

**TISA RESPONSE TO ‘DEVELOPING
A RETIREMENT QUALITY MARK’
CONSULTATION.**



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About TISA

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 150 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 asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investments world, extending our standing as trusted adviser over a much greater remit.

TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services 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 improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Consultation Response

TISA welcomes this important consultation and presents its response below. We have concentrated on issues of policy that will deliver real value to consumers. Some of the details as to exactly how PQM will evidence that standards are being met we feel are for your executive to decide rather for us to comment on.

TISA welcomes the proposals for a Retirement Quality Mark for simple income drawdown products. In particular we note that since "Freedom and Choice" a new type of income drawdown customer has emerged, with smaller pot sizes than before and without access to financial advice, either at sale or on an ongoing basis. We feel that your efforts to recognise good practice in the market should be focused particularly on this new breed of customer.

There is scope for you to lead an improvement in quality of income drawdown products for this particular group and we would encourage you to use RQM as a way of moving the marketplace to serve these customers better. There will also be other income drawdown products that are aimed at wealthier and advised customers and we recommend that the standards do not attempt to incorporate such products.

We are concerned that the issue of what is an appropriate starting rate for income drawdown has not been addressed. We include evidence and analysis on this point in our detailed response. It seems incongruous that consumers don't receive help with this important choice at outset, but will then receive alerts later on after it's become apparent that they made the wrong initial choice.

We suggest it would be helpful to engage with the complaints divisions of some pension firms to establish a clear insight into customer complaints. With long term products such as retirement income, complaints will emerge many years later and be built upon the weakest point of the proposition. Some of the terminology in the consultation paper, such as "clear and engaging" is ambiguous and open to multiple interpretations. It is important to avoid the situation where something has been branded as being good quality when the assessment is subjective, and customers have subsequently suffered losses. To avoid this, and to be clear to consumers what is being offered and what is not, standards need to be capable of being evidenced in an incontrovertible manner, and that evidence kept for posterity.

SECTION 2 – THE NEED FOR AN RQM

Question 1:

Do you think we have correctly identified the benefits of an in-retirement PQM?

Yes.



**TISA RESPONSE TO ‘DEVELOPING A RETIREMENT QUALITY MARK’
CONSULTATION.**

It is important to focus the RQM on the new wave of income drawdown customers that are arising as a result of Freedom of Choice. We see the differences between the new and old customers as essentially :

▶ Traditional customers	▶ New customers
▶ £250,000 + pot size	▶ £25,000 to £100,000 pots
▶ Advised	▶ Non-advised
▶ Adviser recommended fund selection	▶ 90% used the default fund when saving up
▶ Other sources of income so able to take market volatility	▶ Don't understand sequencing risk and pound cost averaging
▶ Motivated by better investment returns and ability to leave unused capital to heirs	▶ Read in the press that annuities were bad value

Question 2:

Are there any additional benefits of an in-retirement PQM?

Not so much a benefit as a risk, but there is a danger that consumers will regard the presence of the RQM attached to a product as advice that it is suitable for them.

SECTION 3 – WHAT IS THE RQM?

Question 3:

Is it right to restrict the range of products in scope for the RQM to multiple UFPLS and drawdown?

You need to start somewhere and this is a sensible place to start. However it is important to avoid creating circumstances which may imbalance the market. Already the data collected by FCA shows more people buying income drawdown products than annuities. This may be further exacerbated by a situation in which :

- Income Drawdown products can proudly display the Retirement Quality Mark
- Annuities will not be able to show that they too hold the Retirement Quality Mark

Question 4:

Do you think other products should be considered as ‘in scope’? If so, which products and why?

Over time the RQM should be extended to cover all simple retirement income products that non-advised customers of average financial wealth are likely to be considering.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 5:

Are we right to exclude annuities and single UPFLS from the scope of the RQM?

See Q3 on annuities.

Single UFPLS is not a retirement income product and so should be excluded.

SECTION 4 – THE STANDARDS AND ACCREDITATION

Question 6:

Are governance and communications the right standards against which the quality of in-retirement products should be assessed?

