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

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Strategy and Competition Division
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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Dear Sir/Madam,

Financial Services Consumer Panel (the Panel) response to the Effective Competition in Non-Workplace Pensions (NWPs) Feedback Statement (FS19/5)

The Panel agrees with the proposals for intervention in the NWP market. We believe that the approach to regulation of pensions should be aligned across the workplace and non-workplace markets in order to avoid consumer confusion on various areas of protection. We also believe the consumer research conducted by NMG Consulting demonstrates that even where consumers are advised, they do not have helpful information to allow them to compare products and make informed decisions about their pensions. We find it particularly worrying that the FCA's work in this area, as well as our own, has consistently found evidence that consumers do not know what it costs to invest.[1]

Furthermore, given the similarities between the findings by the FCA to the 2013 OFT study on the defined contribution (DC) pensions market, the regulatory response should be similar. We support the extension of the disclosure and value for money assessment requirements across the pensions sector. We believe that effective governance plays a key role in monitoring value for money and provider conduct. We are therefore particularly pleased that a review of effectiveness of Independent Governance Committees (IGCs) will take place in 2020 especially if their remit is due to extend to NWPs and investment pathways.

Where the FCA considers new disclosures as part of possible remedies in this market, please ensure these are fully tested on consumers, including vulnerable consumers. If implementing remedies using disclosure we also urge the FCA to remind firms of their obligation to meet the communication needs of vulnerable groups and their options for doing so.

Lastly, the Panel believes the proposals for an independent body to collect costs information is a potentially powerful and disruptive intervention to empower consumers to drive more competition in the market. The FCA, or MAPs, may be best placed to collect this data. The evidence suggests that consumers do not make decisions on price alone, however, the wide-ranging levels of fees in the market cannot be explained as purely product or service related.

[1] https://fs-cp.org.uk/sites/default/files/investment_discussion_paper_investment_cost_and_charges.pdf ; https://fs-cp.org.uk/sites/default/files/fscp_final_discussion_paper_investment_costs_20160229_4.pdf ; https://www.fca.org.uk/publications/market-studies/asset-management-market-study ; https://www.fca.org.uk/publication/occasional-papers/occasional-paper-32.pdf

Yours faithfully

Wanda Goldwag
Chair, Financial Services Consumer Panel

FCA Questions

Q1. Do you have any views on introducing investment pathways? How many pathways would benefit consumers: one or multiple? If introduced, what criteria should we consider in defining investment pathway(s) for non-workplace pensions? Can you suggest a proportionate alternative?

Please see our response to the Retirement Outcomes review. As we said in our response to the Review consultation,[2] we do support the introduction of investment pathways but would urge the FCA to ensure clarity and consistency across firms on how they communicate the broad pathway objectives. Consumer communication of pathways should be free from jargon and easy to understand. It risks consumer confusion if this is not achieved.

Q2. Do you have any views on applying an 'active decision' requirement to non-advised investments in cash, and additional warnings to all consumers about the impact of such a decision? Can you suggest a proportionate alternative?

Please see our response to the Retirement Outcomes Review consultation as above. We agree with this proposal but a simple risk warning about cash not being the best choice will not help the consumer understand what their next steps could be. For this reason, we suggest that a '*prominent reminder'* is required regarding the availability of advice and guidance highlighting the potential impact on a consumer's future retirement options. In that context, the FCA might more prominently promote the availability of the Money and Pensions Service (MAPs) as a trusted source of guidance in this space.

Q3. Do you have any views on the ways we have suggested charges could be made clearer, less complex and more easily comparable? Can you suggest a proportionate alternative?

We agree with the proposals. We reiterate our view that the FCA, DWP and TPR should seek to ensure consistency across the pensions value chain. Given the requirement for inclusion of transaction and administration costs in the workplace pensions sector, we think it should be extended to the NWP market so that consumers are able to perform useful comparisons for pensions savings. We are aware that providers question whether consumers benefit from transaction costs disclosure, but we see it as a useful data point for helping consumers to understand the cost of investment. This allows consumers to assess where their providers are adding value. It is important for consumers to have insight into what portion of their fees relates to transactions and what relates to the provider and distribution value chain. It should be clear what portion of fees are payable for advice, platform costs, investment management and the compounding effect of ad valorem fees. This will drive value for consumers in the market.

