FINANCIAL CONDUCT AUTHORITY

Discussion Paper

DP24/3**

Pensions: Adapting our requirements for a changing market

December 2024

How to respond

We are asking for comments on this Discussion Paper (DP) by **27 February 2025**.

You can send them to us using the form on our website.

Or in writing to:

Pensions Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
dp24-3@fca.org.uk

Disclaimer

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Chapter 1

Overview

Introduction and context of this paper

1.1 The pensions market is changing. For workplace pension saving, there has been a shift from defined benefit (DB) pensions to defined contribution (DC) pensions, placing greater responsibility on consumers to save enough for their retirement. Within the DC market, assets and memberships are growing, particularly in master trusts and self-invested personal pensions. The introduction of pension freedoms increased the volume and complexity of choices for consumers about how to use their DC pension savings through retirement.

1.2 This raises important questions about how the pension system can best support consumers in this changing market, both those that are engaged or engage-able and those that are unable or unwilling to take active decisions about their pension.

1.3 There is also an ongoing debate about whether enough risk (and therefore reward) is being taken with pension savings to help ensure individuals have comfortable later-life savings levels and to provide capital from pension pools to support wider economic growth.

1.4 In response to these market changes, a programme of policy change is under way:

- The Government launched Phase 1 of its pensions review in the Summer. It published a Call for Evidence in September which asked questions about DC and the Local Government Pension Scheme (LGPS) funds, driving further investment in the UK economy, scale and consolidation and driving a shift to value. On 14 November, the Government published its interim report and consultation proposals to deliver scale and consolidation of the DC market and the LGPS. Those consultations close on 16 January 2025.
- Alongside this discussion paper, we published our first proposals stemming from the Advice Guidance Boundary Review (AGBR), designed to make sure people can get more help in navigating complex pensions choices.
- In the summer we consulted on the detail of a value for money framework, which aims to make sure that DC workplace pensions work harder for pensions savers.

1.5 The general policy position underpinning these initiatives is that consumers need more support with their pensions and that any products offered to them should represent good value.

1.6 Through this paper we want to stimulate a discussion on other areas of regulation where further changes might be needed to better support consumers. We discuss:

- **The regulatory framework that governs projections:** In an increasingly online environment for consumers, digital tools and modellers provide an opportunity to improve support and engagement with pensions. We understand our current rules may be limiting firms from offering good tools and modellers. We explore how a new regime could allow consumers effective and engaging digital tools with sufficient protections against potential harms.

- **Requirements for DC transfers and consolidation:** People often have more than 1 DC pension pot. They may want to consolidate pots, and demand for consolidation may increase when the introduction of pensions dashboards raises consumers' awareness of how many pots they hold. It is important that transfers and consolidation are efficient and in the consumer's interests. We would like views on whether changes in the regulatory framework could help to ensure better consumer outcomes.
- **Self-invested personal pensions (SIPPs):** SIPPs allow people to make more active choices about their pension investments. But regulation has not always kept pace with the variety of business models. We have also seen instances of poorly run SIPP providers and consumer loss. We propose we should change our framework, so consumers can buy a broad range of SIPP products with confidence.

1.7 We continue to invite ideas about further changes to enable investment in productive finance assets, where this can improve long-term outcomes for pension savers. For example, in recent years we have made significant changes to the permitted links regime and would welcome comments on whether there is more we could do.

1.8 We also want to know if we could simplify our pension rules and guidance. We are currently assessing the feedback to our Call for Input: 'Review of FCA requirements following the introduction of the Consumer Duty', which closed at the end of October.

1.9 In discussing areas for change, we know that consumers have a diverse range of needs. For example:

- Some consumers want to make active choices, for example through SIPPs.
- Some can be engaged but need better support and simpler solutions to achieve good outcomes. Our work on the AGBR should help to support this, as well as our discussion on consolidation, tools and modellers in this paper.
- Others are unable or unwilling to engage, and so our work on value in default products is particularly relevant.

1.10 Ultimately, the pension system needs to work for all types of consumers. We will continue to work with the Government to ensure a cohesive approach across the pensions market.

Objectives and strategic aims

1.11 We want a market that supports consumer decision making and offers value for money throughout the journey from pension saving to retirement income. Regulation cannot reduce all risk of consumer harm to zero. But we want consumers to be appropriately protected, including from scams, by ensuring our regulatory framework works well, both now and in the future.

1.12 Pensions have an important role in providing investment that supports economic growth. We support investors accessing a wider range of assets that deliver long-term value and diversification, while also boosting investment in the UK economy, in line with our secondary international competitiveness and growth objective.

Who does this document affect?

1.13 This paper will primarily interest:

- all firms that operate and provide pension products (both accumulation and decumulation)
- investment platform providers
- trustees of DC occupational pension schemes
- parties that promote or facilitate DC pensions transfers and consolidation
- trade bodies for regulated firms
- financial advisers
- investment consultants
- consumers
- groups representing consumers' interests

Equality and diversity considerations

1.14 We consider that the options we discuss in this paper would not, if taken forward, negatively impact any of the groups with protected characteristics under the Equality Act 2010.

1.15 The options discussed would operate alongside our guidance for firms on the fair treatment of vulnerable customers (FG21/1) and the Consumer Duty (FG22/5), which require firms to consider the wide range of needs within their target market, including those with characteristics of vulnerability.

1.16 We recognise that structural issues within society can influence pensions outcomes, leading to low levels of engagement, decisions that might lead to poor outcomes and/or lower incomes in retirement. These structural issues include:

- types of employment – self-employed versus employed and the movement between the different types of employment
- gender – the gender pay gap is also reflected in pensions
- ethnicity – with pensions participation varying across ethnicity
- disability – which can lead to poorer pensions outcomes
- other protected characteristics that cause pensions inequality

1.17 We will continue to explore the equality and diversity implications as we consider whether and how to take forward the options in this paper. We invite respondents to comment on any equality and diversity issues they foresee with the options outlined.

The Consumer Duty

1.18 The Consumer Duty is central to our regulatory approach for the future pensions landscape. It sets a high standard of care that firms must give to their retail customers. The Duty's outcomes-based approach allows firms to adapt and innovate in a way that helps consumers and which responds to technological change and market developments.

1.19 As noted above, we recently published a call for input (CfI) to ask for views on whether, where and how we could review our other rules following the Duty's introduction. We want to see if we can simplify our requirements, through greater reliance on high-level rules, while ensuring we continue to support and protect consumers. We also want to include appropriate flexibility in our rules so they are responsive to future changes and innovation. By doing this, we can also advance our secondary objective.

1.20 Some CfI responses identified examples of regulation for the pensions and retirement income sector where we may be able to rely more on the Duty. But some responses also made a case for keeping more detailed rules where they are necessary for a more effective or clear regulatory position. We will also consider this feedback alongside the responses to this discussion paper.

1.21 In this paper we explain how we expect firms' Consumer Duty obligations should drive good outcomes for pensions savers. We also consider whether we could go further to meet consumers' future needs by either:

- streamlining the rules in our Handbook
- adding to the Handbook rules

Environmental, social and governance considerations

1.22 In developing this Discussion Paper (DP), we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008.

1.23 Overall, balancing all other factors, we do not think there is any contribution that the proposals outlined in this DP can make to the Government's net zero and environmental targets. We will keep this issue under review during the course of the consultation period.

1.24 In the meantime, we welcome your input to this DP on this.

Next steps

1.25 We welcome feedback on the topics discussed by 27 February 2025.

Discussion prompts

We are inviting stakeholders to consider the discussion prompts within each chapter when responding to our questions.

1.26 Annex 1 has a full list of the questions and respective prompts. Please respond to this DP by using the online form. Alternatively, you can respond by email to dp24-3@fca.org.uk.

1.27 We will consider the responses and decide whether there is a case for making changes to our rules and guidance. If so, we will then consult on any changes in the normal way.

Chapter 2

The wider context

Our approach

2.1 Our focus is on making sure that our regulatory framework:

- Provides good products with value for money.
- Gives savers the confidence and information to make good decisions about their pensions.
- Secures better outcomes for as many consumers as possible, recognising that the best outcome for each and every consumer is not necessarily achievable.
- Builds confidence in pensions and consumer protection.
- Supports technological development, innovation and better use of data to the benefit of pension savers.
- Where appropriate, ensures that consumers have substantively similar experiences regardless of which regulatory remit their pensions savings fall within.
- Ensures markets function well and meets the needs of pension savers.

2.2 Our regulatory framework must meet the needs of pensions savers, from the most engaged to those who find engagement challenging. For the engaged or engageable, it is critical that a spectrum of support and a range of engagement opportunities exist throughout the journey, from starting a pension to taking a retirement income from it. Our framework must also work for those who find engagement difficult. For these, our work on value for money is particularly relevant.

2.3 In recent years we have undertaken a programme of work to tackle areas of harm, including:

Retirement Outcomes Review (2017-19):

This introduced investment pathways to support non-advised consumers to align their drawdown investment with their retirement objectives, particularly when accessing their tax-free cash.

Defined Benefit (DB) transfer advice (2018-2021):

We have introduced rules and guidance to give advisers a clear framework and increase consumer protection, including banning contingent charging in 2020.

Stronger nudge to Pension Wise guidance (2021):

Requirements for pension providers to give customers a stronger nudge to Pension Wise guidance when they decide to take their savings.