Yes. It is important to ensure that the standards are focussed and clearly verifiable. Evidence should be retained for the remaining lifetime of the consumer showing that the standards are being met. There is no place for ambiguous terminology which creates ambiguity and subjective interpretations.

Question 7:

Are we right to assume that the responsibility for the monitoring and oversight of in retirement products for non-trust-based providers should rest with IGCs? If the IGC is not the appropriate body, which is?

We agree that the IGC is the obvious body to provide the necessary degree of expertise and independence to the oversight. However, before this is established, we recommend that contract based providers have the opportunity to agree that they are happy to extend the remit of their IGCs to undertake this important work.

Question 8:

Where products are provided by companies that do not have Trustees or IGCs, to whom should the governance and oversight function fall? Are we right to suggest an IGC-like body should be established?

Regulators wrestled with this issue for both with-profits committees and IGCs and ended up with a dumbed down alternative for “small” contract based schemes that “couldn’t afford” a full independent committee. We have seen examples that may be abuse of that relaxation. So we suggest that in the interest of consumer well-being, a full independent trustee or IGC body is established for products which qualify for the Retirement Quality Mark.

Question 9:

Are these the right features of well governed in-retirement products?

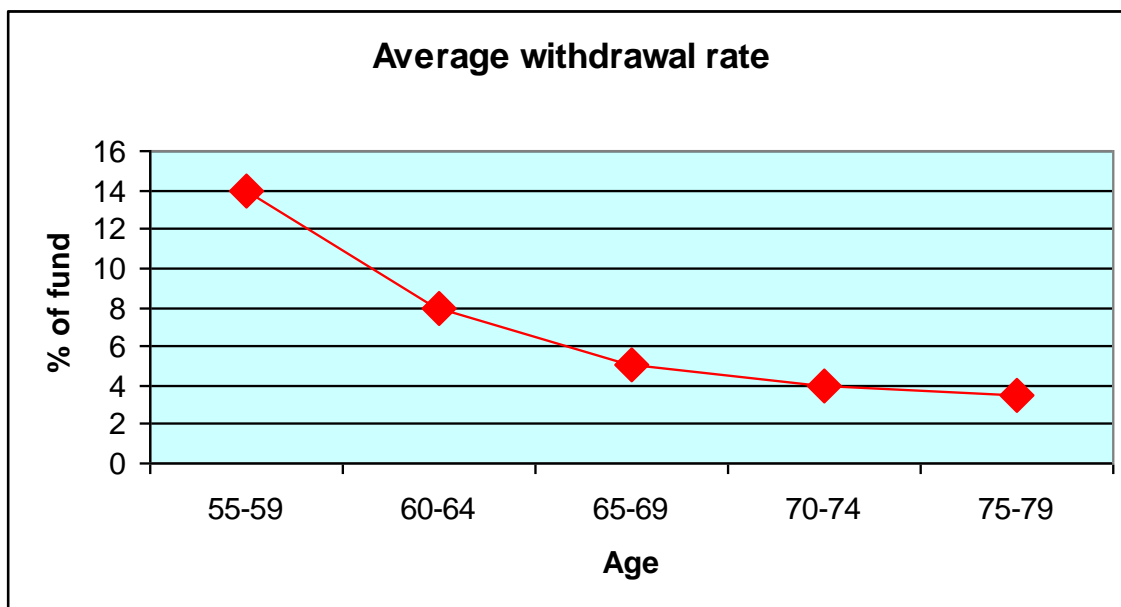
Yes



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 10:
Are there other features that should be included?

The issue of the starting level of income drawdown has not been addressed. The latest FCA Retirement Income Market Study Data statistics reveal a wide dispersion, by age of average starting rates of withdrawal:



Source : FCA Retirement Income Market Data Q3 2015

This shows graphic evidence that younger consumers are taking too much income, whereas older consumers are taking too little.

It's an area where consumers need help, and where the pensions industry has a much better idea of what is an appropriate or safe level of income withdrawal than many consumers do.

