

1<sup>st</sup> April 2015

Emily Pinkerton  
Policy, Risk and Research Division  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Dear Emily,

**Retirement Reforms and the Guidance Guarantee.**

**About TISA**

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.

What makes TISA unique is that its membership covers 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.

As you may be aware, TISA has been running an industry ExCo since the pension reforms were announced last March, which has been looking specifically at the Guidance Guarantee and its role in supporting consumers to make appropriately informed decisions in terms of their retirement income needs. This ExCo has cross industry representation from product providers, platforms, distributors, technology providers, third party administrators and MAS.

Your colleague, Maggie Craig, has also participated in this group and has spoken at some of our events on this subject, for which we are extremely grateful.

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We responded to FCA's consultation paper CP14/11 and read with interest your response to that consultation in PS14/17. We are fully aware of the tight time constraints to deliver the rules around guidance and would like to congratulate you on delivering policy within this demanding timeframe, whilst recognizing the need for pragmatism and common sense in terms of what can be practicably delivered by April.

However, we recommend that the FCA review these rules as a matter of urgency after the guidance service has gone live, in the light of customer and provider experience, to ensure that they are meeting the necessary objectives of customer protection and encouraging competition and market development from a regulatory perspective. It will, of course, be essential not to make the customer journey so difficult, that the rules become a barrier to consumers taking guidance.

TISA would like to work with FCA on developing the next iteration of the guidance rules.

We have been thinking about what version two and version three of guidance may look like and some of the themes that we would like to see included as the guidance evolves post April.

#### **Hand off to regulated advice firms.**

There must be a slick hand-off between the guidance service and FCA regulated advice firms, ideally supported by the electronic transfer of data so that customers aren't inconvenienced and therefore lose engagement through having to provide information again that has previously been supplied. Furthermore FCA regulated advice firms must be able to rely upon the accuracy of the data supplied to them without repercussion in the event that it is subsequently established to be incorrect.

#### **Pensions Passport**

It is known that the current wake up packs issued to consumers as they approach selected retirement date act as a barrier to engagement, with important messages contained within either not seen or ignored. We believe that 'wake-up' packs should be replaced with a 'pensions passport' that contains the signpost towards the guidance service. This should be a single page showing the value of the pot, together with other important information such as any guarantees. It would act as the trigger for customers to access the service and to choose their preferred service provider.

We should be pleased to discuss our ideas about a Pensions Passport in more detail with you.

We are aware that the Behavioural Insights Team within HM Treasury are currently looking at this as a more effective way of signposting to guidance, and it may require some changes to the rules to make deliverance of the Guidance Guarantee more useful to customers..

## **Information gathering**

We strongly believe that the value a consumer gets from their guidance session is directly linked to the preparation they do for it. As such we would like to see a strengthening in terms of the information that consumers should be encouraged to bring to the session, in order that the guidance they receive is as relevant to them as possible.

## **Increasing Financial Education**

It is a foundation of prudent financial behavior that consumers should have sufficient knowledge and capability to make sound decisions about managing their money and saving for the future. Whilst there have been significant advances in recent times – providing financial education in the school curriculum and advice about money from independent sources – there is much more that needs to be done to establish a financially resilient society.

We recommend that in addition to Government establishing a single body responsible for the delivery of financial capability education and support in the UK, that the industry should establish a forum tasked with improving the co-ordination of financial services education programmes.

## **Guidance Levy**

In terms of funding the Guidance Service levy TISA remains unconvinced that the use of the periodic fees framework is the most appropriate or efficient way. In our response to CP14/11 we set out an alternative proposal for consideration which we recommend you consider again. We detail that alternative below and would welcome the opportunity to meet with you to discuss in greater detail.

We believe that the levy will eventually be paid for by customers as firms in the fee blocks will inevitably add the amounts raised to their costs of doing business.

We consider it anomalous that through the Retail Distribution Review the Regulator has sought to increase transparency and give consumers the opportunity to understand the cost (and presumably judge the value) of the services they can get in making financial decisions whilst these proposals would appear to reverse that principle.

We think it is more transparent to explicitly show customers that there is a cost to providing this Guidance and this is shared by those taking benefits from Pension Schemes. This is consistent with the way that Regulated Advice services are disclosed as having a specific charge. To pretend that firms benefiting from the new freedoms will in some way bear the cost is creating an unrealistic illusion with the levy proposals as they stand.

There are also many compromises to the use of the fee blocks which the consultation paper acknowledged, for example, the difficulty of deciding the split among the fee-blocks and the broad brush of the fee-block categories that will capture some firms not involved in the retirement business.

Our alternative suggestion is to make a small deduction from the capital value of all the monies crystallised to provide benefits to fund the Guidance Guarantee. HMRC can then collect the amounts through the Pension Scheme tax receipt processes already in existence with each registered approved scheme.

The basic calculations would suggest that a charge of 0.1% on the approximate £10bn of crystallised benefits each year from DC pension schemes would raise £10m p.a. This would mean a consumer with a £50,000 pension pot would have £50 deducted.

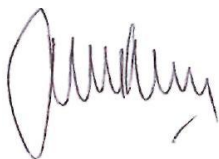
This method would pass the test of being free at the point of use of the Guidance Service and use existing processes and infrastructure for collection avoiding any costly implementation issues. It would also be agnostic from the income choices consumers make as the amount would be deducted at point of crystallisation.

There will be details to resolve, such as predicting in advance the appropriate fee level to be deducted from crystallising pots, separating DB and DC monies at crystallisation, the inherent cross subsidisation from large pots to small pots and from those who don't avail themselves of the service to those that use it multiple times, however, we consider in the round these to be minor considerations when set against the avoidance of issues of lack of transparency and unfairness of allocation of levies among firms.

These are just a few of the themes we have been considering at our ExCo and we should be pleased to meet with you to discuss these in greater detail. In addition, you are very welcome to attend future meetings as we develop policy recommendations.

If you have any questions on this response, or more generally, please let me or my colleague Jeremy Lee know.

Yours sincerely,



Jeffrey Mushens  
Technical Director