Non-workplace pensions (2022):

Making sure non-workplace pension providers offer a 'default' investment option to non-advised consumers buying a non-workplace pension and warn consumers with significant and sustained levels of cash of the risk of inflation erosion.

Consumer Duty (2022):

Rules setting high standards of consumer protection.

Retirement income advice thematic review (2024):

This review considered how the retirement income advice market is functioning. Alongside the report of our findings, we also issued a Dear CEO letter setting out our expectations that firms must take action in response to our findings.

Pensions dashboards (2022-2024):

We have made rules compelling pension providers to participate in the pensions dashboard initiative. We have also finalised rules that will apply to firms operating a pensions dashboard service. Pensions dashboards will allow consumers to find their pensions and to view information about them.

2.4 We are also progressing some significant workstreams including:

- **Value For Money (VFM).** Progressing the framework we consulted on will help ensure that investments in workplace pension schemes are maximised to provide better incomes for scheme members in retirement.
- **The Advice Guidance Boundary Review.** The consultation published alongside this paper, proposes that firms will be able to suggest a course of action or product for pensions and retirement which will be tailored to a group of consumers who share common characteristics.

Chapter 3

Tools and modellers for existing pension savers

3.1 In an increasingly online consumer environment, digital tools and modellers may offer an opportunity to improve support and consumers' engagement with pensions.

3.2 Effective tools can encourage pension savers to think about and better plan for retirement in all stages of their pensions journey:

- In accumulation, showing the projected outcomes of their pensions pot may help a consumer consider if their contribution levels are adequate.
- When approaching accessing their pension or in decumulation, tools and modellers can help consumers understand how long their funds might last.

3.3 This chapter discusses how our rules could evolve to help firms develop tools and modellers to support consumers with pension and retirement planning.

3.4 We set out how our existing projection disclosure rules currently apply to tools and modellers and invite feedback on:

- whether our current framework is limiting the development of effective tools and modellers, and
- how a potential new regime could help consumers engage via digital tools and modellers, while ensuring sufficient protections against potential harms

3.5 We also consider how a new regime could support the potential role of tools and modellers in a future pensions framework, including 'post-view services' offered by pensions dashboard service firms (see PS24/15, Chapter 4), the advice guidance boundary review (AGBR) and value for money framework metrics.

3.6 This chapter does not:

- include a review of the projection framework more broadly
- cover the role of tools, modellers or other forms of projections, including cashflow models to provide regulated advice, where advice firms are responsible for undertaking due diligence on these tools to make sure they are fit for purpose
- include tools which do not provide a projection of the amount of any future benefit payable under a pension contract or policy

Background

3.7 Consumers are increasingly embracing digital technology in their financial lives. They expect to see their pension providers offering tools and modellers as part of a digital pensions journey. Initiatives such as pensions dashboards are likely to increase consumer demand for digital tools to help them better understand their pensions and plan for retirement.

3.8 Similarly, we expect to see more firms wanting to offer tools and modellers to support consumers with pensions and retirement planning. This could be driven by some of our other pension initiatives. In CP24/16: Value for Money Framework, we proposed that workplace DC schemes should report the percentage of savers in default arrangements that use apps, tools, pensions calculators or modellers to support retirement planning and decision making. Engagement with firms, as part of our AGBR, indicated some schemes would like to offer tools and modellers as part of a digital targeted support journey.

3.9 We support the provision of tools and modellers to help consumers better engage with their pensions and retirement planning. Our recent Occasional Paper showed that consumers targeted with communications about 'the future you' were more likely to engage. Tools and modellers can provide a more engaging way for firms to build on the 'the future you' concept in retirement planning. The Department for Work and Pensions' research report Lessons on pensions engagement suggested digital technologies, such as interactive tools on apps, as a way to increase consumer engagement in pensions.

3.10 The current projection rules in our Conduct of Business Sourcebook (COBS 13) were not developed to be used for digital based consumer retirement planning. The rules' original intent was to include projections in printed key features illustrations (KFIs), alongside information on charges. Consumers could then use KFIs to compare products when buying a pension. Where consumers are auto-enrolled in a workplace pension, we know that KFIs provide quantitative information rather than acting as a comparison tool. Firms are also subject to the rules in COBS 13 where they provide projections, which are not a Statutory Money Purchase Illustration (SMPI), at a later date.

3.11 We therefore want to review our current projection rules to understand whether they may be limiting the development and innovation of effective tools and modellers.

Our current projection rules

3.12 Under our rules, a projection is a communication of the amount of any future benefit payable under a contract or policy. This would include a personal or stakeholder pension scheme.

> In this chapter, we use the terms 'deterministic projections' and 'stochastic projections'. Deterministic projections are projections of future benefits based on constant assumptions over the projection period. Stochastic projections show a summary of results from repeated simulations using an investment model. The model uses key financial parameters which are subject to random variations and are projected into the future. Deterministic projections give a single point estimate, while stochastic projections provide a range of possible outcomes and can give an indication of the likelihood of each outcome.

3.13 Where a projection reflects the terms of a particular pension contract, it will be a personalised projection. Our view is that this includes a projection based on a current value, which could be up to 12 months old. This means it is in scope of our COBS 13 rules on standardised deterministic projections, unless there is a specific exception, for example, a projection which is consistent with SMPI requirements. There is currently no exception for tools and modellers.

3.14 This means firms offering tools and modellers that provide a projected future benefit for a pensions contract or policy must comply with COBS 13 when communicating the projection. To comply with the current rules, a projection communicated to a consumer must include (amongst other requirements):

- 3 deterministic projections at different growth rates, as set out in our rules
- for pensions, show the projection in real terms
- for a pension which is not a drawdown pension or showing uncrystallised fund pension lump sum payments (UFPLS), include the income that could be generated by an annuity
- for a pension which is a drawdown pension or shows UFPLS payments, an indication of the fund run-off
- present the deterministic projections more prominently than any stochastic projections

3.15 These rules were put in place to ensure that firms give reasonable projections of what a consumer might get back from their pension savings. The requirement for 3 projections is to reinforce the lack of certainty about the future outcome. The rules also limit the growth rates and other economic assumptions used in the projections to prevent overly optimistic results.

Is COBS 13 a barrier to effective tools and modellers?

3.16 We understand that our COBS 13 rules may be limiting the development of effective tools and modellers for a number of reasons.

- One firm told us their consumer testing showed significant numbers of consumers disengage and then exit a tool when presented with the required 3 deterministic projections.
- Consumers may be more likely to engage with simple, easy to use tools. So a single interactive deterministic or stochastic projection may be more engaging than being initially presented with 3 deterministic projections.
- Consumers are more likely to access tools on smaller device screens. Having to provide 3 deterministic projections on a small screen, even with the ability to scroll up and down the screen, could be challenging for consumers to engage with and may result in a poor user experience.
- In a holistic retirement income tool, consumers may find it confusing to see deterministic projections for part of their retirement income (where COBS 13 applies) followed by stochastic modelling projections for other retirement income, such as ISAs or from property.

- Where a consumer has come to the tool after receiving an SMPI which has different projected outcomes, this could cause further confusion. This is due to the differences in rates and method for SMPI projections, under rules set by the Financial Reporting Council.

3.17 We are interested in views on whether the current projection rule framework is fit for purpose to enable consumers to engage positively in pension decision-making through interactive tools and modellers.

Discussion prompts

We invite views on whether the issues with our current rules, set out above, reflect commonly held views and whether firms have found other issues with our rules when developing tools and modellers. We are interested in any evidence demonstrating how, and which parts of, our rules may be limiting consumer engagement with tools and modellers.

We also invite views on how the role of technology, including Artificial Intelligence (AI), can contribute to providing projections in digital tools and modellers that will more effectively engage consumers in pensions and retirement decision-making. We invite views on how our current projection rules might limit the benefits of technology and scope for future innovation in the interests of consumers.

Changing the framework

3.18 We know that applying our rules to digital, interactive tools and modellers may make it harder to present information in a way that is engaging for consumers. So we want to explore a framework which can enable consumers to benefit from digital developments but still provide adequate protections against the harms associated with projections.

A new regime – mitigating harms

3.19 We are interested in views on the safeguards that may be needed to protect consumers when designing a future framework for tools and modellers if we change the regime. While firms have to meet their obligations under our rules, including current expectations under the Consumer Duty, we want to explore what further safeguards might be needed against poor quality tools and modellers which could cause consumer harms through, for example:

- over-optimistic or misleading outcomes
- misleading presentation formats, such as over simplified or skewed graphs or charts
- insufficient consumer information on the limitations of the data and outputs, and the assumptions used to generate these
- poorly designed or unsuitable models resulting in unreliable outcomes
- the potential for inconsistencies in projection outputs across different tools and providers
- failing to manage known consumer biases, such as present bias (consumers preferring large cash sums sooner at the expense of their income later), over-estimating the value of flexibility and underestimating their life expectancy

3.20 These harms could lead consumers into being misled or taking poorly informed actions that could result in poor retirement outcomes.

