



tisa

Leading on Investments and Savings

**TISA response to
Transfers & Re-reg
consultation**

January 2017

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.

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.

1. Do you agree with the proposal that the industry should introduce a standard for completing each step in a transfer and re-registration process?

Yes. A transfer will always include at least two counterparties, often more. TISA considers that setting an SLA for each step ensures that each constituent party has clear responsibilities within the overall process. However, TISA also recognises that such a process leaves gaps in that the time taken for the information to be moved between those parties is thereby missed. However, having one simple start to finish SLA does not place any clear responsibility on each separate counterparty.

Additionally, and perhaps the key issue, is that from a consumer perspective, the real concern will always be – how long does the total process take from start to finish. Therefore, we recommend that the acquiring party also has responsibility for monitoring the total time taken, that there is an agreed, defined chase process and that there is an agreed process for identifying and dealing with regular or persistent default.

With regards allowing for the time taken for information to be exchanged, there needs to be an agreed standard on how that happens, which will then allow for a defined time to be included in the end-to-end SLA. For example, if a party is using electronic messaging, then the SLA for the time taken for that information to be sent is seconds. If the information is on paper, then there can be a requirement for that to always be sent by first class post, in which case, 1 day for each time the information moves needs to be incorporated into the end-to-end SLA

It will be useful to note that there is a precedent in place for this structure – the Cash ISA Transfer process. Admittedly it is simpler in that there are only two counterparties, but each has its own clear

SLA and is obliged to report against that SLA. This enables those who do not meet the requirements to be clearly identified.

2. Do you agree with the new service level of 48 hours for each step in the transfer process?

Yes. For the reasons above.

3. Do you agree with the definition of a step?

Feedback from the recent industry workshop indicates that tighter definition is needed to ensure clarity.

4. Do you believe the industry should consider setting end-to-end targets for transfer and re-registration processes instead of, or as well as, the 48-hour standard? If so, how would you consider this working?

Yes, as specified above. The central purpose of all of this work should be to improve the consumers' experience. The individual who wants to move their assets to a different provider is only interested in how soon that process is completed. They really do not care about the constituent parts or processes. Alongside that, we need to enable those consumers to be able to compare the performance of providers. Establishing an end-to-end SLA and requiring firms to publish their performance against that SLA will be a great way for firms to evidence their level of excellence.

It would be necessary to establish end-to-end transfer SLAs for common scenarios of specified wrappers and asset types (e.g. a cash pension transfer with UK funds, or an in-specie ISA transfer holding UK funds and equities). An SLA for individual steps would still be required to set expectations on all parties.

5. Do you agree that participating organisations should be required to provide communication to customers, covering the information outlined above, at the outset of the transfer process?

Yes. Providing appropriate and accessible information to consumers as the transfer progresses is an important aspect of building confidence.

6. Do you agree with the proposed implementation timetable with organisations committing to the standard by September 2017 and full implementation by March 2018?

Yes.

7. Do you agree with the approach to service level reporting?

Yes.

8. Would a 'best practice transfers' quality mark would be a useful tool to increase awareness and uptake of this initiative? If so, how should it work?

Yes, as this could be an effective mechanism to provide assurance to customers. However, this would need to be in conjunction with mandatory reporting. FairLife is an organisation through which a quality mark could be obtained.

9. What do you believe is the right approach to publishing this material to the industry? Who do you believe should have access to this information?

Following confirmation that there would be no breach of competition law, granular data, including company names, should be published and shared between all participating firms. This enables two things: 1) peer pressure to achieve SLA requirements will drive up compliance and improve standards overall and 2) the ability to identify best practice such that those who struggle to meet the SLAs can improve

FCA may also require sight of such data. Again, there is a precedent for this in the Cash ISA transfer model where FCA used the data for their supervisory visits.

Average or min/max data should be made available publicly.

10. Do you agree that service level management information should be collected from March 2018, then published by the end of October 2018 (covering the period April to September 2018)?

Yes.

11. Do you agree with the approach of prioritising key process issues, and focusing initially on 'quick wins'?

Yes. However, we should ensure that items deemed high priority are not delayed just to make some quick wins for items deemed far less important.

12. What do you see as the priority issues that need to be addressed? Please list these in order of priority.

- 1) Agree the framework for SLAs, and require collection of MI across the industry (for both paper and electronic transfers) as this will identify where the main delays and problems occur and thus shape further actions which should be taken.
- 2) Mandate interoperability of systems to enable larger numbers of transfers to take place electronically – e.g. cash ISA to Stocks and Shares ISA and also DC pension or SIPP transfers. Currently there is no interoperability between the Vocalink/Bacs system used by Cash ISA providers and the TeX system used for Stocks and Shares ISA providers or between the Origo Options system and the TeX system.

