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17 October 2014

This is the Financial Services Consumer Panel's response to the Financial Conduct Authority's (FCA's) consultation paper on the proposed Independent Governance Committee.

The Consumer Panel welcomes the proposals to establish Independent Governance Committees (IGC) via FCA rules. We believe that IGCs will contribute positively to improved consumer outcomes where pension savings is concerned.

It is our view that the key objective of the IGC should be to act in members' interest through assessing and reporting on value for money delivered by contract-based schemes on an ongoing basis. This key objective should include an ongoing review of the features needed to meet good quality standards; charges borne by scheme members, standards of communication with scheme members; costs incurred through investment of pensions' assets and so on.

However, value for money can only be assessed if the full cost of investing is known and or disclosed. The Consumer Panel will soon publish¹ extensive research and a discussion paper demonstrating that the costs of investing is unknown; highlighting why this is detrimental to consumers and a hindrance to competition. If IGCs are charged with assessing value for money, they will need to know the full costs of investing; explicit and implicit costs, without this they will be handicapped. It is therefore imperative that the FCA intervenes fully and robustly where charges and costs are concerned.

It is important that IGCs do not become captured by firms. For this reason, we are of the strong view that IGC must be truly independent, as well as having a majority of members not nominated by the firm, the IGC must have access to information and data, and where necessary, be able to procure its own research and draw on its own secretariat support. The Consumer Panel is also keen to see IGCs composed of experts from a variety of different areas and professionalisms.

¹ End of October or early November

Answers to Consultation Questions

Q2: Do you agree that deferred members of workplace personal pension schemes should be within the mandatory scope of IGCs?

- Yes, the Consumer Panel is of the strong opinion that deferred members' money should be accorded the same level of care as those making an active contribution. Otherwise employers and providers will have less incentive to protect their needs. We are pleased that the Department for Work and Pensions minimum governance standards will address deferential pricing by banning Active Member Discounts. We however consider it important that the IGC have a direct obligation to Deferred members.
- We remain concerned about 'lost pots' and would suggest that the IGC should also have a role to play in ensuring that up-to-date information is kept on deferred members.

Q3: Do you agree that individual personal pensions, other than those that originated as workplace personal pensions, should not be in the mandatory scope of IGCs?

- Yes. Those who have purchased individual pensions are likely to have been more engaged, or may have had the means to purchase regulated advice. In any case they would have gone through a different sales process to those who have workplace personal pensions. One of the problems the IGC seeks to rectify is plugging the gap for employees who would have been completely disengaged from choosing a pension scheme. We believe that mandating personal pensions to be covered by IGCs would weaken the benefits of the IGC for workplace personal pension schemes. Also, it cannot be assumed that the interest of those who purchased personal pensions, and those who have workplace pensions, will always be aligned.

Q4: Do you agree that individual personal pensions should not be in the mandatory scope of IGCs, even where the employer contributes or facilitates payments?

- It depends. The key issue is who chooses the scheme. If the employer has had any involvement, even in presenting options, then there may be a case for IGC oversight, where the answer is 'no', we agree that individual

pension plans should not be in scope, even where the employer contributes.

Q5: Do you agree with our proposals for which firms will be required to establish and maintain an IGC?

- Yes.

Q6: Do you agree that IGCs may be established at a group level?

- Yes. Group IGCs should be the most efficient option. Anything else may be disproportionate. Where there is more than one brand under a portfolio, insisting that there should be an IGC per brand could prove onerous and inefficient. However, it will be important for a group IGC to ensure that the different and varying interests within a group are adequately taken into account.

Q7: Do you agree that an IGC must have a majority of members independent of the firm and that the IGC Chair must always be independent?

- Yes, it is important that the majority of people who sit on the IGC are seen as capable of challenging the information they have been presented with robustly. While we agree that there are good reasons for having firm appointments the majority of IGC members should be independent.
- There should be clear guidelines with regards to the number of people firms are allowed to appoint. This should not be more than two.
- The Chair of the Independence Governance Committee should always be independent.

Q8: Do you agree that an IGC should have at least five members?

- Yes.

Q9. Do you agree with our proposed definition of independence that would allow trustees of a firm's master trust to be independent IGC members?

