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Leading on Investments and Savings

**Response by TISA to CP19/5:
Retirement Outcomes Review:
Investment pathways and other
proposed changes to our rules and
guidance**

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About TISA

TISA is a unique, rapidly growing, consumer focused membership organisation. Our ambition is to improve the financial wellbeing of all UK consumers. We work with our members to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of all sectors of the financial services industry. We have over 200-member firms involved in the supply and distribution of savings, investment products and associated services, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Complementing our consumer policy development, TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives (TeX/STAR, Digital ID, MiFID II and Open Savings & Investment). This reflects TISA's commitment to open standards and independent governance.

TISA's current strategic policy and industry solution developments include:

- **Financial Guidance:** Making guidance more widely available to support financial decision making for those consumers who currently do not have access to advice.
- **Digital ID:** Development of a secure Digital ID for consumers of UK financial services. This will be key enabler for the digitisation of financial services.
- **Open Standards Development - Digitisation:** Building on TISA's range of open standards development projects (inc. TeX, MiFID II), TISA's members have launched a project to further open up UK financial services to consumers. This project - Open Savings & Investment – is aligned to the aims of Open Banking and has the core objective of enabling access to all savings and investments through the development/governance of industry open standards.
- **Financial education:** Helping young people manage finance, including KickStart Money - a three-year programme delivering financial education to 18,000 primary school children.
- **Retirement saving:** Strategic proposals for a holistic approach to saving for retirement.
- **Consumer engagement:** Focusing on vulnerable customers and millennials.

TISA also provides its members with support on a range of operational and technical issues targeted at improving infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations. This work currently includes: MiFID II, CASS, SM&CR and addressing cybercrime.

Executive Summary

TISA welcomes the opportunity to provide a response to the Financial Conduct Authority's CP19/5.

We broadly support these proposals and believe they have the potential to help create better outcomes for consumers who enter Drawdown on a non-advised basis. There are, however, various challenges that these proposals create and possibly some unintended consequences for consumers which need to be reviewed and clarified. We have included details of these within our response.

We have also highlighted the importance of consistency and simplicity. These are principles which have a significant impact and the power to help consumers understand cross-provider communications, enable comparisons to be undertaken on a 'like for like basis' and may lead to higher levels of engagement and subsequent take-up of guidance or regulated advice.

Given the current pensions landscape, we are cognisant of the importance that a joint FCA/TPR strategic approach can provide. We believe that all change should be approached on this joint basis to ensure that consumers of all DC pension schemes are afforded the same levels of protection and have the same opportunities to enhance their retirement outcomes. This will also help industry implement change where their propositions span across both regulatory jurisdictions.

Considering the regulatory changes that firms are currently having to (and potentially implement) in the coming months, a 12-month lead time seems ambitious. Firms will need to review and re-engineer their entire client journeys and it is crucial that sufficient time can be given to ensure that solutions lead to optimal consumer outcomes. We suggest that April 2021 would provide those extra few months to allow industry the time to validate research and help ensure robust processes are in place.

Consultation Response

Chapters 3 to 8: Investment pathways

Q1: Do you agree with our proposed rules on when a consumer must be offered investment pathways, including how consumers who enter drawdown in stages should be treated, and that those who take an UFPLS are not included?

Yes, we agree on the rules which trigger the investment pathway process and that these are applicable to crystallised funds and therefore do not include UFPLS payments.

Q2: Do you agree with our proposal that all providers of drawdown to non-advised consumers should be covered by our requirements on investment pathways, including SIPP operators?

Yes, we agree that the requirements should extend out to all providers of non-advised drawdown irrespective of the pension product.

Where a SIPP operator offers drawdown on a non-advised basis, consumers remain open to decumulation investment risks irrespective of whether they are in drawdown within a SIPP wrapper or an alternative product. However, the flexibility that a SIPP provides does mean careful consideration needs to be given in how and when these requirements are applied, as they will not always be appropriate e.g. for a non-advised investor with the main investment comprising commercial property.