So we recommend that standards incorporate some requirement for guidance to the consumers on an appropriate level of initial income withdrawals.

Question 11:
Are these the right standards against which to assess the good governance of in-retirement products?

Yes we support these standards.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 12:

Are there other standards that should be considered?

No response.

Question 13:

Does the evidence which will be requested meet the Board's objective of being robust enough to allow for an unambiguous assessment of whether the Standard is being met whilst on the other hand, not placing a heavy administrative burden or cost on schemes and providers?

We think this is a matter for your executive, but we point out that in the case of consumer complaints, evidence must be available that demonstrates that full due diligence was conducted on the products which were awarded the RQM.

There will be complaints, and they may not arise until many years in the future, when some customers either run out of money or have to cut back drastically as their funds become severely depleted.

Question 14:

Is there other, or alternative, evidence that should be sought?

Same answer as Q13.

Question 15:

Are these the right features of good communication for in retirement products?

No. There appears to be some confusion between what needs to be communicated and how it needs to be communicated.

The "what" is important as without key information customers are at risk of making expensive mistakes.

The "how" should be left to the product providers. Terms like "clear and engaging" are not helpful in a set of standards. Whilst they are desirable features they cannot achieve universal attainment as the interpretation of such terminology is subjective. Information that some people find to be clear and engaging is still mis-understood by others and so the standard fails, throwing it into disrepute when those customers who have lost money in an income drawdown plan complain that they hadn't understood the risks so the communication wasn't clear for them!

Question 16:

Are there other features that should be included?

Please refer to the answer to Q13.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 17:

Are these the right standards against which to assess high quality communication standards for in-retirement products?

We have commented on the standards in the appendix below.

Question 18:

Are there other standards that should be considered?

We have commented on the standards in the appendix below.

Question 19:

Does the evidence which will be requested meet the Board's objective of being robust enough to allow for an unambiguous assessment of whether the standard is being met whilst on the other, not placing a heavy administrative burden or cost on schemes and providers?

We think this is a matter for your executive, but we point out that in the case of consumer complaints, evidence must be available that demonstrates that full due diligence was conducted on the products which were awarded the RQM.

Question 20:

Is there other, or alternative, evidence that should be sought?

We think this is a matter for your executive, but we point out that in the case of consumer complaints, evidence must be available that demonstrates that full due diligence was conducted on the products which were awarded the RQM.

SECTION 5 – RQM – GOVERNANCE AND OPERATIONS

Question 21:

Is the governance and operational framework for the RQM appropriate and sufficiently robust to give confidence to award holders and consumers that the Pension Quality Mark Board is itself applying high standards?

The strong independent governance is what can give consumers confidence. They will not look at the operational framework until complaints start to arise.

Question 22:

Are there any other features that should be considered in the governance and operation of the RQM?

No response.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 23:

Is the Board right to require providers and schemes whose licence to use the RQM is withdrawn to notify customers or scheme members, giving them the opportunity to transfer to another product or provider?

Yes, this is essential. Retirement can last 25 or more years and if consumers have made a buying decision on the basis of a quality mark then they should be free to move their custom elsewhere if that mark is no longer held by the product.

We suggest that the draft standard is strengthened to require a “no-charge transfer out” to be available to consumers. That would be a real consumer benefit, and one that the best income drawdown providers should be happy to give. There are many examples of no-charge transfer options in the accumulation space, so it would be desirable to lead the way and get this valuable consumer friendly benefit established in the decumulation space too.

ANNEX A: PROPOSED STANDARDS & ASSESSMENT CRITERIA

1. High Quality Governance Bodies

Question 1:

Are these the right standards by which to assess the governance standards that apply to in-retirement products?

We support your call for strong independent governance acting in the consumers best interests. But we are surprised that you call for just three trustees. That would mean that if just one was away absent, then only two trustees would be present, which we suggest would be inadequate.

Question 2:

Are there other standards that should apply?

We suggest that Governance processes should include a feedback loop of some sort, so that the trustees can gain a regular understanding of how well the service is meeting the needs of its consumers.