3.21 We know that schemes regulated by The Pensions Regulator (TPR) can offer planning tools to scheme members that aren't limited in the same way as those offered by FCA-regulated firms. Non-authorised firms – firms not carrying on a regulated activity that requires FCA authorisation - can also offer digital planning tools that provide projections without the limitations of our rules. However, we consider that consumers dealing with FCA-authorised firms should be afforded the right protections so they can access digital tools safely, particularly considering the move towards online engagement and transactions. So any new framework needs to balance the flexibility for regulated firms to allow consumers to benefit from digital tools with proportionate protections from the associated risks.

3.22 When considering what protections are proportionate for consumers who use digital tools, some existing rules may already provide safeguards at the point in a digital journey where a consumer takes certain actions following the use of a tool and modeller. This is because COBS 13, or as otherwise required in COBS 14.2, could apply to certain actions, such as making changes to their pension.

3.23 We consider it is in consumers' interests for all FCA-regulated firms to be able to provide engaging and effective digital tools and modellers to help consumers engage with pensions planning, under the protections of a new regime.

Discussion prompts

We invite views on whether stakeholders agree with the key harms identified above and what further harms we should consider, including those related to the use of technology such as AI.

We also invite views on whether all FCA-regulated firms should be in scope of a future framework for direct-to-consumer digital tools and modellers.

Opportunity for a new regime

3.24 The following options for a potential new framework would allow greater flexibility for firms to offer engaging digital tools and modellers.

1. Retain COBS 13 with modifications: depending on the feedback we receive, we may be able to keep the main provisions under COBS 13 but make changes for digital tools and modellers to allow firms more flexibility to address the concerns. For example, we could consider whether to remove the requirement to show the lower and upper projections where there is evidence this is not leading to effective tools and modellers. The single projection that remains could form the starting point for a consumer to interact with the tool. We could also consider how to provide greater flexibility within the rules on displaying the information in tools and modellers. This has the benefit of some consistency with any projections firms have provided under COBS 13 while enabling consumers to see the effect of changing assumptions or other inputs.
2. We could replace COBS 13.5 by primarily relying on the Consumer Duty for tools and modellers, supplemented by guidance to clarify our expectations. Introducing new guidance under the Duty rules (and relevant COBS requirements) could support greater flexibility in the interests of consumers. The guidance could set out our expectations for firms, including the need to prevent or manage harms associated with digital tools and modellers. This would build on Duty requirements, including to deliver good outcomes, act in good faith and the products and services and consumer understanding outcomes.
   This approach would be more consistent with the aims of the Call for Input: Review of FCA requirements following the introduction of the Consumer Duty on simplifying our requirements through greater reliance on high-level rules. It could allow flexibility to support greater engagement and innovation by removing detailed and prescriptive requirements that cover similar areas to the Duty, and where similar customer outcomes could be achieved with greater flexibility.
3. An alternative would be to introduce new rules in addition to the Duty to replace COBS 13.5 for tools and modellers: we could consult on new rules to set requirements firms must meet to address certain harms where prescription is needed. These would be supplemented by the Duty's overarching obligations. Setting out minimum standards in rules in some areas could provide greater consistency across the market against the most significant harms for consumers. For example, this could include rules to require firms to use a single maximum growth rate, to prevent over optimistic projections. It could also include a requirement to present information from tools and modellers in real terms, for consistency with existing projections, which are also shown in real terms. It could also include requirements to show both flexible and annuity decumulation options to address consumer biases.
   Introducing greater prescription could also mean a less flexible and future-proofed framework. In the Call for Input, we asked stakeholders to consider the appropriate balance between high-level rules and more detailed rules.

Defining tools and modellers

3.25 Because our options would only propose changes for pensions tools and modellers, we would need to define what is meant by tools and modellers, or any other digital means of showing possible future outcomes. One way we could distinguish digital tools, to disapply them from COBS 13, is require tools to offer ways for pension savers to interact with them. For example, giving savers the ability to change assumptions, contribution levels, and access methods and see the effect of changing these inputs, for maximum engagement. We consider it would not be sufficient to offer a projection based on different assumptions alone, with no option to interact.

3.26 Some consumers may want tools and modellers which are limited to a single product. But others may benefit from more holistic planning tools that allow them to input information on other pensions/investments/savings they hold. Consumers may also benefit from digital tools and modellers that give illustrations or projections to support retirement planning at different stages of the consumer journey. For example, taking out a pension, accumulation and adequacy, understanding options at the point of decumulation and ongoing management of decumulation. We want to understand how a new framework could enable digital tools and modellers to help consumers with their digital pensions journey.

Discussion prompts

We invite views on:

- how digital tools and modellers can meet consumer needs and present projections in a way that will most effectively support consumer engagement with pensions, particularly considering future initiatives such as post-view services in pension dashboards, AGBR and value for money framework metrics.
- how we should define tools and modellers if we were to carve them out of the COBS 13 projection framework. We also welcome views on the extent to which firms should be able to populate any information or assumptions in tools and modellers to support consumer engagement.
- the benefits and risks of relying on the Consumer Duty to enable effective and innovative tools and modellers while also sufficiently protecting consumers from the harms associated with projections.
- the type of protections, if any, that stakeholders consider should be in more prescriptive rules, for both deterministic and stochastic projections, to set consistent minimum standards of protection and instil confidence in the use of digital tools and modellers.

Question 1: **What are your views on whether, and if so how, our rules should change to allow consumers to benefit from engaging digital tools and modellers with sufficient protections from the risks associated with projections?**

We invite respondents to set out their views on the areas highlighted in the discussion prompt boxes in this chapter.

Chapter 4

DC pension transfers and consolidation

Introduction

4.1 There are many reasons an individual consumer might consider transferring one or more of their DC pensions to another DC pension, including:

- moving into pensions which offer a different range of investments
- benefiting from lower charges or better service (including digital experience)
- getting access to a wider or preferred range of options for taking pension benefits in retirement

4.2 Consumers might also be motivated to consolidate (transfer more than one pot into a single DC pension) so that it is easier for them to:

- keep track of pensions savings
- understand the totality of their pensions savings
- access their pension savings in later life

4.3 Two principal issues continue to attract attention and cause concern:

- consumers may not understand the impact that transfers can have, for example, in terms of costs
- transfers are not seen as operationally efficient, with considerable delays reported in some cases

4.4 In this chapter, we:

- Summarise our expectation of firms when individual consumers make a request to transfer or consolidate.
- Ask stakeholders for views on how we can make sure that, in the future:
  - consumers who ask to transfer or consolidate do so on a well-informed basis and where it is in their interest to do so
  - firms action these requests both diligently and efficiently

4.5 The discussion in this paper is distinct from Government's current consultation, 'Pensions Investment Review: Unlocking the UK pensions market for growth'. That consultation contains proposals designed to accelerate scheme-level consolidation in the workplace pensions market, including bulk transfers without individual consent. Both share an objective of ensuring consolidation drives better outcomes for consumers but in different circumstances and explore different mechanisms.

Background and context

4.6 The success of automatic enrolment (AE) has transformed workplace pension saving. In 2022, DWP official statistics showed that participation rates among eligible employees increased from 55% in 2012 to 88% in 2021. However, consumers can change employers many times over their working career. In 2012, the Department for Work and Pensions estimated that employees work for 11 employers on average during their working life (with a quarter working for more than 14 employers). Consequently, if a consumer is automatically enrolled by each employer, they will acquire several different pension pots over their working life.

4.7 In response to this pattern:

- The Government's forthcoming Pensions Schemes Bill will include provisions that enable deferred small pots to be automatically brought together into one place, without active consumer consent.
- Over recent years, many existing and new providers have launched dedicated pension consolidation services, sometimes paired with a pension tracing service.

4.8 With the launch of pensions dashboards, consumers will be able to find their un-accessed pensions, including pensions they may have lost or forgotten over time. This may drive consolidation demand. When pensions dashboards are available, it will be easier for consumers to keep track of multiple pensions and to understand their overall likely pension income in retirement – consumers' motivations for consolidating in future might change as a result.

4.9 We want to ensure that in the future:

- Consumers who decide to transfer 1 or more pension, only do so where it is in their interest to do so and on an informed basis.
- Where this is the case, receiving and ceding schemes provide efficient and appropriate levels of service.

4.10 There are practical challenges to us introducing measures to pursue these objectives:

- Measures can sometimes appear to be contradictory. For example, measures to ensure the consumer is well informed might affect how quickly firms process a transfer request.
- There is no single consistent DC transfer journey:
  - the consumer can request the transfer via the ceding or the receiving scheme
  - the receiving scheme might be one of the consumer's existing pension plans, or it might be a new pension that is set up specifically to receive the funds or assets from the ceding schemes
  - it is increasingly likely that one or more of a consumer's ceding schemes, or chosen receiving scheme, will be regulated by The Pensions Regulator (TPR)

Transfers in consumer's interests

4.11 It is important that consumers do not inadvertently transfer into a scam. While nothing can reduce this risk to zero, firms have an important preventative role. The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 were introduced to protect consumers from scams when transferring pensions. A government review in June 2023 found that these regulations remain appropriate to minimise the risk that a consumer transfers into scam schemes.

4.12 Preventing scams is a baseline expectation, but it is also important to ensure that where a consumer transfers into a legitimate DC scheme, the transfer does not cause foreseeable harm.

4.13 Whether or not transfer or consolidation will be in a consumer's interests depends on a balance between a) whether they would be giving up valuable benefits in existing pensions, b) whether the pension into which they consolidate offers better value for money, and c) why they want to consolidate.

