THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

For the attention of
The Pensions Administration Standards Association

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The Society of Pension Professionals' response to PASA Defined Benefit Transfer Code of Good Practice Consultation

We welcome the opportunity to comment on the above consultation paper.

Introduction

We are in broad agreement with the objectives and principles of the code. However, we suggest that a greater emphasis should be put on protecting member's interests rather than on speed of processing. The FCA has clearly stated that transfers from a DB scheme are unlikely to be in the member's best interest, there is considerable due diligence required to address continuing concerns over the prevalence of scams (the provisions in the Pension Schemes Bill adding to that), plus pressure on trustees and pension providers to reduce costs. We therefore are concerned that the focus on speed should not risk introducing more risk into the process for pension members and the reasons for apparent 'delays' are not recognised or fully understood.

Trustees, scheme managers and pensions administrators are all currently working under pressure to improve the quality of data and records held (historic data as well as that relating to contracting out and equalisation) the completion of which will have a positive impact the time taken to calculate any benefit for members. We are not clear on the merits of focussing solely on the speed of provision of transfer values above other benefits – and indeed delayed payment of retirement or death benefits are likely to cause real and significant detriment due to gaps in income arising, whilst regular bills still need to be paid.

Question 1: Please provide your views on how the construction of the Principles can be applied at a practical level and the positive impacts they can have individually and collectively.

We would be particularly interested in any suggestions on how we could improve the framework of Principles.

In practice the end to end transfer calculation and process has several parties contributing to it in different ways and for different reasons. Wherever the process requires referral from the main administrator to another party, there will always be a disproportionate delay added as the referral itself will need to be prepared, sent, received then processed and returned, and processed. We anticipate that not all stakeholders will want to do the same thing when considering how the code should apply and in practice is it unlikely that all transfers would operate to the same model. The Principles and indeed all of the guidance needs to be clear that it relates to all parties which are involved in the process.

We would suggest that Principle 3 set out in the consultation document (Administrators should work with other stakeholders to encourage adherence to the Objectives of the Code) needs to be framed in a way that recognises that while pension administrators are central to all the admin and calculation processes and therefore interact with many stakeholders, and will endeavour to exert influence, ultimately there are parts of the process which are out of their hands. They are not the only party doing administration (as shown in the flowcharts) and where an actuary is doing work for a transfer (and indeed any other benefit calculation) trustees should agree SLAs with them for their part of the process as they would with their administrator. Therefore the party who has the strongest influence is the trustee.

We would suggest Principle 4 (Communications should be designed to reflect best practice, adhering to template documents where possible) should recognise that the template documents can only ever act as a guide to schemes and that each scheme will need to use documents that suit the provisions of their own scheme while adhering to the principles required by the code.

In considering the effectiveness of communications feedback from members can give helpful information. Some schemes periodically survey their membership. Questions specifically on clarity of communications could provide useful feedback.

We consider it is important that that the code's ultimate objective should be a timely compliant transfer and acting in the member's interest is of course ensuring no unnecessary delays, but also making sure that proper due diligence is done. The code should be clear that addressing scam concerns in line with the PSIG code should be done in a timely way but should not impose a fixed timescale for doing this.

Question 2: Please provide your comments on whether these constitute a workable definition for a 'Standard Case'?

Is any further clarification required on what constitutes a Standard Case/any additional categories of case etc?

We question whether the concept of a 'standard case' is appropriate – as individuals are most likely to expect, with good reason, that everything is in place to provide a benefit quotation – transfer value or otherwise. We doubt that anyone would want to be considered a 'standard case' or a 'non standard case'.

Rather than focus on automation per se, the focus should be on having a clearly documented process, the necessary data, and each party to the process having agreed service standards in place. The objective is the provision of accurate, timely and clear quotations rather than on how a quotation is produced.

In practice "guaranteed" transfer values and many non-statutory transfers are processed using the same calculations and procedures and we are not clear why a different approach would be proposed for these. They are subject to the same risks and issues as other transfers.

Question 3: Please provide your comments on whether these generally constitute a workable definition for a 'Non Standard Case'?

Is any further clarification required on what constitutes a Non Standard Case/any additional categories of case etc?

For the reasons above, we are cautious about the merits of trying to define Non Standard / Standard cases. This is further complicated when considering partial transfers, benefits with a mix of DB and DC and so on.

We also think it would be helpful to explicitly state that the list given here is not exhaustive.

We also note that there may on occasion be some overlap between "Non Standard" and "Out of Scope" cases. We are not convinced that any cases should be out of scope. Where it is necessary to obtain external advice on this it may be appropriate to "stop the clock" and not treat the period of obtaining the advice as part of the service standard.

Question 4: Please provide your comments on whether you would expect any other cases to be considered 'out of scope'?

We are cautious about anything which might result in an arbitrary designation of type of case. We feel the focus should be on overall objective of providing accurate, timely and clear quotations to members.

Question 5: Please provide your comments on whether these timescales are realistic and achievable? Please give examples to support your answers where appropriate.