Question 3:

Are we right to apply the same standards for governance to single employer and Master Trusts and for products that are not provided under trust?

Yes, because consumers will not understand the difference between the two governance arrangements.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 4:

Are these the right pieces of evidence to request to assess whether the standards are being met?

No response.

Question 5:

Are there other/alternative proof points that should be requested?

No response.

2. Default Investment Strategy

Question 1:

Are these the right standards by which to assess whether the default investment strategy for in-retirement products that contain an element of continuing investment return?

Whilst regular and timely reviews are important, they need to be cognisant of the very long term investment horizons. A typical person retiring today has 25 years ahead of them.

Question 2:

Are there other standards that should apply?

No.

Question 3:

Are these the right pieces of evidence to request from schemes, IGCs or providers in relation to the default arrangements for in retirement products that contain an element of investment return?

No response.

Question 4:

Are there any other/alternative proof points that should be requested?

No response.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

3. Value For Money

Question 1:

Are we right to set a general value for money test for the charges standard? What should value for money look like in this context?

Value for money is critical. The analysis should include whether the services provided are relevant and helpful to the consumer, whether the payment for the services is fair and what the position of the scheme is vis a vis the rest of the market.

Question 2:

What is the appropriate standard(s) to apply to the in-retirement products in scope for the RQM? How should the RQM seek to ensure that charges are fair and not excessive?

Trustees are required to assess value for money, so there seems little value in PQM also seeking to assess it as this runs the risk of confusion and differing outcomes.

Question 3:

Are we right to say that scheme members should have a right to transfer to another provider to avoid being 'locked in' with a poor quality provider? Are there conditions that should apply to the right to transfer?

Yes, the ability for consumers to leave is both a valuable feature for them and a useful way of keeping schemes on their toes. The definition should be tighter, closer to a free transfer without charges than is proposed.

Question 4:

Have we requested the right pieces of evidence to assess whether providers or schemes are meeting this standard?

No response.

Question 5:

Are there other/alternative proof points that should be requested?

No response.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

4. Initial Communications

Question 1:

Have we captured all the initial information likely to be given to scheme members/customers? Are there other items of information that should be included?

Missing from the list is an initial communication on what is a sensible level of withdrawal from the plan. This is an issue about which consumers have little idea, with the initial FCA data showing customers at younger ages taking on average well over 10% a year. We believe that a good quality scheme needs to step up to the plate here and help members.

It is also incongruous to omit any help at inception on choosing drawdown rates and then ask schemes to send out alerts when members draw too much or too little in standard 5.

Question 2:

Have we requested the right pieces of evidence by which to assess that this standard is being met?

No response.

Question 3:

Are there different types of communications to which different standards should be applied?

No response.

Question 4:

Are there other/alternative proof points that should be requested?

No response.

5. Ongoing Communications

Question 1:

Have we captured all the information that should be disclosed to members/customers on an on-going basis? Are there other items that should also be included?

Mostly. But the information on average life expectancy is essentially irrelevant, as we are dealing with individuals, not a population which has meaningful averages.



TISA RESPONSE TO 'DEVELOPING A RETIREMENT QUALITY MARK' CONSULTATION.

Question 2:

Is it appropriate to require on-going information to be provided at least quarterly?

We believe that in this current age of on-demand services, it is not appropriate to provide information at fixed intervals such as quarterly. Rather we would expect information to be available online and by telephone on a continuous basis with encouragement for members to pull information at times to suit them. An annual statement could be a backstop for members who the scheme notice have not accessed information or reviewed their account during the preceding year.

Question 3:

Are there other risk warnings that should be disclosed to members/customers, or other circumstances in which they should be communicated with?

Older customers should be reminded about the need to either fix their income in a non-discretionary way or to appoint a power of attorney before they become incapable of managing their affairs themselves.

Question 4:

Have we requested the right pieces of evidence by which to assess that this standard is being met?

No response.

Question 5:

Are there other/alternative proof points that should be requested?

No response.