Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear John,

Financial Services Consumer Panel (The Panel)'s response to CP 19/15: Independent Governance Committees (IGCs) – Extension of Remit

The Panel welcomes the opportunity to respond to this consultation to express our support for the FCA's proposals for the remit extension of IGCs to oversee value for money (VFM) in investment pathways and to oversee the firm's (environmental, social and governance) ESG policies. IGCs will need to be clear on what is meant by 'ESG' as it may differ from firm to firm, as we mentioned in our response to the FCA/FRC's joint Discussion Paper on effective stewardship.[1]

The FCA intended to conduct an Effectiveness Review of IGCs but delayed this due to other priorities. The Panel were disappointed with that, but we are pleased the FCA has committed to review the effectiveness this financial year. We look forward to its outcome.

The Panel would like the FCA to take a more prescriptive approach to assist IGCs in their assessment of value for money VFM. We believe this would improve consistency and comparability. The FCA has already identified the lack of consistency in the reporting of costs and charges in IGC annual reports[2] which could lead to consumer harm. Having clearer outcome measures would be useful when challenging firms on ESG policies for example. We welcome the VFM work the FCA has planned with TPR which should lead to a 'best practice' standard in workplace pension schemes for how VFM should be assessed.

We fully support the requirement for firms to make the IGC's annual report publicly and prominently available on their website for easy comparison and for prior year reports to be easily accessible too.

For IGCs to be truly independent, and bring effective challenge, they should have a diversity of thought. This means some IGC members should have backgrounds and expertise from outside the financial sector. Whilst many current IGC members bring expertise and experience from the pensions sector, having greater diversity through more consumer representatives and those from varied backgrounds would lead to more

[1] https://www.fs-cp.org.uk/sites/default/files/fscp_response_to_fca_frc_stewardship_consultation_final_20190430.pdf
[2] https://www.fca.org.uk/publication/consultation/cp19-15.pdf para 5.21

effective challenge and decision-making. We fully endorse section 5.12 of the CP. At the same time, the construction and diversity of Governance Advisory Arrangements should be considered by the FCA.

Yours sincerely

Wanda Goldwag
Chair, Financial Services Consumer Panel

Q1: Do you agree that IGCs should report on the adequacy and quality of their firm's policies on ESG issues, member concerns and stewardship?

ESG issues are assuming increasing importance in considerations of investment options. Therefore, IGCs are well placed, subject to competence, to ensure that pension scheme members are having these issues considered in funds, and reported upon. Understanding ESG issues will require, for some IGCs, better understanding of ESG issues but also the metrics used by providers when assessing funds, and the instructions to fund managers on exercising stewardship. The FCA should offer advice to IGCs, with the TPR, who will also be reviewing their advice to scheme Trustees on these issues.

Such issues should be considered in the context of member concerns and reflected in investment principles. Reporting of stewardship and the impact on company actions as a result of engaged ownership is important.

Currently matters relating to climate change are the most significant but the area of sustainable and responsible investing is wide and a robust methodology for an IGC for tackling all ESG matters is needed.

We concur with the CP in section 3.18 that IGCs should do more than publish the firm's policies but also comment on their adequacy and quality of policies in relation to the products that they oversee.

Q2: Do you agree that IGCs should report on how the firm has implemented its policies on ESG issues, member concerns and stewardship?

Yes. Reports on policy implementation by firms needs to be comprehensive but produced in a manner that is accessible to all scheme members.

Q3: Do you agree that IGCs should report on the firm's policies on these issues for both pathway solutions and workplace personal pensions?

Yes, pathway solutions should receive the same scrutiny by IGCs.

Q4: Do you agree that firms should make the IGC's annual report publicly and prominently available, with 2 prior year reports for comparison?

To consider how an IGC has impacted upon decisions taken by the company over time, previous annual reports should be available. We feel *all* previous annual reports should be available in an electronic format, rather than just the most recent three annual reports.

Q5: Do you agree that the proposed guidance should apply more widely, to all firms that provide pension products and all life insurers that provide investment-based life insurance products?

Yes - to ensure transparency and protection.

Q6: Do you agree that we should focus our requirement for an IGC on firms offering pathway solutions to consumers?

Concerns expressed by some providers in response to CP18/17 seem to reflect a view on the capabilities of IGCs to take on new responsibilities in decumulation. This is of course something that should be considered, but with adequate resourcing and properly diverse committees we do not see why IGCs could not perform the enhanced role. We concur with the CP that the extra costs are worth it.

It would seem proportionate to focus IGCs on firms offering pathway solutions.

Q7: Do you agree with our proposed approach for providers with smaller numbers of non-advised consumers entering drawdown?

For firms with a small number of non-advised consumers entering drawdown this seems a reasonable way to offer protection at cost.

Q8: Do you agree that IGCs must be in place in time to assess the initial designs of pathway solutions?

Yes. The design phase will be an opportunity for a firm to get things right from the outset and the IGCs should be in place from the beginning of this process. They must however be resourced adequately rom this point.

Q9: Do you agree that we should be more prescriptive in our rules and guidance for firms and/or IGCs on how value for money should be assessed?

The FCA decided that VFM should be a matter for each IGC to determine on the basis of individual methodology. We are aware that some IGCs shared with others views on VFM. However, stronger guidance from the FCA may well be justified in establishing a consistent approach which scheme members may have more confidence in.

The work of the Independent Project Board in 2015 resulted in substantial cost savings for consumers. IGCs were found by the FCA to be generally, but not universally, effective.

As recognised in section 2.22 of CP19/15, 'in the workplace personal pensions market, providers may not always have strong commercial incentives to deliver good value for money.' Independent VFM scrutiny at the coalface is therefore very important.

Q11: Do you agree with the conclusion and analysis set out in our cost benefit analysis?

The FCA, in the CP, recognises in section 71 of the CBA that it is not easy to quantify the benefits of the proposals, but on balance the benefits are estimated as more than 1 basis point of the total AUM in workplace personal pensions. On that basis, the benefits seem likely to outweigh costs, so we are content.