4.14 Some pensions, particularly older pensions, have benefits that are not replicated in new receiving schemes. These could include, for example, guaranteed annuity rates (where the value is under £30,000), protected tax-free cash, investment growth guarantees, bonuses on with profits pensions or protected pension ages. The consumer may not know about the valuable benefits in their existing pensions and that those benefits would be lost upon transfer to a new scheme.

4.15 Relevant obligations under the Consumer Duty include that firms must:

- Act to deliver good outcomes for retail customers.
- Act in good faith towards retail customers, avoid causing them foreseeable harm and enable and support them to pursue their financial objectives.
- Communicate with consumers in a way that meets their information needs, is likely to be understood and equips them to make effective, timely and properly informed decisions. To show they have acted to deliver this outcome, firms need to monitor, test and adapt their communications, where appropriate.
- Design and deliver consumer support that meets the needs of customers. Among other things, this includes appropriate friction in consumer journeys to reduce the risk of harm and give customers sufficient opportunity to understand and assess their options, including any risks.
- Design and operate products and services to meet the needs, characteristics and objectives of a defined target market, and ensure the distribution strategy is appropriate.
- Monitor customer outcomes, including whether different groups of customers receive different outcomes, and take appropriate action.
- Ensure that products and services provide fair value to retail customers in the target markets (with clear benefits relative to the cost). Our good and poor practice update on the price and value outcome noted that firms should consider the Duty and its outcomes holistically. So, if a product or service that does not meet any of the needs of the customer it is sold to, causes foreseeable harm,

or frustrates their objectives, it is unlikely to offer fair value to that customer, whatever the price.

4.16 We want to understand better how the introduction of the Consumer Duty has driven improvements in firms' approach to transfers to improve consumers' understanding and decision-making ability.

Discussion prompt

We invite respondents to share examples with us that show how firms' approach to transfers have improved in consumers' interest since implementing the Consumer Duty.

4.17 Notwithstanding our expectations following the introduction of the Consumer Duty, we currently have concerns that some consumers who transfer or consolidate DC pensions are doing so without:

- comparing the ceding and receiving scheme
- understanding the implications of their decisions

4.18 Some stakeholders tell us they are concerned that:

- Consumers may have decided to transfer without comparing the performance and charges in both the ceding and receiving schemes.
- Incentives offered by potential receiving schemes might cause consumers to decide to transfer or consolidate based only on the prospect of immediate or near-term reward. They might not consider the full financial implications of their decision. Examples of incentives could include cash incentives (eg £100 cashback or investment contribution) and non-cash incentives (eg fee-free or low-fee periods).
- Some customers of trace and consolidate services don't know they have given consent to initiate a transfer. Instead, they may believe they have only consented to the potential receiving scheme finding information about existing and/or lost pensions.

4.19 We want to understand whether these issues are widespread. We invite stakeholders to share with us any other areas of concern. We also want to understand whether any element of our framework (or the wider regulatory landscape) is contributing to these concerns, or firms' ability to address them.

Discussion prompts

We invite you to share examples (including, where appropriate, details of the nature and frequency) of:

- the concerns listed in paragraph 4.18
- other factors you have identified that might be contributing to transfers and consolidation taking place where they do not benefit consumers

Options to explore

4.20 We would like to explore whether and how to better ensure non-advised consumers are encouraged and enabled to consider and compare the features and relative benefits of ceding and receiving schemes.

4.21 We know that, when a transfer is requested, many firms flag to consumers where ceding schemes have valuable benefits. Where customers would be giving up a valuable benefit and so could suffer foreseeable harm, under the Consumer Duty we would expect FCA-regulated pension providers to give the customer relevant information that helps them understand their options and make an informed decision. Currently, different firms communicate this to the consumer in various ways.

Discussion prompts

We invite firms to share with us, in their capacity as a ceding scheme, receiving scheme or both:

- what benefits and features they currently flag to a consumer before processing a transfer request
- how they express those benefits and features, and
- whether they have tested these communications for consumer understanding

We also seek views on when (and from whom) this information is best communicated to effectively influence and inform the consumer's decision.

4.22 The decision to consolidate should not be taken in isolation: it is just as fundamental to ensure that the receiving scheme can meet the consumer's needs in terms of investment choices or retirement choices. We would like to understand whether consumers generally consider the suitability of the receiving scheme before proceeding to consolidate. We would also like to understand whether and how potential receiving schemes ensure that consumers only proceed to consolidate after considering if the receiving scheme is compatible with the consumer's needs and objectives.

4.23 As our recent Call for Input notes, a standardised approach may be better in some circumstances to give more certainty, transparency and consistency for consumers. We welcome views on this.

Discussion prompts:

We invite views on whether pension schemes should adopt a consistent approach to bringing specific product features to a consumer's attention before proceeding with a transfer.

If you support adopting a consistent approach, we welcome views on:

- Which features should be flagged, how they should be explained to the consumer, and by whom.
- Who should encourage the consumer to compare the ceding and receiving schemes, and how consistency of approach might best be achieved. For example, we would welcome views on whether there is scope for industry collaboration to publish agreed best practice.

We invite stakeholders to comment on whether Handbook rules would provide helpful certainty or limit future flexibility.

4.24 We also need to consider how to ensure that any incentives do not reduce how effective current or future measures are in ensuring consumers only pursue transfers and consolidations where it is in their interests to do so.

Discussion prompts

We invite firms that currently offer incentives to share with us how they ensure and monitor that the incentives they offer do not a) exploit behavioural biases; or b) contribute to consumers taking action that is not in their best interests.

We also invite stakeholder views on whether and how industry and/or regulatory measures can ensure the use of incentives does not undermine consumers efforts to engage with their pensions and secure better outcomes in the long term.

Service efficiency

4.25 Under the Pension Schemes Act 1993, statutory transfers must be completed within 6 months. In line with the Consumer Duty's customer support outcome, and where a transfer is in the consumer's interest, we want firms' customer service to enable consumers to realise the benefits and support them when they want to pursue their financial objectives.

4.26 The time taken to process a transfer request has attracted some negative attention in recent years. So too has the length of time to secure a letter of authority to facilitate the transfer process on a consumer's behalf.

4.27 The average ceding time through the Origo Transfer Service (based on the population of firms that allow publication of their data) has reduced to 11.9 calendar days (year ending September 2024) from 14 calendar days in January 2023. Nevertheless, the range of average ceding times across those firms is significant: from 4.4 days to 29.3 days. The average transfer time for transfers ceded from other firms might be different.

4.28 Our supervisory work to date has identified that many factors can influence how long it takes to complete a transfer. For example, whether:

- The transfer is processed manually or electronically (eg via Origo Transfer service). Automated electronic processes are typically faster. We encourage firms to explore what efficiency they could gain by investing in technology.
- Further investigation is required to complete due diligence checks, including the application of provisions in the Conditions for Transfers Regulations. A 2023 government review found that certain provisions in the regulations are causing delays and issues for consumers. Specifically, the amber flag for overseas investments (which triggers a Money and Pensions Service (MaPS) appointment) and the incentives red flag that can block a transfer. The Government has considered possible amendments to the regulations and plans to consult on these in due course.
- The transfer is cash or in-specie.
- The firm's human and technology resources are proportionate to consumer demand.

Discussion prompts

We invite views on whether:

- Any other factors extend the completion time of a transfer.
- Firms could improve their processes and technology to enhance efficiency. Please give us specific examples and let us know if firms would face barriers in making these improvements.
- Periodic reporting of transfer times, and associated scrutiny, might incentivise process improvements. And if so, we welcome views on the type of reporting that would be most effective: reporting to the regulators, or reporting via external publication for greater transparency.

4.29 There are already requirements in our rules that should ensure firms treat transfer requests efficiently. For example, under the Consumer Duty, firms:

- must enable and support retail customers to pursue their financial objectives
- should make it at least as easy to switch product, leave their service or make a change, as it is to buy the product or service in the first place

4.30 Additionally, PRIN 2A.2.20G(3) gives guidance that firms can enable and support retail customers to pursue their financial objectives by acting to empower them to make good choices. For example, by enabling consumers to enjoy the use of their product and to switch or exit the product where they want to without unreasonable barriers or delay.

4.31 In some circumstances, friction can help reduce the risk of consumer harm and support good outcomes. Firms must therefore ensure they include appropriate friction in their customer journey to manage the risk of harm and give customers sufficient opportunity to understand and assess their options and the risks (PRIN 2A.6.2R(3)). Processes without appropriate friction or nudges can risk customers taking actions they do not fully understand or that are not right for them. Customers should be given the right information and appropriate time to make important decisions.

4.32 What amounts to appropriate friction or an unreasonable barrier will depend on the circumstances. We expect firms to apply judgement and be able to distinguish between positive frictions or nudges that support good outcomes and harmful frictions that create unreasonable barriers (sludge practices).

4.33 Firms' consideration of friction points should also be informed by their monitoring activity under the Consumer Duty. This will help them to understand how processes are working in practice and the outcomes they are delivering. We expect firms to be able to justify and evidence the customer benefits of additional steps in customer journeys. Explaining these to the customer might also help manage customers' expectations. But the additional steps should not be overly complicated or designed in a way that benefits firms but not customers.