- While we understand the practicalities of this proposed definition, we are again concerned about capture on the part of the provider. Several of the large master trust schemes' trustee boards already include representatives from the provider firm. The independent trustee on the board is also appointed by the firm and it is not clear if the trust deed and rules permit the independent trustee to make significant changes, such as requiring the administration and/or asset manager to be replaced (these services being provided by the master trust provider itself). Therefore, if the provider firm's appointed trustees are on the IGC and the provider firm also appoints IGC members, we feel there is a significant danger of capture.

Q10. Do you agree that we should not require firms to indemnify IGC members?

- No. Trustees of traditional trust-based DC schemes benefit from some form of indemnity insurance or protection. This has always been considered essential in order to enable trustees to act in a genuinely independent manner, without fear of action on the part of the scheme, for example. If IGC members do not have this protection, their independence, power, and appetite for taking robust action will be significantly weakened relative to trustee boards.

Q11. Do you agree that members of the IGC, including the IGC Chair, should not be approved persons at this time?

- Yes. We believe the approved persons rules may be too cumbersome and exclude people with the requisite skills from sitting on these committees. This may also act as a barrier to those from different professions.
- Moreover, restricting an IGC to approved persons may result in accusations of cronyism and the recycling of the same people with the same or similar way of thinking. If members who are not authorised have to go through the process of being authorised, it will create a lot of bureaucracy.

Q12: Do you agree that we should require firms to recruit independent IGC members through an open and transparent recruitment process?

- Yes. We agree that these individuals should be recruited through an open and fair competition. We also support the full involvement of the Chair in the appointment of other IGC members.

Q13: We would welcome views on the proposed duration of appointment of IGC members.

- We believe that three years is too short for the reasons outlined in the paper. However, we think that a decade is far too long and could lead to complacency and 'group think'. It would also add to the risk of provider capture.
- We propose that independent IGC members be appointed for a fixed term of three years, renewable once. Members, including the Chair should serve no longer than 6 years in total.

Q14: Do you agree that we should permit the appointment of corporate persons to IGCs, including as the IGC Chair?

- No. In our view individual accountability is important. Corporate appointments would allow individuals to hide behind their legal entities and avoid accountability, this goes against the spirit of the proposal. It is important that members do not become faceless. More importantly, corporate bodies are too easily conflicted.

Q15: Do you agree that there should be no restriction on the duration of a corporate appointment?

- We do not agree with corporate appointments.

Q16: Do you agree that IGCs should consider in particular the value for money received by individuals enrolled in default funds?

- While the majority of members will accept the investment strategy of the default fund, making this the most obvious focus, we argue that IGC's should also consider the value for money received by individuals enrolled in non- default funds, as these are also chosen by the employer and its advisers. The IGC is charged with oversight irrespective of whether most employees are likely to be enrolled in default funds or have chosen a non-default fund. The

IGC should also monitor use of non-default funds very carefully, as it would be possible for the provider to promote these funds in a way that would encourage take-up. These funds will not be subject to the charge cap and could be considerably more expensive than the default fund. Moreover, members who choose or are persuaded to use these funds must understand that they need to monitor their chosen investment strategy regularly to ensure the risk profile remains appropriate.

Q17: Do you agree that, at a minimum, IGCs must assess whether the characteristics and net performance of all investment strategies are regularly reviewed by the firm?

- Yes. This is an area where the IGC should consider independent verification and comparison with other investment strategies.
- Equally important is the IGCs power to shape and influence the investment strategy. We propose that IGCs should establish a statement of investment principles.

Q18: Do you agree that, rather than mandating a particular approach, we should allow individual IGCs to determine how best to assess value for money?

- No. We believe that it is essential for the regulator to establish clear principles on which value for money is assessed, otherwise IGCs will use very different benchmarks and might be influenced by the provider to apply weak standards. We are concerned that the consultation paper makes frequent reference to value for money without providing any definitions.

Q19: Do you agree that IGCs should be required, at a minimum, to review the three aspects of scheme quality proposed, and should consider other aspects as appropriate?

- Yes

Q20: Do you agree that IGCs should consider all costs and charges, as proposed? If not, what would you suggest?

- Yes, this is one of the most important responsibilities of the IGC in relation to value for money. In addition to the stated member charge, the IGC must receive full disclosure of all costs on the funds; explicit and implicit. The Consumer Panel will shortly publish research on investment cost disclosure, which sets out the full

range of costs and which we hope will help inform the regulator's requirements for disclosure to IGCs.