The flow chart provided in this section of the consultation (relating to standard cases) shows both standard and non-standard cases. We would suggest if separate processes are to be shown, that a separate one for each should be in the appropriate sections.

We also note that adding up the maximum number of days in the flowchart for a Standard Case gives a maximum of 11 days and not 10 as shown in the text below the chart.

We are not clear on the overall benefit of setting timescales for transfer value work and not other types of work. This could result in priority being given to transfer work over other types of work and be to the detriment of other members. We expect trustees to be uncomfortable with prioritising transfer work over, for example, retirement and death settlement work. The code should recognise the need to balance demands of transfer work against the demands of other types of work.

Our members support the overall objective of timely, accurate and clear transfer quotes and settlements, but have reservations about the generally prescriptive nature of some of the proposals in the draft code. The design and approach to the provision of administration services is a commercial one. The service and fees for that service, are agreed with the trustees, and there are many variants in the market, which we see as healthy. We have a concern that the code as drafted reads that it is pension administrators who are responsible for providing the whole service – or the design of that service. This is not an accurate picture as in many cases the trustees and / or the scheme actuary determines which party does what part of the processing of a calculation. Therefore we would like to see a stronger emphasis on trustees working with their administrator and actuaries to document and agree clear responsibilities and service standards. It is academic to a member whether an actuary or an administrator does the calculation, what matters is the timeliness and accuracy of the calculation.

In steps 4a and 4b in the flowchart we would suggest the code should be clear that these steps relate to checking within the administration function.

We agree that it is important for members wanting a transfer quote to be properly informed about the process and the timescales, and the need to take financial advice. There will be occasions when an acknowledgement letter is appropriate, and occasions when it is not necessary. This may be based on the overall design of the process or could be driven by individual circumstances.

We disagree with using calendar days in communications to members and working days in administrator processes is likely to cause confusion. We believe members will understand normal business working days to exclude the weekend and bank holidays.

Question 6: Recognising the benefits of automation in both processing times and consistency of output, and also the costs of implementation, we are keen to understand the industry's views on how much emphasis we should place in the Code on automation and are there any considerations around this? We acknowledge schemes with a smaller membership may be different.

Whilst automation will often result in efficiencies and can reduce processing time, automation is not necessarily required to meet the aims of the code. There are many other factors at play – most notably having all the required data. Trustees should ensure that their administrators and actuaries have appropriate procedures and service standards in place to ensure benefits and transfer values are calculated within suitable timescales.

Question 7: What is the industry's view on the Code's desire to provide early retirement information along with the transfer pack as a standard approach – acknowledging commercial issues and the extent of automation?

We agree that it would be appropriate for the code to recommend that trustees consider whether to provide any additional information and quotes to members requesting a transfer value. It may be that a full quote is not needed, rather information about the options available and some commentary to inform members.

In many cases early retirement is only permitted with the consent of the trustees and / or the sponsoring employer. As a result, on some schemes that consent must be sought before a quote can be issued in order to manage member expectations.

Particularly where consent is required before producing a quote it is likely that including a retirement quote in the transfer pack would impact on the timescales for transfer quotes set out in the code.

Question 8: Please provide any other comments you have to help us improve this part of the process.
It would be helpful for the code to recommend email rather than post for issuing documents, recognising that this requires careful regard to data security.

We see no reason to differentiate the type of postage used between transfers and other types of work. Using first class post rather than second results in an additional cost, which would need to be considered against the value derived from it. The code could recommend that trustees consider the appropriateness of first or second class postage and the use of reply paid envelopes when agreeing the design of their transfer process. It may be worth noting that a valid consideration would be the environmental impact of issuing reply paid envelopes many of which will not ultimately be used.

Question 9: Please provide any other comments you have regarding the processing of cases set out in this Section.
The only comment we would add here is the importance of the code being clear that it should apply to all the stakeholders involved in the transfer process and not just those who would traditionally be seen as providing an administration service.

Question 10: This is a vital element to the delivery of better member outcomes for members wishing to explore their options with a financial adviser. We are keen to understand how this template has been adopted since the release of the Guide and whether there is any feedback on the document itself?

It is the intention of the Code to include Practitioner Notes, so please share any examples or case studies on the adoption of this Template.
The template has generally been adapted to suit the house style of the scheme / administrator rather than used as a prescriptive template. This has been a cost effective way to build on existing processes and transfer packs, giving schemes and IFAs flexibility.

We did note that some of the disclosures being suggested in the template may not always be fully disclosable (for example covenant reports) and that not all schemes will be able to give definitive information on actuarial factors (where for example they are market related).

Question 11 Please provide your comments on whether these timescales are realistic and achievable? Please give examples to support your answers where appropriate.
The ability to settle transfer values within the given timescale will be dependent on the scheme holding sufficient funds in cash or having access to disinvest funds in short order. We would therefore suggest that the code recommends trustees consider how to implement cash flow forecasting and mechanisms for disinvesting funds that support timely settlement of accepted transfer quotes.

