Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, outlines the DWP's plans on the tackling the issue of small pots and why the industry would be wise to assist.
- Jeffrey Mushens, Technical Director at TISA, discusses how TISA is working with the Government and HMRC on rebate tax issues, and provides an update on TISA Exchange (TeX), the re-registration contract club.
- Peter Smith, Head of Distribution Engagement at TISA, provides his views on why the new FCA regime could be a greater protector of consumers and pose bigger challenges to the industry than the FSA ever did.

POT FOLLOWS MEMBER

This week, the Department for Work and Pensions (DWP) issued the snappily-titled paper "Automatic Transfers: Consolidating Pension Savings". The idea behind this is to avoid the build-up of small, poor value pension "pots" which was always likely as a by-product of automatic enrolment into pension saving. Small pots limit retirement income choices and value, and are easily lost and forgotten. TISA has been active in helping the industry work towards solutions to this problem. If left unaddressed, DWP estimated that 50 million small dormant pots would have been created by 2050, with 12 million of these under £2,000 in value.

The idea of "pot follows member" has been around for a while, but this is now confirmed as the direction of policy travel, rather than an "aggregator" model. All pension pots under £10,000 and in a Defined Contribution (DC) type scheme will, from a specified date in the future, be automatically transferred to the new employer's scheme when an employee changes job. This will lead to an estimated 1 million transfers a year taking place, or just under 20,000 each week. This is a huge increase on current volumes. A preference is expressed within the paper for an IT solution to matching members' pension pots with their new employers, although the development of a fall-back paper based solution is also envisaged. If the pensions industry does not undertake to build such a system itself, DWP will construct it and back-charge the industry.

Whilst I very much hope the industry will do this communally rather than waiting for the DWP to do it for them (and I will be doing everything I can to help them do this), we must be very concerned about the back-stop of a DWP build. This is not to denigrate the Department, but the history of large-scale public sector IT builds is one of almost unmitigated disaster, with a few shining exceptions. If this is the preferred direction, experience tells me that we need to build a solution that is designed by, and for, the industry. Waiting for someone else to do it is likely to result in a "camel".

Malcolm Small, Director of Policy

FOCUS ON REBATE TAX ISSUES & TISA EXCHANGE (TeX)

More action on the platforms/rebates/TeX front this week.

First, the bad news is that the Government rejected the idea of legislation to give the industry time to move to a non rebate paying model without having to either build systems to deduct tax on rebates, or swallow the tax cost as the lesser evil.

The good news is that the Government will not seek to recover tax from the industry going back to 2006, and that rebates in respect of ISAs and SIPPs will not be affected. We'll be meeting with HMRC to see how the adverse impact can be managed, and HMRC have shown themselves to be as helpful as they can within the constraints of the law.

As a consequence of this and the ban on cash rebates, the issue of clean, super clean and legacy share classes and conversions, together with re-registrations, has come to top of the 'must-do something about' pile. We've organised an industry forum for 20th May to kick off a project examining how the issues involved can be sensibly managed. We would encourage as many industry experts as possible to participate, so if you are interested in attending the forum please contact TISA at events@tisa.uk.com. If we don't get involved, it may well negatively impact clients as well as cause a lot of grief. So watch the TISA space for developments.

Finally, TeX membership, joining the re-registration contract club as the best way to deliver re-registration in a client-friendly and efficient manner, has become the default position for the industry. Platform members of TeX have over 90% of platform assets under management, and asset managers with some 77% of IMA funds under management have joined or committed to joining. This open standards industry run initiative shows that the industry can work together to deliver better outcomes for consumers and more efficient processes for themselves without the regulators having to write the rules for us.

Overall, it's been a good week for the funds industry.

Jeffrey Mushens, Technical Director

TISAtalk: FIRE YOUR GUNS

Interpretation of new principles of the FCA and fundamental differences from the FSA are now starting to emerge with the birth of a new regulator.

Some initial focus seems to be on the terminology and a total care for the consumer. For instance the new regulator is concerned about the term "absolute return" as in their view it seems to imply a guarantee that you will get all your money back from an investment. Further concerns surround complex fund charges which do not promote informed consumer choice. Structured products are also on the radar as they will be clearly deemed to be no substitute for deposit type products because of their complexity and form of guarantees. Comparison sites will also come under scrutiny as their fundamental drive currently seems to be focused solely on price and brand, ignoring the benefits of particular features and pros/cons of products. The regulator is clearly indicating here decisions should not be based on price alone. This regulator may shoot first and act before the consumer suffers. Await developments.

When the government decided to split the FSA there were some fears that consumer protection would be watered down, however the indications to date are precisely the opposite.

We are a few weeks into the regime of the new Financial Conduct Authority but significant markers have already been laid down. Within its first week of existence, the FCA confirmed plans for temporary product intervention, a move which the FSA consistently refused to consider. In this, any product that it believes could cause significant consumer detriment can be pulled from the market immediately for up to a year while further action is considered. It can also ban marketing material that it considers misleading, and the potential product ban extends to those it considers too complex.

Immediate bans make so much sense when you consider the alternative, which was to allow products to be sold whilst the FSA took time investigating. That built up losses for consumers and liabilities for the industry. One key area the heads of distribution advisory firms raise with me is how the FCA will be kept informed.

I agree with those who feel that just putting something on the website is not enough, however, beware social media. Do not hide behind the thought that the FCA should not inform about such bans through the media. Like it or not the media is the cheapest, simplest and most effective way of communicating such bans to all parties. Also, firms will not be warned before their customers! The whole point of this exercise is to get a dangerous or misleading item off the shelves and to stop people buying it as quickly as possible.

This new regime could prove to be a greater protector of consumers and pose bigger challenges to the industry than the FSA ever did.

Peter Smith, Head of Distribution Engagement

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