It seems an unduly onerous process for all parties, where an advised client is by default classed as non-advised for investment decisions made more than 12 months after the transaction they were advised on, or within 12 months of the transaction they were advised on and have not confirmed that their personal or financial circumstances are unchanged since they received the advice. More work could be undertaken in this area to understand existing triggers for firms switching clients from advised to non-advised. It would seem appropriate for the choice architecture process on determining an advised status to be more aligned to these existing processes.

Q3: Do you agree with our proposed 4 objectives, and mandating all providers to use our prescribed wording when presenting these objectives?

We agree with the 4 objectives, however given that providers' drawdown client bases will consist of consumers with varying income requirements and risk attitudes, the solutions can only be broadly appropriate at a very high level and it may not be possible to cater for everyone who fits into a respective pathway solution. We agree with a prescribed wording approach, which will create consistency and make it easier for consumers to comprehend. Consideration needs to be given to whether the wording remains appropriate for consumers who are being reminded to review their investment approach at the 5-year mark e.g. 'Option 3: I plan to start taking my money as a long-term income within the next 5 years' does not describe someone who is already in Option 3 and taking income and intends to continue doing so for the next 5 years.

Q4: Do you agree that providers should only be able to offer 1 pathways solution for each investment pathway objective?

No, we believe that the number of pathways should not be restricted to a single solution per objective. This does not align to the number of variables that Drawdown provides and also does not reflect the varying investment options and expertise that different firms can offer.

Whilst it should be perfectly acceptable for a firm to offer 1 investment solution per objective, firms should be able to design multiple solutions under the umbrella of the main objective to allow consumers to select a solution more aligned to their circumstance and risk profile. It is important, however, that the customer journey is not over-complicated and where more than 1 solution for an objective is offered, the differences are clearly communicated and are easy to understand. The process of allowing the consumer to determine a suitable pathway solution should retain a fluid simplicity to ensure engagement is maintained.

It is important that we do retain the 4-objective standard in order to retain an element of simplicity. However, where for instance income is required, a firm may wish to offer several solutions to cater for different income requirements and risk profile

Q5: Do you agree with our proposed rule requirements for the choice architecture, and do you agree that providers can offer investment pathways without giving the consumer a personal recommendation?

We broadly agree with the requirements relating to the choice architecture, however we do not see the need to offer these to the consumer twice. If they are presented in line with the requirements and as intended at outset, this should be sufficient for the consumer to consider whether any of the solutions are appropriate for their circumstances.

We also agree that provided these are presented in line with the requirements detailed in this consultation, then the process should not be construed by the FCA as advice. It is, however, important that the consumer is not under the illusion that they are being provided with advice.

Lastly, whilst we encourage the general concept of shopping around, it seems that the choice architecture is extending out this requirement to cover every occasion where a consumer makes an investment decision. Please see an extract from the proposals 'when a provider offers a consumer any investment solution, they must tell them that they may benefit from shopping around, and that they can receive free, impartial guidance on shopping around from the SFGB.'

Could you clarify if a simple fund switch for a non-advised client would generate the requirement or is the intention to just limit this from an investment perspective to events which trigger choice architecture?

Q6: Do you agree with our proposed rule to prevent providers from offering the same pathways solution for all the objectives?

Yes, we do agree that a single investment option would not be appropriate to meet all of the objectives.

Q7: Do you agree with our proposed rules on labelling of pathways solutions?

As per Q3, we agree with a prescribed wording approach, which will create consistency and make it easier for consumers to comprehend pan-industry communications. Consideration needs to be given as to whether the wording remains appropriate for consumers who are being reminded to review their investment approach at the 5-year mark e.g. 'Option 3: I plan to start taking my money as a long-term income within the next 5 years' does not describe someone who is already in Option 3 and taking income and intends to continue doing so for the next 5 years.