We believe that a timescale of 2 days for following the full PSIG guidance checks is challenging and more time should be allowed for this. The PSIG guidance is lengthy and following it may involve interaction with other parties. It may be that the intention of the PASA code is that the initial due diligence required to establish whether there are scam concerns should be completed within 2 days (which we believe would be an achievable timescale).

We believe it is important that the code does not put any pressure on administrators to complete due diligence on scam concerns any more swiftly than they reasonably require. It is reasonable for the code to expect administrators and other stakeholder to deal with scam concerns in a timely manner – however it needs to be recognised that the time required for this can vary and be difficult to predict.

Similarly should additional ID verification checks be required it will be difficult to predict the time required for this. We think it is important that the code is drafted in a way that does not allow a 'quote' from the PASA code flow-chart to be used out of context to put pressure on a scheme.

Question 12: When discussing the topic of what constitutes a valid application which would lock in the guaranteed transfer value, we discovered a wide range of practices. Ideally we would like some harmonisation on this. Whilst not a requirement by law, ID verification also attracts a wide range of application. We are interested in the views of the industry on this topic and whether harmonisation is feasible?

What constitutes a valid transfer request for a statutory transfer will be determined by the appropriate legislation. We therefore assume the question relates to the additional requirements that most schemes have in addition to the rather basic requirements imposed by legislation.

Our view is that the code should allow for trustees and their administrators to take a risk based approach to their requirements before settling a transfer. It may be possible for the code to set out core elements of what should be required but schemes should be able to have additional reasonable requirement if particular circumstances require it (for example if they are aware of their members being targeted by scammers).

We do however understand that many schemes insist on the scheme name used by the member in their request to transfer being an exact match for the name shown on the evidence of HMRC registration provided by the receiving scheme. So, for example, if the evidence of HMRC registration gives the scheme name as "The XYZ Personal Pension Scheme" they will not accept a request where the member states the scheme name as "XYZ Pension"

When it comes to ID verification each scheme and administrator will currently be taking a risk based approach. It is difficult to see how this could be mandated by the code without either forcing trustees to take risks they are not comfortable with or imposing checks on them that they consider unnecessary.

Question 13: We understand there are different practices in place regarding notification to members and advisers regarding decreases in transfer values following recalculation. The option the Code is seeking to recommend is all reductions, regardless of value or percentage, should be communicated to members prior to being put into payment and confirmation received. We would be interested in the Industry's view on this?

The guidance appears to presume that a new TV will be issued if the deadline is missed. Our understanding is that the legislative position is that the quote lapses and the member is prohibited from seeking another Statement of Entitlement for 12 months from the date of the original application. Some scheme rules may not permit any variance from this strict interpretation whereas others will give trustees discretion on paying a recalculated transfer. Different trustee bodies will understandably have set different policies on this

We consider the recommendation to be reasonable where a scheme will pay a recalculated transfer. However an alternative approach we would suggest is that schemes could set out their policy on such cases as part of the original transfer pack.

We think the guidance should consider more fully the issues of members with DB and DC benefits and disagree that two payments should be made as of course. There will be circumstances where making two payments will be appropriate and others where it is not.

Question 14: When designing a Code, which at its core aims to improve the overall member experience and create efficiencies in the process for them and Administrators, we are interested in understanding the views of the industry on the Code recommending all payments be made via TT rather than BACS where possible?

To answer this question we would need to understand fully the reasoning for mandating TT (or CHAPS) rather than BACS payments or the Faster Payments system. We understand that BACS payments take longer to credit than either CHAPS or Faster Payments.

Ultimately the payment methods used and the resulting costs incurred will depend upon the facilities provided by the trustees' bank and the types of payments the receiving scheme's bank account can accept. It is currently routine in our experience for larger amounts to be paid by CHAPS and, where possible, smaller payments are made using the Faster Payments system.

Question 15: When we release the final Code we intend to include Practitioner Notes and further examples of communications and practical application of the Principles. We are interested in the view of the Industry on what they would like to see in these Notes?

We would like the notes to include examples of what information an IFA could reasonably request from an administrator in addition to that contained in the template. Ideally this would be agreed with the FCA so that schemes, administrators and IFAs could be confident that all necessary information is being provided.

We would suggest the templates should be moved from the appendices to the Practitioner Notes.

Question 16: Whilst we may not be able to provide clarification within this Code, we are interested in feedback from the industry in relation to wider guidance the industry would like to see in administration practices regarding safeguarded benefits?

As mentioned earlier we are not clear on the overall benefit of having a code of conduct for transfers of safeguarded benefits but no other form of member transaction involving them. This potentially indicates transfers have a greater importance than other transactions. We expect trustees to be uncomfortable with prioritising transfer work over, for example, retirement and death settlement work. We therefore think that PASA should consider how it might promote similar quality standards on other types of work.

Yours faithfully

Fred Emden
Chief Executive, The Society of Pension Professionals

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