TISA leading on investments and savings

27th April 2015

Alex Roy
Strategy and Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Dear Alex,

**Retirement Reforms and the Guidance Guarantee – Retirement Risk Warnings (PS15/4)**

**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.

**Introduction**

Since the new retirement freedoms came into effect there has been an unprecedented level of consumer engagement with estimates putting telephone calls to providers in the region of 60,000 a day.

TISA is concerned that with volumes at this level the ability of firms to operate a robust and effective 2nd line of defence may be compromised, potentially resulting in those consumers that most need



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the information and risk warnings not receiving them in a timely manner, if at all. These consumers will then be poorly equipped to make fully informed decisions in respect of their retirement income choices.

TISA recommends that until the impact of the reforms are better understood (based upon experience rather than speculation) that a risk based approach is adopted in terms of when firms are required to operate the 2nd line. This approach does not need to be a permanent solution but will allow firms to better handle demand and deploy their limited resources to those consumers that are most in need of the protection afforded by the 2nd line.

By way of example, TISA recommends that consumers that have received either guidance from Pension Wise or regulated financial advice should not need to be provided again with risk warnings from their provider as this will largely duplicate information they have already received.

TISA has identified several other themes, which we would like to see clarified, as follows.

**Delivery method**

Providers are interpreting the rules very differently. Some are meeting the rules by way of an interactive experience, where the risk warnings are given based on how consumers answer certain questions – i.e. no warnings would be displayed if they give a "positive" answer to something.

However, others are producing a paper based questionnaire that looks like a decision tree – with all questions, answers and risk warnings shown at the same time. We don't believe this achieves the aim of tailored warnings, but from a consumer journey perspective, it is a lot simpler to have a piece of paper to sign than having to go online and complete a questionnaire (unless the whole journey is online, but in the main, they tend to be paper based).

The industry needs clarity so everyone is following consistent principles.

**Proportionality**

TISA feels that some form of de-minimis should be allowed to operate, below which a lighter touch approach may be appropriate. However, we do not believe that the de-minimis should be based purely on the value of the pot. After all, a pot of £5,000 may be small to a provider, but it may be very significant for the customer.

Another factor to bear in mind should be the action the consumer is taking. For example, if they are buying an annuity or drawdown product, the value of the pot shouldn't make any difference as consumers still need to understand the risks involved with those types of product. TISA's recommendation is that any de-minimis should apply to cash withdrawals – with potentially a different approach for full and partial encashments.



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**TPR & FCA**

TPR and FCA have different approaches to this. Whilst the FCA expects tailored risk warnings to be given, TPR's guidance for trustees allows for them to issue a set of generic warnings to their members.

TISA does not see why consumers should have a different experience purely based upon the type of scheme they are in so we would encourage both regulators to work together and agree a consistent approach.

There's a balance to be struck here between the ease of administration & process (for consumers and providers) and making it more personal and tailored.

**Advice**

We know more can be done to make consumers aware of the risks, but there is a danger that the industry could be asked to engage with consumers in ways it currently does not, and run the risk of straying into advice. We would ask the FCA to be mindful of this, as providers who aren't currently licensed to give advice may not be willing to introduce that skill set and associated cost.

**Transfers**

The rules do not appear to be clear on the responsibilities where benefits are being transferred to another provider – or indeed if the consumer is taking an open market option to buy an annuity with someone else.

TISA's understanding is that if it's a full transfer, the receiving scheme should be putting the consumer through their second line of defence process, as it should be tailored to the product they are buying (which the ceding scheme may only have limited information on, aside from the type of scheme – they won't necessarily know what options the consumer will take after transfer). The same applies for annuities – the annuity provider (who is ultimately "selling" the product) would be best placed. In cases where transfers/OMOs are facilitated through the Options system, the ceding scheme may not even have any interaction with the consumer, as all paperwork would be handled by the receiver. The ceding scheme would only know that a transfer/OMO has been requested when the instruction comes through on Options to pay it.

It appears that firms are tending to err on the side of caution and put consumers through the process regardless – which of course creates a risk that consumers will be asked to go through two processes – one by the ceding scheme and another by the receiving scheme. Again, this is a poor consumer journey without any added benefit so clarity is required in this area.

Clearly what is of paramount importance here is the need to meet the necessary objectives of consumer protection and encouraging competition and market development from a regulatory



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perspective, whilst avoiding the second line being perceived by those consumers (who know exactly what they want to do), as being a barrier to accessing their savings.

Unfortunately, early feedback suggests that consumers already view the industry as ‘obstructive’, with barriers in place preventing them from accessing the freedoms. Adopting the risk based and proportionality approach to the provision of risk warnings may help to address this perception, whilst still protecting those consumers most in need of the information.

Furthermore, feedback also indicates a frustration that the industry uses very different language to describe the same things, which confuses consumers. We would therefore urge that common descriptions and terms are used wherever possible.

Simplicity and education is critical.

In terms of education, TISA has commissioned the production of twelve bite sized You Tube videos, to supplement the information consumers receive before going to Pension Wise or directly to a financial adviser.  Scripts have been produced covering the following areas and filming is due to commence shortly.

- Taxation
- Format of benefits
- Capacity with regard to risk
- Scams
- Sustainability of income
- Longevity
- Death benefits
- Next steps for the consumer (once they have watched the videos)
- Do I need advice?
- What is Pension Wise?
- What is MAS?
- FAQs

TISA would like to meet with the FCA to discuss our observations and themes and to work with FCA to develop the next iteration of the second line of defence, particularly as you develop your plans to consult in the summer on whether to retain, modify or add to the rules contained within PS15/4. We can also share the work we’ve done so far developing the You Tube videos.

Finally, as has been stated earlier it is essential not to make the consumer journey so difficult, that regulation becomes a barrier to consumers being able to access the government’s new freedoms. TISA believes that consumers have the right to make informed decisions and where there do they should be ultimately responsible for them.

TISA therefore supports industry calls for advisers who transact transfers from DB to DC arrangements on an ‘insistent client’ basis to be protected from the possibility of any future complaint and redress. We also agree that in these circumstances consumers should not be able to



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claim against the FSCS or their trustees where the trustee has provided risk warnings to the consumer.

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



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