Discussion prompts

We invite stakeholders to share with us their experiences of the transfer process, both examples of barriers to efficient processing, and examples of where appropriate friction has ensured good outcomes for consumers. Please tell us if these examples differ depending on whether the requested transfer is inbound or outbound.

Question 2: **What are your views on our DC pension transfers and consolidation discussion in Chapter 4? We invite stakeholders to respond using the prompts suggested throughout Chapter 4.**

Chapter 5

Self-Invested Personal Pensions (SIPPs)

Introduction and background

5.1 Self-Invested Personal Pensions (SIPPs) were introduced through the Finance Act in 1989. They are a type of personal pension scheme that gives individual investors greater control and choice over where their pension money is invested. SIPPs typically offer much wider investment options, including listed and unlisted securities, commercial property, and unregulated investments. This distinguishes SIPPs from other types of personal pensions.

5.2 The SIPP market has grown substantially both in terms of assets under administration (AUA) and the range of assets held. The types of SIPP product available in the market and the type of SIPP consumers have also expanded. Originally designed for wealthier, more experienced investors, SIPPs have evolved into a more mass-market pension product, with technology enabling easier access.

5.3 When run well, and offered to the right customers, SIPPs can greatly improve consumer choice. Many SIPPs are operated to a high standard. However, we have observed pockets of poor practice in the SIPP market, so this chapter seeks views on more detailed standards to ensure all providers' offerings meet consumers needs.

5.4 Historically, SIPPs have also been targeted as vehicles for scams and fraud by bad actors. SIPP operators had sometimes accepted new business or investments without adequate due diligence, which has created significant redress liabilities. These liabilities have contributed to 15 SIPP operator insolvencies since 2018, with others coming close to failure. In many cases these issues have caused, or have significantly increased the risk of harm to consumers through loss of value in their pension wealth.

5.5 The average size of a SIPP pot is often higher than in other types of personal pension, meaning harm to individual consumers can be greater when problems happen. We have seen extreme cases where consumers using a SIPP as their main retirement saving vehicle have lost all their pension savings.

5.6 In this paper, we explore 3 themes relating to concerns where firms:

- are not specifying a detailed enough target market for their products
- are not undertaking adequate due diligence, leading to problematic assets being held within the pension scheme; and
- do not have robust controls over pension scheme money and assets

5.7 We have written to firms through our Dear CEO letters which highlight our concerns within the SIPPs portfolio. This chapter focuses on the areas of harm previously identified and explores areas for potential future regulatory change.

The SIPP market

Growth of the SIPP market

5.8 The SIPP market has seen significant growth, particularly following pension freedoms and the wider appeal of streamlined and platform SIPPs. Based on our 2024 SIPP data request, assets under administration within SIPPs has increased significantly over the years – and now stands at approximately £566bn. This is nearly a third of the £1.4tn held in defined contribution pensions by FCA-authorised firms. We have also seen the number of SIPPs in the market increase to 5.3m, highlighting their growing role in the pensions market.

5.9 We expect the SIPP market to continue to grow and evolve, particularly streamlined and simple SIPPs.

5.10 SIPPs are operated by different types of firm. All these firms must have the permission to operate a personal pension scheme, but some are investment management firms (subject to IPRU-INV 5.9), some are MIFIDPRU investment firms, and some are life insurers. The different categorisations of firms that operate SIPPs result from the different regulatory permissions held by firms. As a result, the obligations on these firms under our Handbook can vary.

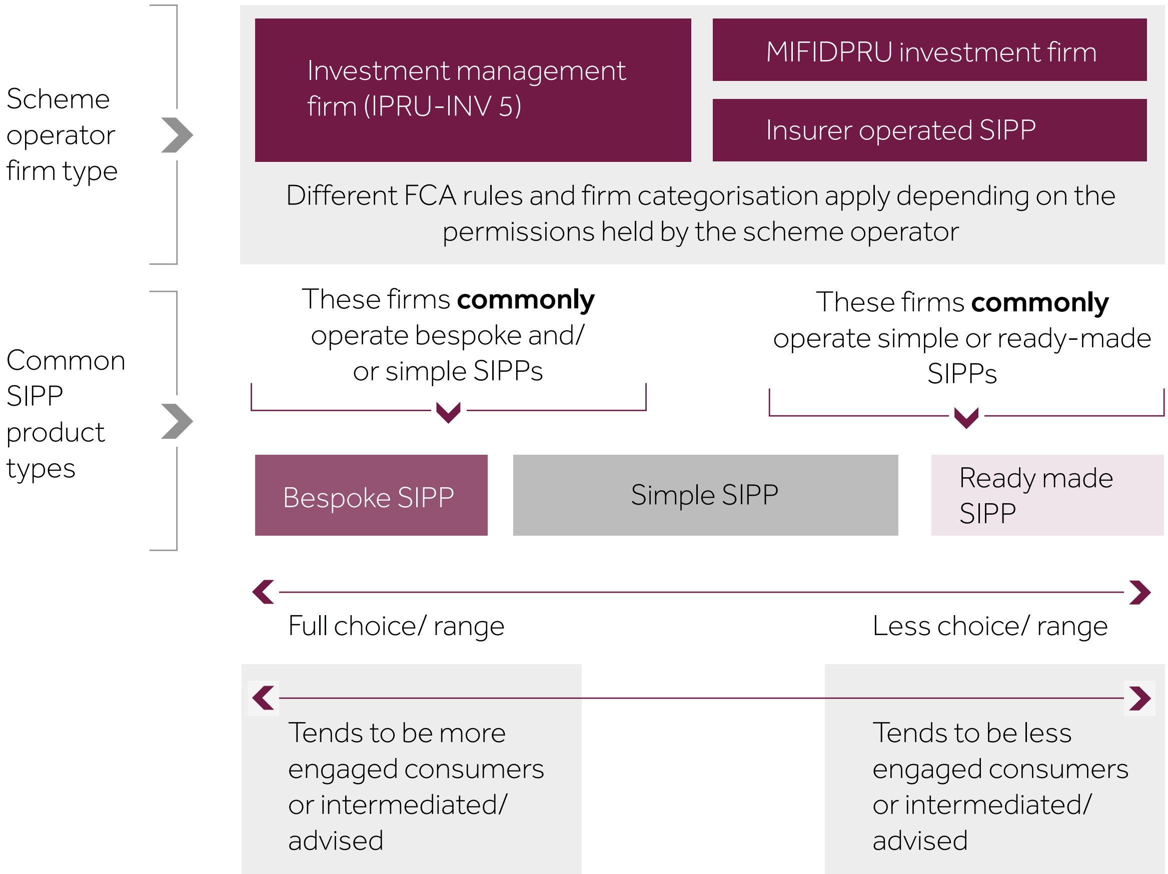
Range of SIPP products

5.11 Across the different types of firms offering SIPPs, there are now a wide range of SIPP products. These range from those aimed at more experienced investors who could actively manage their own pension fund; to those who use a SIPP to make specific investments (such as commercial property); and those who prefer more mainstream pension products. In our view, SIPP products broadly divide into:

- **Bespoke** SIPPs – a SIPP that provides access to a wide range of asset classes either directly (such as investments in commercial property or unregulated investments) or via third parties such as investment platforms or discretionary investment managers (for securities) or insurers (for trustee investment plans). The target market is typically consumers who require additional flexibility with their pension arrangements and can direct the SIPP operator to make investments, either themselves or via an intermediary. Bespoke SIPPs typically allow consumers to invest in a range of non-standard assets, including commercial property and more esoteric investment types such as derivatives.
- **Streamlined** or '**simple**' SIPPs – a SIPP that provides access to a wide range of funds or other products, that is more likely to be targeted to the mass market. The investments offered tend to be standard assets, such as listed securities and regulated collective investment schemes. This type of SIPP typically allows access to a single platform service provider or discretionary investment manager. The platform service may be provided by the pension scheme operator (which would be commonly referred to as a platform or platform-operated SIPP) or by a third party.

- **'Ready-made'** SIPPs – a SIPP that offers access to a limited range of pre-selected investments (such as a target-date fund) or risk-rated model portfolios. Similarly to a streamlined SIPP, this product is designed to invest in standard asset classes.

Figure 1: Range of SIPP products



Ensuring consumers are offered the right type of SIPP for them

5.12 SIPPs offer consumers choice. If offered in the right way, the differing nature of SIPP products can cater for a broad range of consumer needs. But consumers should be in the right type of SIPP. There are some consumers who are engaged with their SIPP and make active choices about their investments to encourage greater returns, and others who, for example, open the product but do not make decisions again until they access their pensions.

5.13 Different SIPP types will suit different consumers. For example, a bespoke SIPP consumer may generally have a more active role in managing their investments (often with advice), potentially a greater appetite for risk or capacity for loss, and so may be more engaged with their pension. Or they may cater for consumers that want to place, for example, a business property into a pension wrapper. These consumers are also more likely to be advised.

5.14 At the other end of the spectrum, ready-made SIPP consumers would typically have much less active involvement, beyond choosing to open the SIPP and selecting an investment approach or a risk-rated portfolio. These consumers are far less likely to be advised, but the more straightforward nature of the product can help them to build retirement savings.

Discussion prompt

We welcome views on whether stakeholders agree with our description of the spectrum of types of SIPP products available.