- 3) Establish one structure to manage standards and governance across the investments industry. Such a body must be fully independent of service providers to ensure there are no conflicts of interest and to assure the wider industry that all undertakings, actions and decisions are open, fair and equitable. Having one 'joined up' structure will drive forward consistency, reduce conflict, drive up participation, reduce costs and provide a central point for future standards to be developed. This is dealt with in more detail below.

13. Can you identify other actions or quick wins that could be taken which would improve transfer and re-registration standards?

Key actions listed above

14. Do you agree with the approach on payments and that we should consider removing cheques by March 2018?

Yes.

15. Do you agree with the approach to the development of industry standards?

Yes. It is clear that developing common standards enables best practice to be shared, thus helping existing providers to better utilise their internal resources to develop unique features and also enabling new players to more easily enter the market by utilising standard processes.

It is however important to note that where a process involves more than one party, then it is critical that there is a governance structure in place to ensure that the standards are interpreted correctly and agreed SLAs complied with.

It is also important to ensure that the standards are open and therefore can be accessed and utilised by multiple firms. In the case of transfers, if a provider elects to use electronic messaging, it is important that they are free to use a vendor of their own choice. This in itself creates competition across vendors, thus enabling different packages to be made available, driving up variety and putting constraints on cost. If only one industry utility is used, then the standards are by definition not open. That would immediately call into question the principles of encouraging and enabling competition and open markets.

16. Do you agree with the assessment of the strengths of the two implementation models?

It is easy to be seduced by the concept that using one industry utility can be easier – everyone uses the same system and conforms to one set of priorities. However, not only is it highly unlikely that just one system will cater for the multitude of business models, but also it is equally unlikely that such a monopoly will drive down costs. History indicates the very opposite! Apart from anything else, it is difficult to conceive a positive reaction from the competition department within FCA if our industry recommends use of a monopoly model.

Firms prefer to be in control of their own business and to have choice as to which suppliers they use – no-one likes to be forced down a specific route.

Establishing one industry utility would place a key dependency on just that one firm, creating major risk across the whole industry in the event of a failure.

In addition, firms already have relationships with different suppliers. It is highly unlikely that any of them would take kindly to being forced to use one they may have discounted in the past!

Different firms have different business models and therefore need different solutions. That is best achieved by enabling a variety of suppliers to develop differing solutions such that providers can select the best fit for their specific business model. Any alternative to that is highly likely to fall foul of the requirement to establish an open and competitive market.

Our preference is for the establishment of open standards, delivered through multiple suppliers which are required to be fully interoperable.

17. What do you consider to be the key barrier/s (if any) to the uptake of existing solutions for transfers and re-registrations?

There appear to be three key barriers to adoption.

- 1) Interoperability between transfer solutions. Because the systems for all products are not interoperable (for example different systems are required for pension transfers compared to S&S ISA transfers compared to Cash ISA transfers), then firms may be expected to invest in possible three different systems. That will never make any sense. If all systems were required to be interoperable across all products, then it would become more cost effective to invest in the infrastructure of your choice with the certainty of knowing that you could then interface with any counterparty regardless of which supplier they used.
- 2) Initial infrastructure cost. Providers who undertake few transfers can consider the cost of change to be prohibitive. Competition can drive down such costs, as can solutions which offer a variety of access methods.
- 3) The lack of an independent governance body which is fully independent of service providers and provides oversight and control across all products and services, ensuring consistency and appropriate controls

18. Which of the proposed implementation models is your preferred approach, and why?

Open standards delivered through multiple suppliers which are interoperable is our preferred approach.

The reason for this is that competition will always provide the greatest drive for innovation, creativity and variety. Open standards, delivered through multiple suppliers also encourages new players into the market, providing greater flexibility and opportunity for new technologies to drive forward greater innovation and performance.

One utility can only ever be a monopoly, a cartel of one. Such structures rarely produce anything other than high prices as there is no-one to compete against. Additionally, whichever current solution which was chosen to be the industry utility, there will be many providers who currently use other solutions and it seems unrealistic to expect those providers to change to a solution which they may have rejected in the past. Such an attempt may well prove to be unachievable!

19. Do you consider that alternative models exist for improving the development and maintenance of standards and implementation of the standards? If yes, what are they?

Currently standards are developed by a few different bodies - some by voluntary groups, some by professional bodies, some by firms who also offer solutions to deliver those standards. All have their advantages and disadvantages. But the biggest problem is that because different standards come from different bodies, there is little in the way of consistency. Added to that, there is not always sufficiently wide representation, some groups rely on the good will of individuals and companies, and any process or undertaking which needs standards to be produced has no one central place to go to have that work done. Further, access to some of those standards comes at a cost.

Ideally, standards would be produced by one central body and freely available to anyone who wants them.

20. Which current standard development should be considered as part of this proposal?

It is important to take this opportunity for change to structure standards that can, where appropriate, be interoperable not only across the investments industry, but also across the payments industry. And it is interesting to note that the decision taken by the Payments Strategy Forum was that one Standards & Governance body be created in the payments world, where the standards will be based on ISO20022.

