

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Financial Conduct Authority
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By email: cp20-09@fca.org.uk

Dear Sir/Madam

The Financial Services Consumer Panel (the Panel's) Response to the Driving Value for Money in Pensions Consultation

We welcome the opportunity to respond to this consultation as it is a topic of great importance to the Panel, and has been for some time.

In responding to this consultation, we note that a balance must be struck between giving firms enough prescription to ensure consistent outcomes and embracing an outcomes-based approach, allowing firms some level of flexibility to achieve the best outcomes for scheme members. What will be most important, in any case, is assertive FCA supervision against the desired outcomes.

The emphasis on a consistent approach to assessing value for money (VFM), by focusing on investment performance, quality of service, and costs and charges for IGCs should boost competition and ultimately drive up standards, creating much better outcomes for consumers. Attention should be paid, however, when adopting a blanket approach when the needs of specific groups of members may be very different e.g. those in accumulation compared to those approaching retirement.

We also welcome the discussion around whether firms providing pension products should have a specific responsibility on ensuring the VFM to customers of these products – to which we feel firms should.

Please see our responses to the consultation questions below.

Yours faithfully

Wanda Goldwag

Chair, Financial Services Consumer Panel

Consultation Questions

Q1: Do you agree with our 3 proposed elements for assessing value for money? If not, what alternative elements do you suggest?

Yes. We believe the 3 elements provide a good starting point for assessing value for money (VFM) in three key perspectives:

1. As stand-alone measures, does each element pass a reasonableness check?
2. As stand-alone measures, how does each element compare to the same measure in other comparable schemes?
3. Combined with the other elements is VFM being delivered, e.g. does the investment performance for the given cost, taking into account the charges and cost for the quality of service provided offer VFM? Again, we would suggest this is reviewed both in absolute terms and in relation to other comparable schemes.

We note the thematic review gives an example of an 'IGC [that] assessed VFM collectively for all members, without reflecting VFM for distinct groups of members'¹ as poor practice.

We believe that these three elements need to be assessed separately for specific groups of members who have differing needs. Those members going through the process of retiring, for example, will have very different needs for 'quality of service' than those members in their accumulation phase. Elderly or vulnerable members are likely to have different needs from millennial members joining the scheme.

Additionally, we wonder whether some of the criteria used in the Asset Management assessment of value process might be relevant here. For example, are members receiving the benefits from the economies of scale, not only due to the scale of the scheme but also due to the scale of the provider?

Q2: Do you agree with our proposed definition of VFM? If not, what alternative wording would you suggest?

Yes, we agree with the definition however, we believe the definition should also clarify the *time period* over which the analysis should be calculated. Performance measures, as an example, can vary significantly based on the length of the period over which performance is measured and even the precise start and end date of the period can affect the outcome.

Q3: Do you agree with our proposed process for VFM assessment? If not, what alternative process would you suggest?

We agree, in part, with the proposed process for VFM assessment. We agree with the approach that IGCs should assess VFM in absolute terms for members and also compared to a selected comparison group of schemes with a similar profile, especially in regard to the demographics of the membership.

We question, however, how easy it will be for a member to understand and judge the VFM analysis as both a one-off report and on an ongoing annual basis.

¹ [TR20/1 Financial Conduct Authority. The effectiveness of Independent Governance Committees and Governance Advisory Arrangements](#) p.9 para 2.14

We would therefore suggest that:

1. a limit be placed on the amount of change permitted in the make-up of the comparable group between reports. This would enable members to benchmark the VFM of their scheme with comparable schemes and understand how this changes over time.
2. all VFM assessments should include a comparison to NEST, the workplace pension set up by the Government. Where the VFM assessment details that the scheme offers lower VFM we would expect IGCs to explain why they believe their chosen scheme remains appropriate for the members.

Q4: Do you agree with our proposals for IGCs to compare charges and transaction costs with other options on the market? If not, how should IGCs review costs and charges?

Yes. We believe this is an important step in reducing the overall average cost of schemes. We also believe that this approach requires both the limitation of changes in the make-up of the comparable group of schemes and the inclusion of NEST as one of the comparators.

Q5: Do you agree with our proposed guidance that fully complying with the charge cap does not necessarily indicate value for money?

We agree that complying with the charge cap does not necessarily indicate VFM.

We would go further in stating that even when a firm has the lowest costs and charges compared to its comparison group this does not necessarily indicate VFM.

The overall performance returns and the level and quality of service need to be included to understand the value delivered to the member for the costs and charges deducted from their account. We would expect that communications to members would give equal prominence to all three criteria and detail the view of the IGC on which criteria, if any, are more important to members.

Q6: Do you agree that a reasonable comparison of costs and charges with other options available on the market will put pressure on high-charging providers to reduce their charges and transaction costs? If not, how else could this outcome be achieved?

We are not convinced that the comparison on its own will put enough pressure on high-charging providers to reduce their charges and transactions costs.

For this to happen we believe IGCs need to be obligated to inform the relevant employer, and make this information available to members, of their concerns and whether an alternative provider would offer lower charges and enhanced value for money.

Q7: Do you think that further guidance will improve the assessment of legacy products?

Yes. We understand that comparison between legacy and non-legacy schemes can be problematic as legacy schemes often provide benefits, such as guaranteed annuity rates, that their non-legacy counterparts do not. However, we are aware that legacy schemes (in operation prior to 2001) are more likely to have elderly and vulnerable members and therefore it is particularly important that the IGC ensures the scheme is delivering VFM to these members, who may be unable to assess this for themselves.

In the thematic review, the FCA identified² poor practice where it was unclear how the IGC had 'weighed up' the value of these benefits. We believe further guidance is required to ensure that legacy schemes are assessed against both other legacy schemes and also against non-legacy schemes with a value being attached to 'legacy' benefits such as a guaranteed annuity rate, to enable a normalised, like-for-like comparison. We believe that an approach like this is required for legacy schemes to truly assess if their members are receiving VFM.

Q8: Do you think that our proposed rules and guidance will improve the clarity of IGC annual reports?

Yes. However, we would add that where an IGC states in their assessment that they believe a product does not provide VFM they should also outline what they (and/or the employer) have done, and/or are planning to do, to improve the value delivered and ensure the scheme develops to a position of providing value for money.

Without this safeguard, a scheme member could be presented with an assessment that the scheme does not provide value for money without understanding what is being done to address this. In this situation, it will be difficult for the member to make their own decisions about what action, if any, they should take.

Q9: Do you think that firms providing pension products should have a specific responsibility on ensuring the VFM to customers of these products?

Yes. In addition, this responsibility should be specifically in relation to the interests and needs of the members of each individual scheme, rather than across all the schemes a provider supports, on a broad-brush basis of either the 'average' interests and needs of the aggregation of members or the lowest common denominator.

Q10: Do you agree with the analysis set out in our cost benefit analysis?

No comment.

² [TR20/1 Financial Conduct Authority. The effectiveness of Independent Governance Committees and Governance Advisory Arrangements p.14 para 2.34](#)