



VFM Policy Team
FCA
12 Endeavour Square
London E20 1JN

By email

4 October 2024

Dear Sir/Madam,

CP24/16: The Value for Money Framework

The Panel supports the overall aim of the Value for Money (VFM) proposals, moving to a wider concept of value beyond price to support better outcomes for members in the longer-term. We also welcome the proposed service metrics for investment performance, costs and service quality which have been well thought through.

Our broad observation is that the proposed approach to service metrics has the potential to involve the disclosure of a large volume of data, however achieving the desired outcomes will depend on how that data is used and interpreted. It would be helpful for the FCA to give more clarity to articulating what 'good' looks like from an outcomes perspective to help guide a different approach in practice.

On specifics, the proposals for the application of RAG ratings as part of the assessment of arrangements need further consideration. The intention is that an amber rating 'indicates that the arrangement can be improved within a reasonable period of time such that it offers VFM', however the consequences of an amber rating are severe in that it requires that a product closes to new business from new employers. For a meaningful rating in between green and red, amber needs to allow for deficiencies to be highlighted, with an agreed rectification plan that allows for the scheme to remain open to new employers. If there is no agreed rectification plan, the scheme should be red. Without this adjustment, there is a risk there may be herding to relatively conservative investment approaches and short-term thinking. A main concern is that firms could be disincentivised from investing in productive finance assets, due to perceptions of risk that poor performance could drop an arrangement into amber with the prospect of several years to get back to green.

Finally, we welcome that the intention is to bring forward legislation to allow the framework to be applied to trust-based schemes regulated by TPR. It will be important that the framework is rolled out across all parts of the industry at the same time and with the same level of rigour across contract-based and trust-based schemes. Without this alignment, there may be competitive distortions if one segment of the market is subject to the framework while another is not. Similarly, it will be vital to ensure a joined-up approach between the VFM work and discussions on consolidation as part of the pensions review.

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

Yours faithfully,

[signed]

Matt Hammerstein
Chair, FCA Practitioner Panel