



leading on investments and savings

Response by TISA to
DEPARTMENT FOR WORK AND PENSIONS
BETTER WORKPLACE PENSIONS;
A CONSULTATION ON CHARGING

November 2013

TISA is a not-for-profit membership association operating within the financial services industry.

TISA's membership comprises over 145 member firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including banks, stockbrokers, asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers and pension providers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investment world, extending our status of 'trusted advisor' to the authorities over a much greater remit. This has been welcomed by our members and the authorities as a natural progression.

TISA has a highly successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for consumers. Policy and regulation continues to be the major focus for our members with regard to corporate responsibility.

TISA and its members' remit is evolving into a clearer focus on pro-active consultation in the regulatory world in order to influence policy and associated regulation before its creation, rather than reacting to issued policy directives. This will help to ensure a more considered policy creation from the authorities.

What makes TISA unique is that we cover the entire industry, incorporating cross sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improves industry performance and puts us in the unique position of being able to constantly challenge the status quo to bring about material improvement. At the forefront in all of our recommendations and actions is to consider national and consumer outcomes.

INTRODUCTION

TISA is pleased to have the opportunity to respond to this Consultation. We agree that charge levels in pension schemes are important, both for member outcomes and scheme providers alike. We would not propose to answer the consultation questions in detail, but would make the following observations.

CONSULTATION RESPONSE

Whilst we understand the political pressures to "cap" charges, not only in the market for pensions, we believe such a move would actually work against the grain of what is already proving to be a highly competitive market for business in the automatic enrolment world.

- It appears to us that costs of schemes on an Annual Management Charge (AMC) basis, including the costs of investment, for new, large, automatic enrolment schemes, are coming in at 0.5% or sometimes considerably less. The market appears to be working as it should for new business. This is not to deny that charges for smaller schemes might not become higher. As they are generally more expensive to administer, this is appropriate – but there is some

evidence of market participants who are likely to offer “flat” charges, even here.

- Proposing a “cap” based on an AMC only also ignores the market reality that charges can be levied in a wide variety of ways, as the recent OFT report identified. Indeed, NEST levies a Plan Charge of 1.8% in addition to an AMC of 0.3%. How might this be “capped”? And, if “Plan Charges” were to be exempt from the “cap”, might this not have the effect of actually signalling to the wider market that such an additional charge is appropriate, thereby actually increasing overall charges to scheme members?
- We note the concern around the practice of providing Active Member Discounts, and have some sympathy for this. However, we are also clear that removal of this charging option may well result in a higher “flat” AMC for current and past scheme members.
- Occupational schemes are not currently required to disclose charges to members or employers, whereas contract-based schemes, regulated by FCA rather than the Pensions Regulator, are required to do so. We think that better disclosure of charges should be the focus of change in this area, rather than explicit “caps”. This is not to say that the FCA approach to disclosure should be pasted over unaltered to occupational schemes, as there is a mounting body of evidence that the disclosure regime in the markets they regulate has become burdensome and does not work for consumers. We also think that employers are, for the most part, interested in providing good value, fit-for-purpose pensions for their employees. So, although there is more work to be done here, we think the focus should be on getting effective disclosure of charges for employers and employees, no matter which type of pension scheme they choose.
- The paper also suggests at one point that it might be possible to publish pan-industry charge tables. Whilst this would present particular challenges in the occupational schemes market, we think this approach is worthy of further consideration.
- It is suggested that around 22,000 pre-2001 schemes with higher charges might be used for automatic enrolment purposes. Whilst we understand this as a hypothetical risk, our observation of the market so far is that employers are tending to establish brand new schemes with low charges for automatic enrolment purposes and we expect this trend to continue. Smaller employers often have no existing scheme in place, so will default to “new” style schemes. Care needs to be taken when proposing retrospective alterations of charge levels. Many unexpected consequences could result.
- Today, we observe a wide range of existing, and new, market participants competing for automatic enrolment business. This is to be welcomed, particularly when we remember that just a few years ago, there was some doubt about how many would do so, resulting in part at least, in the creation of NEST. Being familiar with a number of the business cases for participation in this market, we would be concerned that the imposition of a charge cap could have the effect of consolidating the market for pensions into a handful of very large participants, with others leaving the market. Recent weeks have seen the announcement of a major player in the Self Invested pension market exiting, for example, being unable to make economic sense of staying open to business in the current environment. A “cap” would make it that much harder to make the case for market entry from other countries, such as we have seen from

NOW! Pensions from Denmark. Whilst scale will reduce per-capita costs for the remaining providers, it also brings “concentration” risk, where the failure of any one provider would be that much more serious.

- We support the ban on Consultancy Charging, although we also observe that surprisingly large numbers of advisory firms do not appear to be advising on automatic enrolment, which may not best support the process. We have sympathy for the potential retrospective disqualification of schemes set up with commission built in, but can see some potential chaos as these arrangements have to be unscrambled, and would counsel reference to contract law before any action is taken.

The Department will know that we have been very supportive over the years around many of the initiatives the Minister has pursued. In this matter, we believe the focus needs to be on supporting a market already providing low charges, through a better designed regime of disclosure that really works for employers and employees.

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