5.15 From our pre and post implementation Consumer Duty work, we know that some firms have not specified the target market for their products at a sufficiently detailed level. This puts consumers at risk of being in a product that is not best suited for their needs. For example, less active consumers or those with more straightforward needs and a smaller pension pot may not require the flexibility of a full SIPP, which tends to come with higher and/or fixed administration fees.

5.16 We already have requirements that firms need to ensure the products they offer are right for their customers. Under the Consumer Duty, a SIPP operator is both a manufacturer and distributor of its products and services and must specify the target market for them. For example, as a manufacturer, it must ensure the design of products and services meets the needs, characteristics and objectives of the target market. It must also take all reasonable steps to ensure the product is distributed to the target market. And distributors must regularly review their distribution arrangements to verify they are only distributing products to the target market. We have laid this out to firms in our most recent Dear CEO letters in 2023 and 2024.

5.17 We will continue to rely on the Consumer Duty and do not propose any new requirements at this time. We will work with firms individually to seek to ensure that standards meet our expectations.

Discussion prompt

We want to get a better understanding of how firms ensure that consumers are offered the right SIPP product for them. We welcome views on any challenges for firms in sufficiently detailing their target market and maintaining, operating and reviewing arrangements to make sure their products are only being distributed to the identified target market.

5.18 We want to ensure consumers across the spectrum of SIPP products (as set out above) are adequately supported to navigate difficult pension choices. This will be of growing importance as more pension savings are held within defined contribution pensions over time. Due to the different SIPP products and experiences provided, consumers may need different types of support across these products. For example, consumers of bespoke SIPPs may be more likely to have a more active role in managing their investments versus those using SIPPs with less active involvement. Building on our work on the AGBR, we may need to differentiate between SIPP products to enable the right type of support for consumers in the future. We would welcome views from stakeholders on this.

Discussion prompt

Based on our aim for consumers to be adequately supported across SIPP products, as outlined above, we welcome views on how we could better segregate the market.

We are also interested in stakeholder views on the differing support needs of consumers across SIPP products. We invite feedback from firms on what they are doing to meet this.

Question 3: **What are your views on the spectrum of SIPP products available, ensuring they are offered to the right consumers and the differing support needs of consumers across the range of SIPP products? We invite stakeholders to respond using the discussion prompts set out above.**

Ensuring adequate due diligence

5.19 There have been recurring instances of consumer harm from firms accepting inappropriate assets into their schemes without performing adequate due diligence, on both the investments and introducers of new business. Some of these investments have turned out to be illiquid, impaired or scams, while some introducers have acted in breach of the general prohibition. Both have resulted in consumers losing significant amounts of retirement savings and adding to the Financial Services Compensation Scheme levy costs.

5.20 Over the years, there have been a number of cases in the Courts involving the nature and extent of an operator's responsibilities for due diligence of investments accepted into a SIPP. For some providers and parts of the market, these cases have contributed to a continuing debate about what obligations apply to SIPP operators.

Background and current framework

5.21 To deliver good outcomes for consumers, SIPP operators must act with due skill, care and diligence. Due diligence includes, for example, duties to check and monitor introducers that use their scheme as well as assessing that the investments they accept are appropriate to include within a personal pension scheme.

5.22 These duties come from our high-level requirements, including:

- Our Principles for Business:

  - **Principle 2:** requires all firms to conduct their business with due skill, care, and diligence.
  - **Principle 6 and 12:**
    - From 31 July 2023 for open products and from 31 July 2024 for closed products, Principle 6 was replaced by Principle 12 and the Consumer Duty for retail market business.
    - Principle 12 requires firms, including SIPP operators, to act to deliver good outcomes for retail customers. Where it applies, the Consumer Duty sets relevant obligations on SIPP operators. This includes the requirement to act in good faith towards retail customers, to avoid causing them foreseeable harm, and to enable and support them to pursue their financial objectives. To comply with these requirements, we would expect SIPP operators to conduct adequate due diligence of the investments they accept into the scheme.
- **COBS 2.1.1R:** a firm must act honestly, fairly and professionally in accordance with the best interests of its clients.

5.23 In 2013, we published our finalised guidance for SIPP operators. This includes guidance on due diligence obligations under our high-level rules, as well as our observations on good industry practice following our thematic reviews.

5.24 Since 2013, we have undertaken extensive supervisory work to focus on whether firms are meeting their obligations, and set out our views on good and poor practice in CEO letters. We have also intervened in litigation, including the Berkeley Burke and Options judicial reviews against the Financial Ombudsman Service and the Adams v Options case, to reinforce our expectations.

5.25 We have seen improvements in firms' due diligence across the SIPP market. However, our concerns in this area remain. Our 2022 due diligence review (referenced in our 2023 Dear CEO letter) highlighted that some firms still do not conduct adequate due diligence on those who introduce business to their firm or on the investments they allow in their schemes. The review also identified that many firms were not carrying out adequate ongoing checks on investments made through discretionary investment managers and that many had insufficient procedures, systems and controls.

5.26 Where SIPP operators do not conduct adequate due diligence, this can lead to consumers being at risk of harms, including:

- Consumers suffering losses when assets become impaired.
- Unexpected tax charges for members if the investment is taxable or results in an unauthorised payment.
- Consumers not receiving fair redress for due diligence failings, or not receiving it in a timely manner.

5.27 The redress liabilities generated by due diligence issues also presents an increased risk of disorderly firm failure, which impacts all of a SIPP operator's clients. This means that consumers could also lose access to their pension if another operator cannot take over the pension scheme, or may face significant tax charges (for example, in the event of a scheme de-registration).

Proposal

5.28 Given the consumer impact, we want to explore setting out the due diligence obligations that already apply to SIPP operators under our high-level rules and guidance (including under Principle 2 and COBS 2.1.1R) into more detailed Handbook rules.

5.29 Our view is that more detailed Handbook rules, setting out the existing due diligence requirements, would better protect consumers by:

- improving the consistency of adequate due diligence performed by all SIPP operators
- improving the effectiveness of our supervision and enforcement in ensuring SIPP operators are complying with due diligence requirements
- increasing avenues for consumer redress, including through the Financial Services Compensation Scheme, by making it easier to demonstrate where firms have not complied with more detailed due diligence requirements in rules
- reaffirming the due diligence requirements and expectations for SIPP operators following a number of Financial Ombudsman Service decisions on these obligations

Discussion prompt

We invite views from stakeholders on whether they agree that we should set out in detailed rules the due diligence obligations on SIPP operators, as set out above.

We also welcome views on what we should we consider when detailing due diligence requirements in rules generally and what we should consider in terms of how SIPP operators currently implement existing due diligence processes.

Question 4: **What are your views on setting out the due diligence obligations that already apply to SIPP operators in more detailed Handbook rules?**

Pension scheme money and assets

5.30 In a DC pension scheme like a SIPP, the value of the member's benefits or rights under the personal pension scheme is intrinsically linked to the money and assets held and invested for the individual SIPP. This means for the SIPP to hold value, those assets must be secure and accurately recorded. We have concerns about how some firms look after client money and client assets.

5.31 In our most recent portfolio letter, we told firms of our concerns about some SIPP operators' controls over trustee bank accounts, as well as poor maintenance of books and records. This can mean consumers are provided with incomplete valuations which can impair their ability to make informed decisions.

5.32 In the worst-case examples, these problems can lead to shortfalls in pension scheme bank accounts or fraudulent payments being made from the pension scheme. It can also cause significant delays in the orderly wind down of a firm where its pension business is being transferred to a new operator.

5.33 The requirements that currently apply to some SIPP operators in these areas are high level. We believe there are benefits in establishing good market practice into our rules to set baseline expectations.

5.34 All firms have overarching obligations under Principle 10 to arrange adequate protection for client assets when they are responsible for them. Principle 3 also requires firms to take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems. In a trust-based SIPP, we expect the money and assets in the pension scheme to be held in the name of, or for, the trustees. Often, the trustee is a separate, unauthorised company whose only purpose is to do this. These companies can use exclusions in the Regulated Activities Order to remain unauthorised.

5.35 The activities performed by the scheme operator and/or the use of a separate unauthorised trustee company for the pension scheme money and assets leads to significant variation in how our Handbook rules on the operator are applied. This means that in practice, some consumers are invested in a SIPP that operates under a less prescriptive approach from our Handbook.

5.36 We are concerned that, over time, this lack of prescription has meant some SIPP operators have not invested in adequate systems or maintained sufficient controls. In some cases, and particularly where a firm fails and transfers its business to another operator, this has caused harm to pension scheme members or requires the new operator to carry out significant remedial work.

Pension scheme monies

5.37 SIPPs typically use a combination of pooled and individual bank accounts to hold the pension scheme's money. However, we are seeing more firms looking to pooled account models only to make their operations more efficient, or access to better interest rates.

5.38 Some SIPPs are structured so that the scheme operator is subject to prescriptive client money rules. However, this is less likely to be the case when a separate unauthorised trustee company is used.

5.39 Given that the separate trustee company is typically dormant, it will be the FCA authorised firm that manages the trustee bank accounts, including operating controls over the accounts.

5.40 A separate unauthorised trustee company should effectively segregate pension scheme money from the operator's own money. However, using an unauthorised trustee means there may not be any prescriptive requirements on the scheme operator that cover record keeping, reconciliation, client reporting, or external assurance for the trustee bank accounts. As per SUP 3.10.4 R (2)) firms subject to an external audit requirement will require an auditor to state whether anything has come to the auditor's attention that causes them to believe the firm held client money or custody assets during the period.

