Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Caroline

Financial Services Consumer Panel response to the FCA's Discussion Paper (DP) on Effective Competition in non-workplace Pensions

The Panel welcomes the opportunity to respond to this Discussion Paper (DP). We appreciate the work the FCA proposes to do, especially the in-depth data collection on charges. Given that it currently has investments double those of workplace pensions, this investigation is long overdue.

It is good to see the FCA will use consumer research to explore whether consumers understand whether they would be better off switching, and what are the barriers to doing so. The FCA should also find out whether people actually know *how* to go about changing provider.

Segmentation will be important in this market. The research should look at different types of consumer e.g. self-employed, small business owners, as well as examine differences arising from gender or protected characteristics. This will ensure any interventions are well targeted.

We were disappointed to see the comment that '*consumers lack motivation to invest time and effort to make informed decisions.'* Consumers should not have to invest time or effort to understand a particular financial market, particularly one that is so important to their future security. It is for the market to simplify the choices open to consumers and to disclose all relevant information in a way that consumers can understand, so they make an informed choice. The DP does make this evident, but comments such as these are not helpful when attempting to make an industry change its ways and treat its customers fairly.

The Panel would like to see the following outcomes from the FCA's work:

- A merger of Stakeholder Pensions (SHPs) and Individual Personal Pensions (IPPs), with the consumer protections of SHPs. Currently there are three 'types' of personal pensions, and – in broad terms - consumers have to choose between higher protection (SHPs), lower charges (IPPs), or greater choice/flexibility (SIPPs). This is an impossible choice for most people.
- A reduction of the charge cap on SHPs to the level of default funds on workplace pensions i.e. 0.75%. The cap of 1.5% is no longer appropriate.
- The extension of the remit of IGCs to non-workplace pensions, so that value for money and costs and charges disclosure requirements would apply.

We appreciate legislation would be required to merge SHPs and IPPs, and to reduce the SHP charge cap. We hope this will not deter the FCA from examining these options, and recommending them to the government if they would reduce consumer harm.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel

Questions for discussion:

Q1: Do you agree with our high-level description of the market? Have we omitted any significant elements or dynamics?

Most of the relevant information is covered. However, Appropriate Personal Pensions (APPs) should also be included. These were the vehicles used to receive contracted-out NI contributions. For many years they were identifiable but were then merged with IPPs in April 2012.

However, these policies could account for many dormant or paid-up policies and were an important part of the personal pension market in the late eighties and nineties. The FCA should ask product providers which non-workplace pensions started life as APPs as the purpose of these policies was to replace pension income lost from SERPs or S2P because of contracting-out. This is even more important now as the new single tier state pension is reduced for individuals who were contracted out in the past. Consumers should be able to find out:

a) How much of SERPs/S2P was reduced because of contracting out
b) How this compares to the contracted-out deductions (CODs) applied to the new single tier state pension
c) Whether their APP has redressed this loss and what to do if it has not.

It is possible that inappropriately high charges for these policies have eaten into investment returns, reducing some consumers' overall retirement income.

Q2: Do you have any comments, observations or evidence about engagement levels among non-workplace pensions customers?

It is clear from the FCA's Retirement Outcomes Review[1] that engagement levels among pension holders is low, and it therefore seems likely this would apply equally to consumers who hold non-workplace pensions. As the DP points out, most of the failings identified by the OFT in respect of workplace pensions apply equally to non-workplace pensions, in particular product complexity and the difficulty in comparing products and charges.

However, consumers with workplace pensions have the product chosen for them, and there is a default option for those who do not want to make an active choice of fund. Consumers purchasing non-workplace pensions must choose the product, provider and the fund, as well as deciding upon the level of contribution needed to provide an adequate pension. Unless they consult a financial adviser, this is a near impossible task for most consumers.

It is important that non-workplace pensions are included in the data feeds for the pension dashboard. The dashboard is intended to help increase engagement. Many consumers, particularly those in their forties and fifties, will have some non-workplace pensions and should be able to view them alongside their workplace pension pots.

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[1] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

Q3: Do you have any comments, observations or evidence about the factors that influence consumers to switch between or transfer into non-workplace pensions?

Having three products, with different names, that essentially do the same thing is not helpful to consumers. The distinction between IPPs and SHPs is now an anomaly. Many personal pensions have lower charges than stakeholder pensions, but still lack the protections afforded by stakeholder pensions, making it impossible for consumers to choose between what is essentially the same product. As the DP notes, even the distinction between SIPPs and IPPs is becoming blurred.

Given the complexity of the products, lack of transparency of costs and charges and different charging structures among the same type of product, consumers cannot evaluate options and decide whether switching would be beneficial. Understanding how to switch or transfer is difficult without a professional adviser.

Research conducted for the Panel[2] shows that consumers face many barriers to shopping around in opaque and confusing financial services markets. In addition, an evidence review for the Money Advice Service[3] shows that retirement planning requires quite different skills from those needed to manage money well day to day, and that it can stretch many people's ability to the limit.