Q8: Do you agree with our proposed rules requiring larger providers to provide pathways solutions for at least 2 of the 4 objectives and to refer consumers to another provider's pathways solutions for any objectives where they don't provide a pathways solution?

From a commercial perspective, there may be a disincentive for some firms in offering options 2 and 4 as these are for consumers who do not intend to hold their funds within a Drawdown product for more than 5 years. It may then be a challenge for this group to find an alternative provider.

Where a firm has an obligation to provide investment pathways, we believe the obligation should be extended to ensure that they provide at least one solution for all pathways which have been agreed as an industry standard.

Q9: Do you agree with our proposed easement for smaller providers, including our proposals for the operation and level of the threshold for qualifying for this easement

We agree with the concept of an easement and the proposed threshold. Firms could qualify for this by either being a smaller provider or a provider which operates on a predominately advised basis. However, we believe the easement process currently proposed needs further work to ensure this is an effective alternative for non-advised consumers. From our understanding, we do not believe many firms will be actively promoting a competitor by referring an existing client to another provider. This then leaves the option of referral to the Drawdown comparator tool, however this remains a 'black box' at present and we do not know that the information which will be provided by this tool will lead to good consumer outcomes. A comparison of items of information taken in isolation can lead to misleading results. We therefore believe the easement process needs a further review once full details of the comparator are known.

Q10 Do you agree with our proposed approach to product governance for firms manufacturing pathways solutions used to provide investment pathways? Do you agree with our proposed approach for distributors?

Yes, we agree with the proposed approach. We would ask, however, for clarification on the requirements for firms where the investment allocation for an investment pathway solution is changed over time due to changing market conditions. Whilst the revised portfolio would apply for all new consumers entering the pathway, is there a requirement for those consumers holding an older version to be notified or switched automatically, either at the point of change or at any time in the future?

Q11: Do you agree with our proposed approach for ongoing information to consumers using investment pathways? Do we go far enough, or is there anything further that providers could do to ensure that consumers carefully consider their investment choice on a periodic basis?

Yes, we believe the proposals are proportionate and provide consumers with the relevant information at the appropriate intervals to consider whether their chosen strategy remains relevant to their circumstance.

Q12: Do you agree with our proposed approach for the records providers should keep?

Yes, in order to measure the effectiveness of the implemented proposals, it is necessary for firms to record details of outcomes and the proposed approach seems logical.

Should an easement be implemented for smaller providers, we would be interested to review the governance requirements around the selection of external providers.

Q13: Do you agree with our implementation timeline?

Given the rapidly changing DC pension landscape and the regulatory changes that firms are currently having to (and potentially implement) in the coming months, a 12-month lead time seems ambitious. Firms will need to review and re-engineer their entire client journeys and it is crucial that sufficient time can be given to ensure that solutions lead to outcomes in keeping with the spirit of this consultation. We would suggest that April 2021 would provide those extra few months to allow industry the time to validate research and help ensure the right processes are implemented to optimise consumer outcomes.

Chapter 9: Ensuring investment in cash is an active decision

Q14: Do you agree with our proposals to ensure cash investment is an active choice?

Yes, we agree in principle with investment into cash being an active decision, however, further work is required when you consider potential outcomes. The objectives of certain investment pathways may result in industry solutions comprising significant proportions of cash. Having selected a pathway having gone through choice architecture, only then to receive a cash warning 1 year later is not a good customer journey. The interaction of cash in investment pathways needs further consideration and requirements defined.

From a SIPP perspective, it is standard practice for all money in to be washed through the associated cash account pending investment decisions or income withdrawal. Further consideration needs to be given to this operating model, to ensure that it is not compromised with the introduction of additional requirements and also how the requirement can be practically met where investments are held through an external Investment Manager.

Many providers do not allocate specific funds to the drawn and undrawn elements and instead apply a percentage split based on the initial crystallisation and ongoing capital events. Further clarification is needed on how the cash determination process should work in these cases.