Q4. Do you have any views on publishing charges information? Can you suggest a proportionate alternative?

The Panel supports the proposal to report standardised charges data on a regular basis to an independent body who would then collate the data into a single data set. If competition

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[2] https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_retirement_outcomes_review_cp_19_05_investment_pathways_20190430.pdf

is to improve in the market, consumers need to be able to benchmark costs and charges, provider performance and service metrics. We believe the FCA could provide further guidance on the criteria that governance bodies should review when considering value for money.

The Panel has long supported the use of pounds and pence disclosures and illustrations. We urge the FCA to extend MiFID II style requirements across the sector.

Q5. Do you have any views on what remedies or further analysis would be appropriate in relation to the level of charges identified in this market?

The Panel has been consistent in our support for comprehensive reporting of costs and charges in the investment sector so that consumers have the information they need to compare products and drive competition. The Panel's own research has shown that consumers better respond to costs being presented in pounds and pence.[3] There should not be any hesitation in making this a requirement in the NWP market given the MiFID II requirements. There should be consistency across the pensions saving value chain. The Panel is concerned by the current patchwork of disclosure requirements across the investments and insurance sectors which risks consumer confusion.

Our response to the Asset Management Market Study[4] gives examples of how fund costs could be presented more clearly so the FCA should use this to inform its thinking here. The FCA's Institutional Disclosure Working Group (IDWG) has developed a template[5] for Trustee Boards and IGCs to receive full disclosure of the costs and charges associated with the pension scheme(s) they govern. The FCA should take learnings from the Asset Management Market Study and the Costs Transparency Initiative that is implementing the work of the IDWG.

We also believe that the language and terminology must be consistent to improve comparability across schemes and better inform consumer decision making. The FCA should be prescriptive here to ensure the aims of standardisation of terms and better comparability are met. The FCA has already identified that 'comparison of charges is currently difficult at best, and unachievable for most consumers'.

An obligation on providers to automatically move consumers to better available products is another potential remedy to address the level of charges in the market. In 2018, the Panel commissioned research to estimate the likely financial detriment to consumers when they are trapped in poorly performing products.[6] One of the recommendations from that research was for the FCA to consider the merits of introducing a new automatic upgrade rule which could either require firms to automatically upgrade consumers into the best available product or offer them a choice of better quality and better value products which suit their needs. A rule such as this could help ensure consumers were in the best value products.

Q6. Do you have any views on what such a [value for money] framework should consist of?

We welcome the upcoming consultation conducted with TPR on a framework for value for money (VFM). VFM in the context of costs and charges can be determined in terms of clear rules and templates but there are also other services that are sometimes raised in the overall context of VFM. Namely quality of administration and communication.

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[3] https://www.fs-cp.org.uk/sites/default/files/final_online_investment_and_advice_services_summary_report_bm_30_regulator_doc_05_12_2016.pdf
[4] See pg 3, https://www.fs-cp.org.uk/sites/default/files/fscp_response_asset_management_market_study.pdf
[5] Now being taken forward by the Costs Transparency Initiative
[6] https://www.fs-cp.org.uk/sites/default/files/automatic_upgrades_position_paper.pdf

Charges are highly complex across the market and this is identified in the feedback statement. In a VFM framework it will be essential that there is consistency in the categories of charges that consumers can expect.

The risks of consumers and advisers selecting pensions on charges alone is understood although the FCA's own research confirms that consumers do not focus on price alone. It is for providers to explain *why* a higher charging product has additional desired benefits or services attached to it, and keeping the impact of costs and charges obscure is not an acceptable position.

It is important that the governance arrangements secure effective oversight to protect consumers and members. We look forward to further work on this, particularly in the context of IGCs.