5.41 We have seen from our 2024 SIPPs data request that firms are undertaking reconciliation activity. But we have growing concerns that some firms have not been controlling trustee bank accounts with adequate controls and oversight. Some firms do not reconcile trustee bank accounts in a timely manner. Many firms reported they rely on external bank transaction data to update their internal records and perform reconciliation activities. Over-reliance on external data can limit the effectiveness of a reconciliation by reducing a firm's ability to identify errors.

5.42 In worst case examples, control deficiencies can lead to shortfalls in these trustee bank accounts through fraud or errors which, because they are not captured by specific breach reporting obligations or subject to external assurance requirements, may go unreported to the FCA for a significant length of time. Firms should consider their obligations under Principle 11 and SUP 15 if they detect a shortfall in a pension scheme bank account.

Proposal

5.43 We think that a more prescriptive approach applied across SIPP operators controlling scheme monies could ensure a common standard of regulatory protection for members of the pension scheme. It could also better enable us to supervise SIPP operators. We want to develop an approach that works for the SIPP market and currently expect that we would require FCA rules to meet our aims.

5.44 We would like feedback on how best these rules could be expressed, and whether we need to give specific considerations for the bespoke segment of the SIPPs market. We encourage stakeholders to respond to the question using the discussion points below.

Discussion prompts

We invite views on:

- What firms should be doing when selecting a banking provider and how frequently their ongoing suitability should be assessed
- The circumstances under which firms believe it to be appropriate to place partial, or full reliance on records being maintained by other third parties when establishing and maintaining records at scheme and/or member level
- Whether there are any other broader challenges when establishing and/or maintaining the firm's own independent internal records
- Whether there would be a cost to firms, for example, related to investment in technology to maintain a viable operating model/cost base, support efficiencies and ensure good customer outcomes when handling scheme monies and assets
- Whether there are any challenges to prescribing more frequent reconciliation that we need to consider

Question 5: **What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements in place for pension scheme monies? We invite stakeholders to respond using the prompts suggested above.**

Pension scheme assets

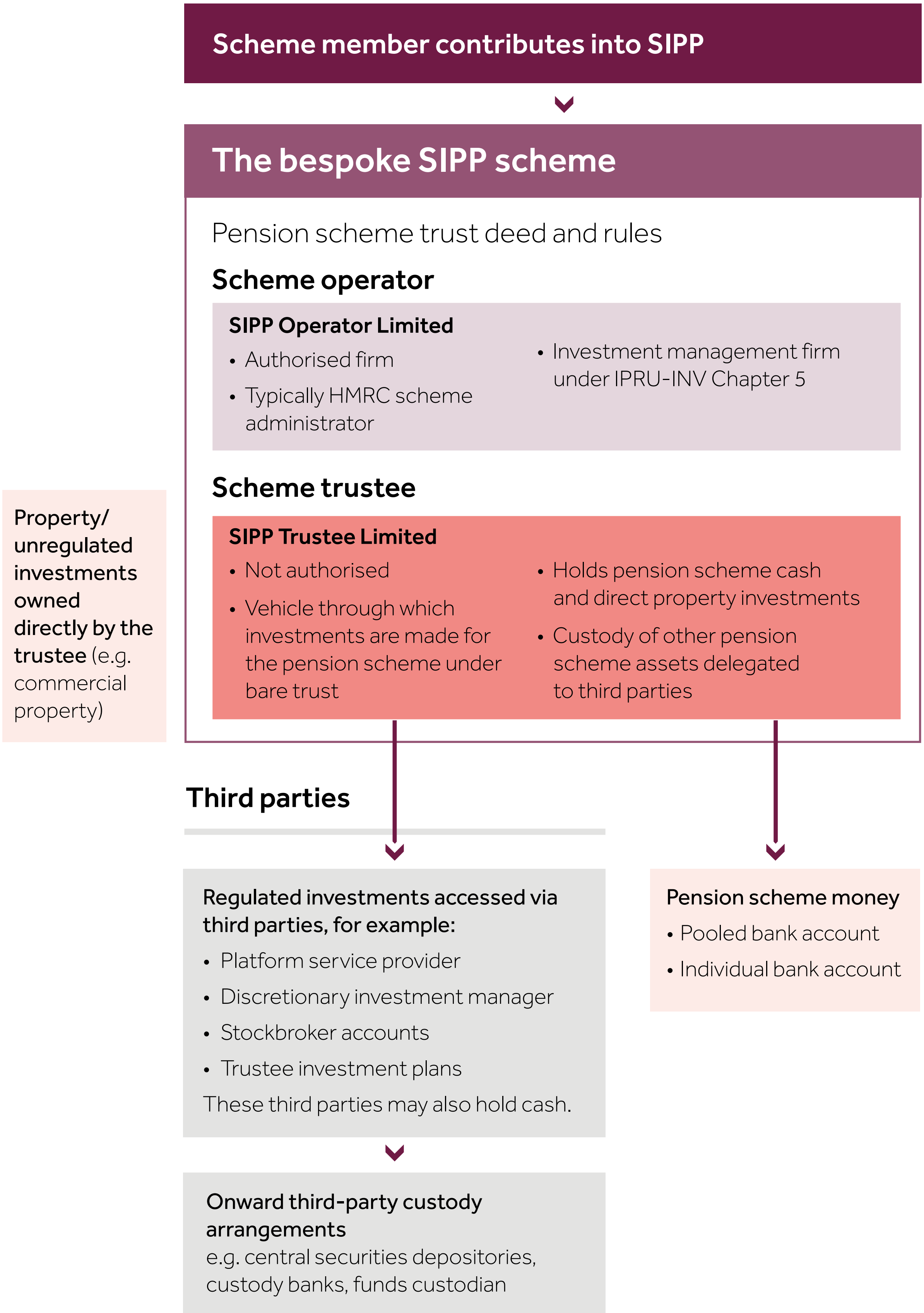
5.45 Custody of pension scheme assets varies significantly depending on the structure of the SIPP.

5.46 Insurer operated schemes may have a combination of assets held through a contract of insurance provided to the trustee (eg insured funds) and/or assets held by another group entity providing a platform service.

5.47 For bespoke SIPPs, the custody arrangements and asset registration practices can be even more complex. They may involve 1 or more FCA-authorised third parties, including life insurers, platform service providers, discretionary investment managers, and stockbrokers. However, our Handbook does not have prescriptive requirements about how the scheme operator should control or oversee these arrangements and appointments.

5.48 Using a separate trustee company should effectively segregate the pension scheme assets from the operator. However, as with pension scheme money, this structure can mean there is a lack of prescriptive requirements on the scheme operator to cover record keeping, reconciliation, client reporting, or external assurance for the scheme assets.

Figure 2: Bespoke SIPP scheme model



5.49 Where the SIPP operator is not subject to prescriptive rules on establishing and maintaining the scheme member records, the arrangements often rely largely or wholly on the records belonging to third parties. The operator does not have an independent internal record of the scheme asset holdings for each of the members. As a result, the operator may have a limited ability to identify an error were it to arise.

5.50 The approach to and frequency at which scheme assets are valued varies. Some firms have daily automated data feeds, but others rely on manual processes to receive and upload valuations from third parties. Where firms continue to use manual approaches, we have seen that data on the pension scheme assets is typically not processed or stored on a line-by-line/per investment basis. Instead, it is aggregated on the pension administration software. In some cases, the data, even in aggregated form, is not updated until the next annual valuation is received.

5.51 Often, manual valuation approaches are driven by the types of assets the pension scheme holds and/or by the way the pension scheme assets are registered in the name of the trustee, but with an additional designation to an individual SIPP or client. The way in which assets are registered also significantly affects a firm's ability to undertake reconciliation activity over the pension scheme assets.

5.52 We have seen, particularly for impaired assets, that valuations are not updated or the assets remain valued at book cost, despite their apparent impairment.

5.53 System and control weaknesses in these areas can mean that consumers receive incomplete or inaccurate valuations or statements of their pension benefits, hampering their ability to make informed decisions and plan appropriately for retirement. A less frequent valuation approach can also cause delays if a member wants to make a withdrawal from their pension. In the worst-case examples, where books and records are not accurate, or scheme assets are not registered to the correct trustee, we have seen significant delays in the orderly wind down of a firm where its pension business is being transferred to a new operator, potential problems with unauthorised payments, and/or significant remedial work required from the new scheme operator.

Proposal

5.54 A more prescriptive approach could ensure common standards of regulatory protection and the accuracy of a pension scheme's books and records, and the frequency at which they are updated. This could produce parity in the information provided to all SIPP members and mitigate some of the key issues that can occur when a firm attempts to wind down and transfer its pension business.

5.55 We would like feedback on how best these rules could be expressed, and whether we need to give specific considerations for the bespoke segment of the SIPPs market.