Q21: We would welcome views on how best to improve the disclosure of all costs and charges, and how we could transpose the industry standards for authorised funds to pensions.

- See Q20.

Q22: Do you agree that IGCs should be able to escalate concerns directly to the FCA, alert relevant scheme members and employers, and make their concerns public?

- Yes. IGCs must have the necessary teeth to effect change and we think having the ear of the FCA, when it needs it, will be crucial for their effectiveness. Moreover, it is important that once the IGC has decided to escalate an issue, it is not faced with lengthy red tape. The process for escalating should not be fraught with hurdles.

Q23: Do you agree that the IGC Chair should be required to produce an annual report and that the firm should be required to make this report publicly available?

- Yes. This is one of the standard principles of good governance. This will aid accountability, of both the IGC, and the pension provider.

Q24: We would welcome views on where IGCs should focus their attention.

- In order to ensure that the majority of members interests are assessed as quickly as possible, IGCs should focus its attention (in the first instance) on analysing the appropriateness of default funds for members, given the expected high numbers in the default funds.

Q25: Do you agree that we should place a duty on the firm to provide the IGC with all information that it reasonably requests for the purposes of carrying out its duties?

- Yes, we strongly agree. The work of the IGC could easily be curtailed or frustrated without access to information. There should be clear procedures for requesting information, with a duty on the firm to respond to all requests for information within a set time period.

- As this is the type of issue that might be escalated to the FCA it is equally important for the FCA to outline how it will deal with matters escalated.

Q26: Do you agree that we should place a duty on the firm to provide sufficient resources to the IGC as are reasonably necessary for it to carry out its duties?

- Yes.

Q27: We would welcome views on possible arrangements to ensure that member views are directly represented to the IGC.

- The Panel feels that, as a minimum, IGCs should be required to hold an open annual meeting with scheme members, similar to an AGM in format. Depending on the size of the workforce this might have to be a series of meetings, but the intention is that members have the opportunity to question the IGC in a public forum at least once a year. IGCs should also be required to meet with union or staff representatives quarterly.
- In addition, the Panel feels that at least two members of the IGC should have the responsibility for devising methods of member interaction that suit the individual workforce.
- Scheme members should also be made aware of how they can contact members of the IGC in the event of a complaint or query that cannot be resolved by the HR or pensions management team.

Q28: Do you agree that the firm should make the IGC's annual report and terms of reference publicly available?

- Yes.

Q29: Do you agree that we should place a duty on the firm to address concerns raised by the IGC or explain to the IGC why it does not intend to do so?

- Yes. This will give the firm an opportunity to respond to concerns raised and explain why it may on occasions be non-compliant to requests for information for instance.

Q30: Do you agree that GAAs should be allowed as an alternative to IGCs for firms with smaller and less complex workplace personal pension schemes?

- We do agree that it seems sensible to put in place alternative arrangements that can be cost effective and efficient for smaller and less complex workplace personal pension schemes, but share the FCA's concerns that these alternative arrangements should in no way provide less effective or independent governance.
- The measures suggested by the FCA seem robust, but these alternative arrangements will need careful monitoring to ensure that the roles of IGCs are not undermined in any way by their adoption. We would also suggest that there should be a maximum number of schemes one GAA can usefully support so resources are not stretched too thinly or conflicts of interest encountered. It is essential that GAAs are not viewed as the easier or 'tick box' option.

Q31: Do you agree with our proposals for the types of firm that can use GAAs?

- No. The Panel feels that the FCA should set a threshold for the type of scheme that may use GAAs as opposed to IGCs. We feel there is too much leeway in the size of schemes that might be allowed to use alternative arrangements, and that these alternative arrangements might be viewed as the 'easier option', particularly in the early days of IGCs. Firms should be encouraged wherever possible to install their own IGC and not be tempted to provide alternative arrangements.
- Originally, we had envisaged that alternative arrangements would be allowed for schemes with a smaller membership - but we feel the calculation the FCA is proposing of less than 5% market share of (a) funds under management (b) scheme members and (c) number of employers contributing is too complex a formula. It will be essential for schemes to understand easily and quickly whether they are required to set up an IGC or whether they qualify for an alternative arrangement.