Currently in the investment sector, the UKFMPG is responsible for the development of ISO20022 standards, but this is a voluntary group, heavily reliant on a few individuals, which does not have broad representation from several sectors of the industry.

Moving forward, it appears to be highly sensible to continue and expand the use of ISO 20022 across the investments industry to ensure consistency across the wider financial services industry and open up the opportunity for greater interoperability.

21. Are there other industry standards that should be aligned under this initiative?

There are debates on open standards in other current industry initiatives: fund trading and settlement, payroll data, pension dashboard, and Digital ID. It would seem to be cost effective if they could all be developed under a common structure.

22. Do you agree with the creation of a new independent governance body?

Yes.

A new governance body, truly independent of any commercial service, supporting interoperable, open standards, and established as an industry utility, would provide transparent, fair and equitable support and control to drive forward improved and consistent standards in delivery, thus enabling a faster, more accurate and potentially cheaper service to consumers.

It has been shown that where standards are used for a process involving more than one party, it is important to have a process of governance in place. Without that, the interpretation of the data input,

required actions etc. quickly diverge, there are no common SLAs and the standards become corrupted to a point where they are irrelevant.

If a utility model is used, then the supplier would automatically provide governance of that. Where there are open standards delivered through multiple, interoperable solutions, there needs to be an independent governance body to provide the necessary level of control.

23. In your view, is there already a body that could perform this role?

There is only one independent, cross industry body currently providing any level of governance – TISA Exchange (TeX). TeX is the company formed to manage the legal contract created to facilitate electronic transfers between ISAs, GIAs and funds. It has no ties to any commercial offering and is thus completely unconflicted in its operation.

TeX has demonstrated that such a structure can work and has enabled an environment where some transfers (where all parties are fully electronic with integrated back office systems) can take place in minutes.

Indeed, it is important to remember that TeX has the support of FCA, as confirmed in the **FSA Policy Paper “PS11/9 Platforms” August 2011 paragraph 4.7:**

“Given the TISA initiative, which we support, we do not think it is appropriate for us to set prescriptive rules regarding timescales for re-registration at this stage. We will use the results of our post-implementation review work to assess the industry’s progress and to determine whether prescriptive rules are needed.”

We accept that TeX is not perfect, but it does demonstrate that such a structure can work. TeX could form a very valuable base or model for the future, by changing the structure and Articles in line with the recommendations below. Such changes could incorporate:

- enabling a better, more robust internal management structure;
- expanded operational responsibilities to encompass the needs of other industry initiatives;
- **existing legal contracts could be extended to include all transfers types and classes**
- clear requirements for managing messaging versions;
- detailed requirements for collection, submission and publication of MI;
- expanded Board membership from a wider community, including all the relevant industry bodies.

Utilising TeX would build on the depth of experience gained during the establishment and early years of operation, and could potentially save the need for substantial costs incurred by setting up a completely new structure and legal framework.

24. Are there existing forums that should be included in the revised scope of this forum?

All of the existing standards and governance structures currently in place could be bought together into one body.

This body would benefit from the appointment of perhaps one or two staff to have responsibility for management and technical matters. Administration could be outsourced, which would then mean no costs would be incurred for premises. This way, cost to the industry will be kept at the minimum and potentially no higher than is currently paid once all the different structures are brought together.

The board should comprise of a representative from each of the relevant industry bodies (to ensure fair and equitable input across all sectors) as well as a representative from at least one provider from each of the different sectors.

25. What do you believe should be the approach for funding and resourcing the governance body?

If existing bodies are bought together into one, then it is possible that current funding could be reduced by the normal savings realised through any merger.

Benefits will be available to all those firms who “sign up” to be bound by the common standards and SLAs, conform to the common contract and abide by the agreed liability laid down in such a contract. It therefore seems realistic to expect firms to pay a fee for those benefits. Such income would then be used to cover the costs of both governance and the cost of developing and maintaining the standards.

The publication of MI, and visible support and encouragement from FCA, would, as outlined above, drive up participation such that participation by the majority of the industry would enable costs to be shared by sufficient parties to keep the costs minimal for each member.

26. Are there other responsibilities you believe should be considered within the scope for this body?

There are a range of responsibilities required to provide appropriate governance, in addition to those needed to produce and maintain standards. These would include, but are not limited to:

- Identifying responsibilities of each party
- Collection, interpretation and dissemination of MI
- Reporting
- Financial control
- Membership control
- Handling disputes
- Ensuring compliance

27. Do you agree with the customer principles? Are there principles you would add or change?

Yes.

28. Do you agree with the proposal to set up the governance committee by September 2017?

Yes.

29. Do you agree with the 2-year period for a formal review i.e. in Spring 2019?

Yes.

Carol Knight, COO, TISA

M: 07967 317003

E: carol.knight@tisa.uk.com