Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, explains why the introduction of price caps for pensions is no bad thing from the consumers' point of view but may come with a range of unintended unforeseen consequences.
- Jeffrey Mushens, Technical Director at TISA, provides Update on the CP13/05 proposals and what this could mean for fund managers.
- Peter Smith, Head of Distribution Engagement at TISA, outlines how distribution advisory businesses can help medium and small business cope with effective implementation of and compliance with auto-enrolment requirements

PENSIONS CHARGE CAPS – ARE THEY NEEDED?

The smoke signals coming from the Department for Work and Pensions suggest that price caps for pensions could be on the way with some suggesting the cap could even be retrospective, requiring legacy schemes of all types to comply. It's hard to argue against lower prices for consumers in any market, rather like arguing against motherhood, or apple pie, but there are also few situations so bad that a bit of government intervention cannot make worse. Central interventions to set prices in any market usually come with a range of unintended, unforeseen, or perverse, consequences and I suspect the pensions market would be no exception.

Lower charges are often the effect of strong, open, competition and I do believe this is what we have seen over the last couple of years in the market for providers operating in the automatic enrolment space. 50 basis points has become the 'price point' for everything, including the investment management, with some schemes being charged at considerably less. This is just half of the original 'stakeholder' price mandate from government in 2000. That this was over-ambitious at the time can be seen in the later reversion to 1.5% as providers' processes and systems struggled to deliver the efficiencies required to operate profitably at the 1% level. But today, as I said earlier, it seems to me that the market is doing its job in delivering lower prices.

However, it's the 'legacy' piece that really worries me. I'm sure we can all think of schemes written in the late 1980s, for example, whose pricing would look very high today. But we must remember that the costs of doing business were so much higher then, before broadband, on-line applications and straight through processing. The high initial costs will have gone through now, and is it really wise to amend the terms of any contract retrospectively? Furthermore, going forward, if you push the cap too low, it will be more difficult to justify market entry, so that the very competition you want will diminish. We should be careful what we wish for.

Malcolm Small, Director of Policy

CLIENT ASSETS REDUX

Getting client money right is very important. It's the clients money (or assets) and it should be protected. Getting it wrong can be very expensive for firms, as headlines in the press make clear.

The new consultation paper (CP) from the FCA (a mere bagatelle at 240 pages) is a very important statement on intent by the FCA. The full implications of CP13/05, if implemented without changes, are now dawning on the financial services industry. TISA meetings on the topic are packed. Fund managers are facing the withdrawal of the fund manager exemption with potentially horrific consequences. One solution to the proposals will be for fund managers to opt to act exclusively as the agents of funds. This would enable AFMs to cope with the financial consequences of the changes, but expose customers to full spread on dual priced funds, and expose the funds to all client transactions. It would get rid of boxes, but could also expose single priced funds to spreads as dilution levies are more likely to be imposed.

Platforms - indeed anyone holding client money – are contemplating hard choices on interest on client money. Major changes, with potentially huge systems costs, are being proposed for reconciliations with the withdrawal of method 2. One firm estimates costs of £3m for this particular change. There are changes over a whole range of areas, such as trust letters, trustees, diversification. TISA has established a Working Group to look at each of these areas ahead of the response date.

The bad news is that if you don't respond, the FCA will assume you're okay with the changes. The good news is that the FCA are perfectly willing to listen. We've just finished a very productive session with the FCA going through the issues on CMAR. The FCA is coming to a special 2 hour Q&A session of our Client Assets Technical Committee to take questions and talk about the ideas behind the CP (on 16th September) and have agreed to continue to discuss issues from the industry as they arise. But whether you're optimistic or not about the outcome (we're optimists), the issues in the CP won't go away and addressing them as an industry seems to be the way to go.

If you or your firm would like to get involved, please do get in touch with us. We're also running seminars on client assets in Edinburgh (1st October) and London (23rd September) with industry experts discussing the issues.

Jeffrey Mushens, Technical Director

HE AIN'T HEAVY, HE'S MY BROTHER

In the parallel universe of the FCA and Pensions Minister, it is clear that both Steve Webb and Martin Wheatley are firmly focused on looking at things from the consumer end of the telescope. This has certainly been reinforced in a number of TISA's current projects working in collaboration with the FCA, where the emphasis is on due diligence, suitability and outcomes.

Recent announcements from Pensions Minister Steve Webb now effectively make it impossible for anyone trying to implement auto-enrolment to look at it from any other perspective than that of the employer and employees. Surely this is a good thing. We should now look to see how this important change in public policy is going to be implemented in practice and where advisory distribution can fit in.

The real problem sits with small firms who were always going to be in a different place to the bigger players in tackling auto-enrolment, as they lack expensive human resource systems, benefits software and staff together with help from employee benefit consultancies.

The naysayers who predicted that opt out rates would be higher have been proved wrong as in reality these are very low indeed. The SMEs will meet their staging dates in 2014 and for the auto-enrolment reforms to get through by the election in the spring of 2015 will require a very big effort from the distribution advisor community.

The next few months sees those firms with 100 or so employees receiving their notices. This is the point at which they will need a detailed planning scenario if they want a reasonable chance of succeeding and these firms should be working on their auto-enrolment planning with advisers if possible, right now.

The real issue is when the very small or micro employers reach their dates, where again the experience of the large and medium employers will not really help. There are approximately 1.3 million UK employers in the reform pipeline where 1 million have less than 10 employees. With little or no payroll or HR support, and probably a propensity to avoid paying advisers to help them cope with their obligations, how will they cope with the need to facilitate auto-enrolment on their staging dates and for the ongoing years each week or each month, with the additional compliance and record-keeping? It is probable that adviser firms who distribute via accountancy practices or have such connections may pick up the bulk of this business to help these employers. There is opportunity here for those adviser businesses that can prove their worth and communicate effectively in this area.

It probably calls for some type of direct to consumer or direct workplace proposition which will face the same obstacles in terms of the advice boundaries. TISA is currently working with the FCA via its D2C Special Interest Group to determine how execution-only or simple corporate advice can be understood and facilitated by the advisor community. The lifting of the ban on transfers in and out of NEST and the £4500 contribution cap by 2017 should help. However all of this will need to be communicated clearly and simply in just the same way advisory businesses are currently looking at developing alternate distribution models for wealth propositions. Once the boundaries are known as to where advice starts and ends in these propositions, forward thinking advisory businesses should be able to make the Pensions Minister's dream a reality.

Peter Smith, Head of Distribution Engagement

TISA, DAKOTA HOUSE, 25 FALCON COURT, PRESTON FARM BUSINESS PARK, STOCKTON-ON-TEES TS18 3TX
technical queries: 01642 666999 email: enquiries@tisa.uk.com web: www.tisa.uk.com administration: 01642 666982 fax: 01642 666990