THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

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Financial Conduct Authority
12 Endeavour Square
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Our Ref: FE/TB/CS/4.22 21 September 2020

Dear Sir or Madam

SPP RESPONSE TO CP 20/09: DRIVING VALUE FOR MONEY IN PENSIONS

We welcome the opportunity to response to the above consultation.

INTRODUCTION TO THE SOCIETY OF PENSION PROFESSIONALS (SPP)

SPP is the representative body for the wide range of providers of advice and services to pension schemes, trustees and employers. The breadth of our membership profile is a unique strength for the SPP and includes actuaries, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and specialists providing a very wide range of services relating to pension arrangements.

We do not represent any particular type of pension provision nor any one interest-body or group. Our ethos is that better outcomes are achieved for all our stakeholders and pension scheme members when the regulatory framework is clear, practical to operate, and promotes value and trust.

Many thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds. The SPP's membership collectively employs some 15,000 people providing pension-related advice and services.

SPP's Defined Contribution and Financial Services Regulation Committees have considered this consultation, whose memberships include representatives of consultants, pension administrators, pension lawyers and product providers.

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

We agree with these proposed elements in principle, but we are concerned that it will be too easy to focus on the measurement of costs, charges and investment performance but a lot more difficult to assess service aspects. The assessment should have both a quantitative and qualitative aspect.

We note here that many of your following questions are focussed on charges and costs and not about the other two components of your VFM definition, namely investment performance and quality of service. This reinforces our point in our previous paragraph. We suggest that more could be said about assessing quality of service such as what features are offered (such as web tools, drawdown functionality etc).

Q2: Do you agree with our proposed Handbook guidance about the meaning of value for money? If not, what alternative wording would you suggest?

As noted previously, the focus appears to be focused on charges and not how quality of service fits in. "Services" as defined in the proposed handbook text needs further guidance to clarify and expand on what "communications" and "core financial transactions" cover.

We also note in paragraph 1.6, that the FCA and TPR intend to publish a joint discussion paper on possible benchmarks and metrics that could be used in assessing VFM but no timescale is given. It would be enormously preferable for there to be a single overarching agreement of VFM across all DC pension arrangements, irrespective of which regulatory authority is supervising a particular arrangement. We would therefore suggest that the discussion paper is published urgently to achieve consistency as soon as possible.

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

We are pleased you recognise that IGCs do not have the "time, resources or expertise to compare all other options on the market" and that IGCs only need to look for publicly available information to make a comparison. However, we are unsure how this approach would work in practice since we are not clear how readily meaningful information would be publicly available for IGCs to use.

You suggest using NEST or the People's pension as a comparison but this may not be suitable in many instances given the difference in employer demographics and target markets.

Q4: Do you agree with our proposals for IGCs to consider whether any of the comparable schemes assessed offer lower administration charges and transaction costs? If not, how should IGCs review costs and charges?

We consider that this will be very difficult for IGCs to carry out a meaningful comparison. Inevitably different providers will have different service offerings which will be reflected in different charges. So it is not as simple as comparing numerical charging rates - a wider comparison should be undertaken in terms of what members get for those charges. However, it will be difficult to obtain meaningful and consistent information on service performance given that providers use different measurements of process times, Net Promoter Scores or similar; and that providers are unlikely to be willing to publicly expose precise details of what services they offer.

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

We are unclear whether the 'guidance' referred to is that already outlined in the proposed changes to the FCA handbook or if further information will be published.

If future information is to be published it is difficult to form a judgement at this stage. However, if it does refer to the handbook changes, we feel that it is not overly helpful. Although, we do agree with the principle behind it.

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 changes and transaction costs? If not, how else could this outcome be achieved?

The success of this will depend on two key factors – the ease at which data on a comparable scheme can be obtained (see our concerns about this at Q4), and the strength and effectiveness of the IGC in bringing a challenge (noting that you have raised concerns about this yourselves).

We also think it will be useful if the FCA could clarify what is meant by "high charging" – does this mean higher than "comparable schemes", or higher than 0.75%pa?

Regardless, we do not think it follows that pressure would automatically be put on such providers. If a provider believes its performance and product is worth the additional fees, then this is not a given. However, it might tempt them to leave the market if business becomes loss making.

Providers' approaches to scheme pricing do differ, while many apply differential pricing according to a scheme's or employer's size. So, using the charge cap as a comparator will not give a meaningful comparison.

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

Yes, if the guidance is meaningful then this would be helpful. Any such guidance might have to be quite prescriptive to drive significant change.

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

We believe that the proposed rules and guidance seem reasonable and should improve clarity.

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

We believe this is a good idea in principle but not in practice for several reasons.

If the provider has a specific responsibility for ensuring VFM then we believe this will lead to confusion as to what the IGC's role in this area is.

Keeping the responsibility for assessing VFM with the IGC will ensure information is published so customers can choose whether to go to another provider. Unless providers are placed under similar obligations to publish information it is difficult to see what benefit there will be.

We also note potential conflicts of interest especially given different commercial client pressures on price.

Finally, we note your sixth principle for businesses, Customer's interests, arguably already requires providers to consider this.

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

We agree in principle with your conclusion that increased costs to providers are justified because they "would lead to savings for consumers".

However, we also note your statement that "We do not think it is reasonably practical to quantify the benefits of our proposals. This is because of the difficulty of quantifying future consumer harm in the absence of our proposed value for money assessment rules." We understand the difficulty in quantifying the benefits of the proposals but do have some concern that you are making these proposals without more certainty that they will assist consumers in practice.

Yours Faithfully

Tim Box	Brian McBride
Chair, SPP DC Committee	Chair, SPP Financial Services Regulation Committee