FCA
Practitioner Panel

DWP DC Reform Policy Team

By email

16 January 2025

Dear Sir/Madam,

Pensions Investment Review: Unlocking the UK pensions market for growth

The UK's Financial Conduct Authority (FCA) Practitioner Panel (the Panel) is a statutory Panel created by the FCA with the key remit of representing the interests of practitioners of larger firms, and providing input to the FCA from the industry in order to help it in meeting its statutory and operational objectives in an effective manner. Further details of the Panel are available on its website at https://www.fca-pp.org.uk/.

The Panel welcomes the opportunity to respond to this consultation. We have a number of general points as well as comments on specific aspects of the proposals.

At the broadest level, the Panel believes that clarification is needed on the primary objective of the proposals in order to achieve the desired outcomes. If long term financial resilience is the aim, then a focus on suitability and engagement rather than scale and price cap would have the most significant impact, noting that:

- Auto enrolment has made a significant difference to engagement. If employers were encouraged or obliged to provide pension support alongside a workplace pension, this would make a significant difference to engagement and financial resilience.
- There remains the challenge of how to increase contributions from the 8% minimum to e.g.15%
- Creating large DC funds does not in and of itself lead to agency in decision making and the benefits of engagement.
- Creating a small number of large DC funds risks a lack of innovation in the provision of the service which risks leading to a "one size fits all" that does not meet the need of individuals.
- Enabling people to carry a pension with them throughout their working life should be a key aim, and in this a SIPP is as good a structure/vehicle as a master trust, so there should be focus on whether any changes are needed to the structures available.
- Effective governance needs to be in place on all schemes to develop the engagement of members.

If the aim is to encourage investment and creating scale so that more investment is directed towards early growth and infrastructure then productive finance/ alternative assets could be sourced through LTAFs, and the attractiveness of those assets could be boosted by a form of government guarantee similar to other public/private investments. Broader investment into infrastructure could also be incentivised by looking at whether there are areas of governance that currently act as an obstacle and what adjustments could be made that would lead to changes in investment behaviour. Further, there needs to be a clear understanding that price and value are not the same and the importance of longer-term investing and diversification should be emphasised.

Within the context of these broader observations, we have the following comments on the specific proposals:

Scale:

While broadly supportive of the Government's 'mega-funds' concept to leverage the use of scale for benefit of policyholders, defining "scale" will be a complicated process at two levels: 1) Defining the perimeter itself that should be used for scale, e.g. application to one or more of the layers of investments, the default fund itself or the institution etc, and 2) with each perimeter the exact size in value that defines scale. A much better proposition would be an accreditation process, e.g. a master trust accreditation, which allows market participants to demonstrate in a submission how they can satisfy a number of scale associated tests set by Government e.g. ability to invest in private assets while managing liquidity, drive better value for money for policyholders from third parties etc. It will also be important for the FCA to ensure that the drive towards mega-funds is not to the detriment of competition and innovation.

Price Intervention

In our view all price structures applying to groups of policy-holders involve an element of cross subsidy. In addition, operating costs to service employers vary significantly based on size and sophistication of the employee base. With both these factors in mind, changes to permissible pricing structures will only serve to change the nature of those cross subsidies resulting in unnecessary disruption. A material price intervention could also result in significant churn of schemes between providers, and potentially members between products, which in turn could have an unnecessary collateral damage on schemes deferring significant investment decisions around risks of liquidity.

Value for Money (VfM) Framework

We broadly support the role which the new VfM Framework could play in moving the dial away from price towards value. Raising the profile of the new framework amongst employers and those who advise them will be key to the speed of progress. A proposed intervention applying to employers (and accountants on behalf of small employers) to attest to the performance of their scheme, in the Annual Accounts each year, is gaining prominence. We would support the FCA's coverage of contract-based pensions under VfM in addition to master trusts to ensure uniform application of the Consumer Duty irrespective of legal construct of the pension vehicle.

Contract Override

We welcome this new facility that could be valuable in 1) Moving customers in 'red' rated legacy products to 'green' rated modern products. 2) Moving workforces from bespoke employer defaults to provider governed, and 3) Moving customers from current defaults to a new generation of more 'productive' defaults expected to deliver a higher net investment return. The FCA would need to ensure that all non-consent transfers are undertaken in the reasonably expected best interests of customers in the round. The role of IGCs as an expert and independent proxy for the customer interest could be key.

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Matt Hammerstein
Chair, FCA Practitioner Panel