We welcome the FCA's intention to carry out further consumer research to explore what influences consumers' decisions to switch or transfer into non-workplace pensions. To facilitate switching and transfers the Panel suggests it is now time to extend the protections offered under stakeholder pensions to all personal pensions so that only two distinct types exist i.e. Personal Pensions and SIPPS.

Q4: Do you have any comments on the impact of regulated advice on consumers' ability to understand and assess their pension throughout the product lifecycle?

If an individual has a financial adviser and sees the adviser for yearly reviews this should have a positive impact on outcomes, although it won't necessarily increase understanding.

It is likely that very few people who took out a non-workplace pension through an adviser still see that adviser or receive advice from them. In our response to the Asset Management Market Review the Panel asked the FCA to find out how many financial advisers are receiving legacy commission from products they sold but for which they do not give continuing advice. This would be particularly relevant for non-workplace pensions.

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[2] Consumers and competition: Delivering more effective consumer power in retail financial markets, Jonquil Lowe on behalf of the Financial Services Financial Panel, March 2017

[3] Retirement Planning Evidence Review: Financial Capability and Retirement, Personal Finance Research Centre on behalf of the Money Advice Service, April 2017.

Q5: Do you have any comments about whether certain funds are seen by consumers as default arrangements and whether these should be subject to additional standards and protections?

It is unlikely that consumers view particular funds as 'default' funds or even understand the term, but only consumer research will identify whether this is so. Default funds should be subject to additional standards and protections, and a price cap, and this should apply equally to workplace pensions and non-workplace pensions. The FCA should look into the products that advisers are typically recommending in this area to gain further insight on the issues.

Q6: Do you believe that demand-side weaknesses are present in the market for non-workplace pensions? Do they apply across the market or are they specific to particular consumer groups, products or sales channels?

The phrase 'demand-side weakness' smacks of blaming the consumer for the poor treatment they get from providers. The FCA regulates the supply side - it should focus on the problems there.

Q7: Do you have any comments or evidence relating to our discussion of SHPs?

The protections afforded by SHPs should be extended to IPPs, and the maximum AMC lowered from 1.5% as this is no longer appropriate. It is unfair that consumers eligible for a workplace pension can rely on a charge cap of 0.75% for the default fund, whereas those who can't get a workplace pension can be charged up to twice this for an SHP.

Q9: How might we and industry improve non-workplace customers' awareness of the charges they may or will incur and the impact of those charges on their pension savings?

Holders of non-workplace pensions should have the same information as those with workplace pensions. The FCA's Institutional Disclosure Working Group has developed a template for Trustee Boards and IGCs to receive full disclosure of the costs and charges associated with the pension scheme(s) they govern. The best way of providing this vital information to pension scheme members still needs to be determined. The best way of ensuring equality between workplace and non-workplace pension is to introduce IGCs for non-workplace pensions. Among other things, the IGCs should have the responsibility of ensuring data is fit for purpose to feed through to the Dashboard.

In addition, if non-workplace pensions fell under the remit of IGCs they would be subject to 'value for money' scrutiny. This would be an important safeguard, but more is needed.

Q10: Do you have any comments on how industry might better support consumer choice (including monitoring and identifying when it might be appropriate to switch to a more competitive product and / or provider)?

Product providers should be responsible for identifying policies that carry inappropriate or outdated charging structures, and offering a switch to equivalent funds that carry lower charges.

However, there are limits to which the industry can – or should – support consumer choice. Providers have a vested interest in selling their own products. Rules that require them to recommend a competitor are bound to be bent. What consumers need is independent guidance. The FCA should work with the Money Advice Service (and its successor) on how this can best be provided, and consumers made aware of it.

Legacy commission where no continuous advice is provided should be banned and advisers identified who have been receiving legacy commission in these circumstances. Commission paid where no advice has been received should be refunded. The FCA should investigate how many non-workplace pensions have legacy commission still being paid to show the extent of the problem.

Q11: Can you provide any evidence or examples of where competition is not working well on non-workplace pension charges (applicable across the market or specific to particular products)?

Please see our response to Q3. In particular, the research paper *Consumer and Competition* provides numerous examples of where competition is not working well in retail financial markets, all of which can be applied to non-workplace pensions.

Q13: We would like to hear views on the merits of enhancing oversight arrangements for non-workplace pensions in the event that harm is identified.

Non-workplace pensions should come under the jurisdiction of IGCs, irrespective of whether the FCA thinks harm has been identified. Currently these scheme members have no overarching independent governance that puts their interests first. IGCs are ideally placed to take on this role.

Q15: Do you have any other comments on the matters discussed in this Discussion Paper?

The DP talks about Treating Customers Fairly (TCF) and says providers should set out what they consider to be fair outcomes for their customers or different groups of customers, and create a clear approach for their delivery. This is right in principle but it fails to say where these 'outcomes' should be set out.[4]

It is reasonable for With-profits committees to manage conflicts of interest, ensure a fair allocation of returns and assess the charges incurred by the with-

[4]Para 2.26 of the DP

profit fund, but if there are no records to show this is happening then it is of no use.[5]

[5]Para 2.27 of the DP