Further clarity is also required around asset disinvestment, where this would generate an overall cash holding of more than 50%. Could this requirement delay disinvestment and potentially result in a consumer being financially disadvantaged?

Q15: Do you agree with our proposals on the warning about investment in cash that the non-advised consumer will get when they enter drawdown or transfer-in funds in drawdown to a new provider?

We agree that consumers should be made aware of the potential pitfalls of investing in cash, however we do need to be mindful that providing reams of information and comparisons will confuse a typical consumer and is likely to have the opposite effect and result in disengagement. We have learned through research that consumers do not understand or engage with percentages which is why illustrations/communications are moving to pounds and pence, yet it is proposed we include percentages in these communications.

Simplicity is key here. A simple communication which illustrates the potential dangers in layman's terms will have the biggest impact.

Q16: Do you agree with our proposals on the ongoing warning around investment in cash?

Yes, in the same way that consumers are reminded of the investment pathway they have selected and to consider whether it is still a suitable investment choice, the same principle applies to cash. However, if a provider receives notification from a consumer at any time that they are aware of their cash holding and acknowledge the warning (this could be verbally by telephone), the requirement to send an annual communication should be reduced to a less frequent period.

We would also suggest the time period to allow firms to review existing client investments is extended to 12 months so that warnings can be included in their annual communications.

Q17: Do you agree with our proposed approach for the records providers should keep?

Yes, in order to measure the effectiveness of the implemented proposals, it is necessary for firms to record details of outcomes and the proposed approach seems logical.

Q18: Do you agree with our implementation timeline? In particular, do you agree with our view that these remedies should be implemented at the same time as investment pathways?

Please see Q13 which remains relevant for these remedies also.

Chapter 10: Actual charges information

Q19: Do you agree that, in relation to their decumulation pensions, unless charges are built into the disclosed price of the product, consumers should receive information at least annually on all the actual charges they have paid, aggregated and expressed as a cash amount?

We agree with the principle of a consumer receiving information on the charges that have been levied on their fund in the previous year in a pounds and pence format.

Where a consumer is in a partially drawn arrangement, it is important that the annual statements contain the same level of details on costs and charges to avoid confusion. A standard rule of thumb in consumer communications to aid engagement and understanding should focus on the aspect of consistency.

Q20: Do you agree that our rules should require disclosure of transaction costs, but not specify how transaction costs should be calculated?

The nature of some charges may be difficult to determine, particularly where these relate to transaction costs. Whilst transparency of costs is broadly a good thing, it does need to be considered whether a typical consumer will understand or have an interest in transaction costs. There is the danger should a consumer compare costs between providers that this is the only information they use as a benchmark. Transaction costs may not be representative of net returns and it is this which is the overriding factor in determining fund growth from an investment perspective.

Furthermore, firms which are obligated to meet MIFID II requirements such as Platforms will already have the appropriate systems and controls in place to obtain details of these charges. Pension providers are not caught by these rules and a requirement to comply will require a significant change and cost to operational processes, which may not be proportionate to the potential consumer benefit this level of transparency brings.

Should the disclosure of transaction costs be implemented and form part of the SFGB comparator tool, it is essential that there is a prescribed method for calculating these. Otherwise, methods employed could create large variations and the intended purpose of displaying these costs is lost.

Q21: Do you agree that firms should disclose the adviser charges paid out of the product, or clarify that adviser charges are not included in the annual pension charges figure they disclose?

Yes, we agree that these details should be disclosed.

Q22: Do you agree with our implementation timeline?

As with previous questions on implementation timelines, we believe that 12 months is not an appropriate lead time and it would make sense for these to all be implemented at the same time. We would reiterate the proposal that April 2021 provides a more appropriate timescale factoring in existing changes and initiatives and allows firms sufficient time to implement robust and effective solutions.

Annex 3 Cost benefit analysis

Q23: Do you have any comments on our cost benefit analysis?

No comment