THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

The Society of Pension Professionals (SPP) response to the FCA consultation CP24/16: The Value for Money Framework

1. Executive summary

1.1. **The SPP supports many of the proposals being put forward within this consultation and the overarching objective of improving Value for Money (VFM).**
For example, we support the focus on outcomes and value rather than costs; we welcome the FCA's proposed guidance about how comparator arrangements should be chosen and used; and agree that a narrative explanation should be provided and that a features table would be helpful.

1.2. **Although supportive of the objective, the SPP is concerned about the volume of data that the proposed framework will require providers to collect and communicate, which despite assurances of proportionality, in some cases appears disproportionate.**
Furthermore, some of the information requested appears to be undesirable, unnecessary and largely unrelated to the objective of improving VFM. Please see responses to Q9 and Q14 below for further details.

1.3. **There are many improvements that could be made to these proposals, as we have sought to constructively explain below.**
For example,

- non-workplace pension products should be brought within the scope of any new VFM framework in due course;
- the proposed threshold of 1,000 members for FCA-regulated arrangements should be halved to 500;
- service quality metrics need greater attention and
- it would make sense if an amber rating were to be considered "*VFM with room for improvement*" to reduce the overtly negative connotations an amber rating appears to have as currently proposed. And it does not seem reasonable for an amber rating to prevent the acceptance of new business. If there are serious concerns, then a red rather than amber rating would apply.

1.4. **Policymakers should also consider international evidence on VFM.**
In Australia, VFM is reported to have resulted in herding in investments and impacted policy objectives for investment in the kinds of investments now being politically encouraged in the UK i.e. domestic investment in productive assets. The FCA must consider how to mitigate well intentioned VFM measures that could undermine other policy objectives.

Consultation response

2. Question 1: Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?

2.1. The SPP welcomes the FCA's stated commitment to ensuring the scope of the Framework to be proportionate. However, the volume of data that providers will need to provide in order to comply with the Framework is a concern.

2.2. We agree that the initial focus of the Framework should be on default and "quasi-default" arrangements in order to ensure the vast majority of workplace savers are in-scope as soon as possible.

2.3. We also agree that EPPs should be excluded for the reasons stated in the consultation document. However, we would like to see non-workplace pension products also brought within scope in due course – we cannot see a compelling reason why these arrangements should be exempt and if they are not included, this risks causing consumer harm following, for example, transfers from a workplace pension within the VFM framework to a product that is not included in the framework.

2.4. Master trusts: the FCA will be aware that master trusts could broadly be split at a high level between "commercial" master trusts – set up deliberately to make a profit for their founders – and "accidental" master trusts - which fall within the definition of being a master trust without intent, often for historical or legacy reasons (indeed we understand that the FCA Pension Plan falls within this latter grouping).

2.5. Therefore, we believe it is important that the different reasons for schemes being master trusts are recognised when it comes to implementation and timescales of the Framework. Commercial master trusts have the backing of an organisation that can (or should be able to) assist with the additional resource costs that will be needed to meet the Framework requirements. Accidental master trusts are more likely to find the requirements of the Framework challenging, particularly if timescales are short.

2.6. We support the application of the Framework, suitably modified, to the own trust sector. However, for own trust schemes (and accidental master trusts), the fiduciary duties of trustees and their less "commercial" and more paternalistic approach should be acknowledged.

2.7. Please note that trust-based plans report on scheme year, which might not be aligned with the calendar year. Adjustments, including suitable transitional arrangements, may be appropriate to reduce the risk, and cost, of upheaval.

2.8. **Question 2: Do you agree with the proposed application of the 80% threshold to determine whether legacy arrangements are quasi-defaults? Why or why not? If not, what would you propose?**

2.9. This initially appears to be a pragmatic way to determine which legacy arrangements will be in scope.

2.10. However, there is a technical issue with the definition of *quasi-default arrangements*. It depends on there being, or having been, at least 80% of current or past workers of an employer invested in a particular arrangement. How can a provider assess this? This definition assumes an ability on the part of the provider to count either a current workforce or a past workforce (which in any ongoing business, grows irrespective of the size of the business). Providers can only assess those individuals who are actually enrolled by an employer, not the employer's wider workforce. Presumably this should be 80% of <u>existing members</u> in the arrangement.

2.11. We would also suggest that, like default arrangements, once an arrangement has been tagged as a quasi-default arrangement, it should retain that status, to make sure protection is not diluted over time.

2.12. **Question 3: Do you agree with the proposed 1,000-member threshold? Why or why not? Do you think there are risks around this level, for example excluding too many savers? If you don't agree, what would you suggest?**

2.13. The consultation document refers to having taken into account input from stakeholders and industry members about proportionality and the burden of the Framework. However, without seeing that input, and in light of the comments in 3.13 of the consultation document, about contract-based providers, we do have some concerns about whether there are scenarios where a contract-based provider has a large number of arrangements with fewer than 1,000 members and only a few that are above the threshold.

2.14. Is there a reason why a threshold of, say, 500 members is not appropriate?

2.15. Looking at the Framework from the perspective of its onward application to trust-based schemes, we question whether the FCA approach of focusing on the largest schemes is appropriately married up to the government driver behind applying VFM requirements in the trust-based sector. In the trust-based sector, the focus has been on the smaller schemes, driving consolidation as part of government policy that bigger is better to meet the government's investment objectives. There is a very real mismatch here, and consequently not a level playing field, if smaller FCA-regulated arrangements will not be subject to the VFM regime, but small trust schemes will be. We would welcome some consistency of approach, and policy.