Discussion prompts

We invite views on:

- what firms should be doing when selecting a custodian and/or a third-party administrator and how frequently their ongoing suitability should be assessed
- the circumstances under which firms believe it to be appropriate to place partial, or full reliance on records being maintained by other third parties when establishing and maintaining records at scheme and/or member level
- whether there are any other broader challenges when establishing and/or maintaining the firm's own independent internal records
- whether there are any challenges in conducting valuations and/or reconciliations more frequently
- how external assurance could be used to improve oversight of pension scheme assets and any challenges with this approach

Question 6: **What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements for scheme assets? We invite stakeholders to respond using the prompts suggested above.**

Question 7: **If you have received complaints about any of the issues in relation to scheme assets, please outline if you think we should make any new rules or clarify existing rules to address them. Please be specific about which rules you would want us to explore further.**

Costs

5.56 Firms should be complying with the existing due diligence requirements and have systems and controls in place to safeguard pension scheme money and assets, even when not in scope for prescriptive rules. However, we appreciate providers may incur costs to familiarise themselves with due diligence rules and there may be initial and ongoing costs to develop new systems and controls in respect of pension scheme money and assets to comply with prescriptive requirements if introduced.

Question 8: **Do you have any views on a) what new (additional) costs and burdens would be to firms; and b) any unintended consequences in relation to consumer harm that we should consider when developing our approach?**

5.57 We are keen to ensure that our SIPPs regulation is fit for the future, and that our regulatory framework works for all SIPP consumers. This chapter has focused on some areas of firm conduct where consumers have experienced the most significant harm. However, there may be other drivers for the harm that some consumers have experienced within SIPPs over the years.

5.58 We would welcome views on other issues that we have not covered in this paper.

Question 9: **Are there any other harms not mentioned in this paper that you think will have a significant impact on the SIPPs market going forward?**

Annex 1

Questions in this paper

Question 1: **What are your views on whether, and if so how, our rules should change to allow consumers to benefit from engaging digital tools and modellers with sufficient protections from the risks associated with projections? We invite stakeholders to respond using the prompts suggested throughout Chapter 3.**

We invite views on:

- Whether the issues with our current rules, as set out in paragraph 3.16, reflect commonly held views and whether firms have found other issues with our rules when developing tools and modellers. We are interested in any evidence demonstrating how, and which parts of, our rules may be limiting consumer engagement with tools and modellers.
- How the role of technology, including Artificial Intelligence (AI), can contribute to providing projections in digital tools and modellers that will more effectively engage consumers in pensions and retirement decision-making. We invite views on how our current projection rules might limit the benefits of technology and scope for future innovation in the interests of consumers.
- Whether stakeholders agree with the key harms identified in paragraph 3.19 and what further harms we should consider, including those related to the use of technology such as AI.
- Whether all FCA-regulated firms should be in scope of a future framework for direct-to-consumer digital tools and modellers.
- How digital tools and modellers can meet consumer needs and present projections in a way that will most effectively support consumer engagement with pensions, particularly considering future initiatives such as post-view services in pension dashboards, AGBR and value for money framework metrics.
- How we should define tools and modellers if we were to carve them out of the COBS 13 projection framework. We also welcome views on the extent to which firms should be able to populate any information or assumptions in tools and modellers to support consumer engagement.
- The benefits and risks of relying on the Consumer Duty to enable effective and innovative tools and modellers while also sufficiently protecting consumers from the harms associated with projections.
- The type of protections, if any, that stakeholders consider should be in more prescriptive rules, for both deterministic and stochastic projections, to set consistent minimum standards of protection and instil confidence in the use of digital tools and modellers.

Question 2: **What are your views on our DC pension transfers and consolidation discussion in Chapter 4? We invite stakeholders to respond using the prompts suggested throughout Chapter 4.**

We invite respondents to share with us:

- examples that show how firms' approach to transfers have improved in consumers' interest since implementing the Consumer Duty.
- examples (including, where appropriate, details of the nature and frequency) of:
  - the concerns listed in paragraph 4.18
  - other factors you have identified that might be contributing to transfers and consolidation taking place where they do not benefit consumers
- in their capacity as a ceding scheme, receiving scheme or both:
  - what benefits and features they currently flag to a consumer before processing a transfer request
  - how they express those benefits and features, and
  - whether they have tested these communications for consumer understanding

We also seek views on when (and from whom) this information is best communicated to effectively influence and inform the consumer's decision.

We invite views on whether pension schemes should adopt a consistent approach to bringing specific product features to a consumer's attention before proceeding with a transfer.

If you support adopting a consistent approach, we welcome views on

- Which features should be flagged, how they should be explained to the consumer, and by whom.
- Who should encourage the consumer to compare the ceding and receiving schemes, and how consistency of approach might best be achieved. For example, we would welcome views on whether there is scope for industry collaboration to publish agreed best practice.

We invite stakeholders to comment on whether Handbook rules would provide helpful certainty or limit future flexibility.

We invite firms that currently offer incentives to share with us how they ensure and monitor that the incentives they offer do not a) exploit behavioural biases; or b) contribute to consumers taking action that is not in their best interests.

We also invite stakeholder views on whether and how industry and/or regulatory measures can ensure the use of incentives does not undermine consumers efforts to engage with their pensions and secure better outcomes in the long term.

We also invite views on whether:

- Any other factors extend the completion time of a transfer.
- Firms could improve their processes and technology to enhance efficiency. Please give us specific examples and let us know if firms would face barriers in making these improvements.
- Periodic reporting of transfer times, and associated scrutiny, might incentivise process improvements. And if so, we welcome views on the type of reporting that would be most effective: reporting to the regulators or reporting via external publication for greater transparency.

We invite stakeholders to share with us their experiences of the transfer process, both examples of barriers to efficient processing, and examples of where appropriate friction has ensured good outcomes for consumers. Please tell us if these examples differ depending on whether the requested transfer is inbound or outbound.

Question 3: **What are your views on the spectrum of SIPP products available, ensuring they are offered to the right consumers and the differing support needs of consumers across the range of SIPP products? We invite stakeholders to respond using the prompts suggested in paragraphs 5.14 to 5.18.**

We invite views on:

- Whether stakeholders agree with our description of the spectrum of types of SIPP products available.
- Any challenges for firms in sufficiently detailing their target market and maintaining, operating and reviewing arrangements to make sure their products are only being distributed to the identified target market.

Based on our aim for consumers to be adequately supported across SIPP products, we also welcome views on how we could better segregate the market. We are also interested in stakeholder views on the differing support needs of consumers across SIPP products. We invite feedback from firms on what they are doing to meet this.

Question 4: **What are your views on setting out the due diligence obligations that already apply to SIPP operators in more detailed Handbook rules? We invite stakeholders to respond using the prompts suggested under paragraph 5.29.**

We invite views on:

- whether stakeholders agree that we should set out in detailed rules the due diligence obligations on SIPP operators, as set out in paragraphs 5.19 to 5.29
- what we should we consider when detailing due diligence requirements in rules generally and what we should take into account in terms of how SIPP operators currently implement existing due diligence processes

Question 5: **What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements in place for pension scheme monies? We invite stakeholders to respond using the prompts suggested under paragraph 5.44.**

We invite views on:

- what firms should be doing when selecting a banking provider and how frequently their ongoing suitability should be assessed
- the circumstances under which firms believe it to be appropriate to place partial, or full reliance on records being maintained by other third parties when establishing and maintaining records at scheme and/or member level
- whether there are any other broader challenges when establishing and/or maintaining the firm's own independent internal records
- would there be a cost to firms, for example, related to investment in technology to maintain a viable operating model/cost base, support efficiencies and ensure good customer outcomes when handling scheme monies and assets
- whether there are any challenges to prescribing more frequent reconciliation that we need to consider

Question 6: **What are your views on our proposal for a more prescriptive approach to be applied across all SIPP operators in relation to the arrangements for scheme assets? We invite stakeholders to both respond to both questions using the prompts suggested under paragraph 5.55.**

We invite views on:

- what firms should be doing when selecting a custodian and/or a third-party administrator and how frequently their ongoing suitability should be assessed
- the circumstances under which firms believe it to be appropriate to place partial, or full reliance on records being maintained by other third parties when establishing and maintaining records at scheme and/or member level
- whether there are any other broader challenges when establishing and/or maintaining the firm's own independent internal records
- whether there are any challenges in conducting valuations and/or reconciliations more frequently
- how external assurance could be used to improve oversight of pension scheme assets and any challenges with this approach

Question 7: **If you have received complaints about any of the issues in relation to scheme assets, please outline if you think we should make any new rules or clarify existing rules to address them. Please be specific about which rules you would want us to explore further.**

Question 8: **Do you have any views on a) what the new (additional) costs and burdens would be to firms; and b) any unintended consequences in relation to consumer harm that we should consider when developing our approach?**

Question 9: **Are there any other harms not mentioned in this paper that you think will have a significant impact on the SIPPs market going forward?**

Annex 2

Abbreviations used in this paper

Abbreviation	Description
AE	Automatic enrolment
AGBR	Advice Guidance Boundary Review
AI	Artificial intelligence
AUA	Assets under administration
CfI	Call for input
DB	Defined benefit
DC	Defined contribution
DP	Discussion paper
ESG	Environmental, social and governance
FSMA	Financial Services and Markets Act
KFI	Key features illustration
LGPS	Local Government Pension Scheme
SIPPs	Self-invested personal pensions
SMPI	Statutory money purchase illustration
TPR	The Pensions Regulator
VFM	Value for money
UFPLS	Uncrystallised fund pension lump sum

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FINANCIAL
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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk