this new regulatory architecture will apply. With HM Treasury, HM Revenue & Customs, DWP (Department for Work & Pensions), TPR and FCA (Financial Conduct Authority) all making policy interventions or regulations, these schemes must be the most regulated financial products in the market – yet they have, for the very largest part, done pretty much what they were supposed to do, at pretty modest cost. Every time new regulations come in, they add expense somewhere, costs which will ultimately be borne by either the provider or the consumer. In the case of the former, with ever-increasing competitive pressures on price, it will become increasingly hard to justify market entry. This cannot be a good thing in terms of choice for employers and employees going forward.

Malcolm Small, Director of Policy

TAXATION OF REBATES

It's been a busy couple of weeks. We've been dealing with HMRC and HMT over the taxation of rebates. We started this process in December 2012, when HMRC broke the news that payments of rebates to customers were likely to be annual payments and therefore subject to tax.

The good news is that TISA has been able to persuade the Government to write off the past. The bad news is that we haven't been able to persuade them to defer implementation of the law until April 2014. We've subsequently written to the Government pointing out that the cost to the industry of implementing collection of tax on rebates will be in the region of £15m, against an estimated tax take of £4m, and will likely be a throw-away cost as the industry moves to clean share classes.

The FSA facilitated the original meeting with HMRC, and the latter have been very helpful, within the constraints of the law. A recent court case imposes an obligation on HMRC to collect tax required by law, so they can't simply waive the tax. They need the Government to do that, which is what TISA has been seeking to do.

All this will likely drive the industry to move to clean share classes as soon as possible. TISA will shortly be leading a project on the issues this will present for new share classes, both on conversions and the impact on re-registration.

Jeffrey Mushens, Technical Director

THE CIRCLE OF LIFE

It's probably my age but concepts from the past seem to keep repeating themselves.

Take the advice gap and disenfranchised customers, which a number of my previous articles have discussed.

Having been in financial services for practically 40 years I have often heard in social circumstances the comment that "I set up this policy 25 years ago because a friend of mine worked at the Prudential, Pearl or Allied Dunbar". It was those days of direct sales which led to a mass of people saving and putting something away for the future. It is true that in the days of the 'Man from the Pru', many commentators have pointed out how these sales forces helped mass-market consumers save and invest in the future.

The counter argument is that, historically, tied sales forces may have their critics, often quoted as being that they always struggled with regulation. To a certain extent, it is more demanding to control a large tied sales force but with the correct infrastructure and risk oversight regimes it may well emerge as an option today to serve the mass-market. I appreciate this will be against a backdrop of the FCA starting an initiative which focuses on sales incentives and the consumer, which TISA is involved with.

However, we know the rules now, so the challenge is can face to face advice be delivered economically and legally here? I suspect volume will be a key issue, in addition to how advisers are rewarded where there is to be no link between volume sales targets and customers.

Interestingly the Prudential are doing just that, growing a revived direct sales team with a target of 200 advisers to serve middle market England. This could well develop into an appropriate solution amongst all the digital distribution models and others to serve the emerging advice gap and orphaned customers created as an unintended consequence of RDR.

It may be we are heading firmly back to square one after over 20 years of regulation but I know a number of friends and colleagues in financial services where this was their starting point and it was often the "Man from the Pru" convincing my neighbours to protect young families in the event of death and to put a small amount away for the future. I believe the UK needs protection and savings sales at all levels of the social scale. Direct sales has seen a demise since regulation started to take a hold and this has probably done far more damage in the UK than people often imagine. There are still a lot of families who are thankful for the work done by these sales forces, often in those days focusing on very low cost per month life assurance policies and savings plans. It will be interesting to see if the Prudential's initiative does in fact result in one appropriate method of distribution to reach those disenfranchised customers under the new FCA rules.

With this concept, at least they have something to offer; it might not always be sophisticated, high brow or complex financial planning but we should encourage a range of appropriate solutions for the man in the street which offers access to advice and financial services at a price or cost consumers are prepared to accept.

Peter Smith, Head of Distribution Engagement

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