2.16. **Question 4: Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?**

2.17. We are comfortable that gross investment performance net only of transaction costs is a figure that firms already need to disclose as part of COBS rule 19.8. As a result, we would support the FCA's further consideration of whether and why there needs to be duplicative rules in the Handbook. This is an example of the premise of the recent Call for Input into streamlining the Handbook, and a good opportunity to address the potential duplication as it occurs, rather than as part of a more extensive, holistic exercise later on.

2.18. The definition of "investment charges" that underpin gross investment performance net of investment charges needs further clarity, particularly as this will be the first figure used by an IGC in its assessment. It is also worth highlighting the knock-on effect to the interpretation of "*service changes*" and "*total costs and charges*" as both include the consideration of investment charges in their definitions.

2.19. Investment charges are defined in the draft rules as:

(a) in relation to a firm providing a non-vertically integrated arrangement, fees and charges only in relation to investments of the non-vertically integrated arrangement, including any performance-based fees but excluding transaction costs; or

(b) in relation to a firm providing a vertically integrated arrangement:

(i) *where the firm makes the investments available as standalone products, the amount that would be charged to a third party for the investment; or*

(ii) *where the firm does not make the investments available as a standalone product, the charge the firm estimates based on objective market rates for reasonably comparable investment products.*

2.20. We are comfortable with the definition as set out for non-vertically integrated arrangements as we believe this establishes reasonable expectations around the types of investment-related costs that should be deducted. However, we are unclear why the FCA has sought to introduce a differentiator of a "standalone product" for vertically integrated firms and we are not convinced it is necessary. We also note that what constitutes a "standalone product" has not been clearly defined. Vertically integrated firms, perhaps to an even greater extent, should have to disclose the same types of costs as those of non-vertically integrated firms.

2.21. We are supportive of both the proposed risk metrics of Annualised Standard Deviation and maximum drawdown.

2.22. **Question 5: Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?**

2.23. Although the proposed calculation methodology may initially appear reasonable, it is difficult to definitively agree until investment charges, service charges and total costs and charges are clarified. Without properly understanding what investment charges and service charges are, SPP members are not sure if they can use readily obtainable figures, those they currently use, or whether they'd have to calculate the investment charges and service charges in a new way in order to get the required investment performance measure.

2.24. **Question 6: Do you agree with the proposed requirement for chain-linking? Why or why not? If not, what would you propose?**

2.25. Yes, we agree with the proposal.

2.26. We particularly welcome the ability for firms to provide "before and after" chain-linking figures as we believe they give firms the ability to demonstrate what transfers or mergers of savers to different arrangements was required/necessary. While there is the knock-on effect of producing more data, we believe this is necessary to negate issues with a single figure for chain-linking which could, for example, mean good performance over a short post transfer/merger date is overshadowed by the poorer performance of a longer pre-transfer/merger period.

2.27. **Question 7: Do you agree with the approach to in-scope legacy arrangement features? Why or why not? If not, what alternative approach would you suggest?**

2.28. We are comfortable with the proposals set out in the paper.

2.29. **Question 8: Do you have further feedback on the incorporation of forward-looking metrics within the Framework? If included, how prescriptive do you think we should be on assumptions and methodology, and what would you propose?**

2.30. We appreciate the omission, at least for now, of forward-looking metrics from the Framework. This does lighten both the regulatory burden on firms and the already potentially significant levels of data for an IGC to consider.

2.31. A forward-looking perspective can help to show the path that a scheme is currently on and could be particularly useful following a notable change (such as a change to the funds into which the scheme is invested). But it is debatable whether hard numerical metrics are more useful than a simple narrative about how the trustees / operators of a scheme (or fund) expect its performance to develop or how the scheme is dealing with poor performance in the past. Numerical forward projections can only be based on certain assumptions about potential future developments across a number of dimensions, including, for example, macro-economic conditions; market sentiment; fiscal or regulatory developments.

2.32. Any forward-looking assessment would need to be transparent and robust. If it is not clear how an assessment has been reached, or if the nature of the assumptions on which it is based are not easily understood, any subsequent under-performance is only likely to generate additional scepticism and uncertainty.

2.33. **Question 9 – Do you agree with the approach to asset allocation disclosures? Why or why not? Do you think asset allocation disclosures will support better decisions in the interests of savers?**

2.34. The proposals are clear that asset allocation will not form part of the assessment. While we believe there is a place for asset allocation disclosures in providing context to elements of the VFM assessment, we have to be cognisant of the significant amount of data required elsewhere in the Framework that will form part of the assessment.

2.35. Furthermore, individually, the asset allocation requirements introduce the largest numbers of data points. We question whether this element could be achieved through existing means and suggest the proposal in the consultation be removed from the requirements. The necessity or desirability of such disclosure is also questionable given:

a) The asset allocations are likely to be dynamic, even for passive mandates which utilise, for example, factor-based allocation, and a historic snapshot is irrelevant for the purposes of determining a strategy's suitability for the future.

b) IGC Boards are already required to have (or to have access to) the same knowledge and understanding of investment objectives and strategy fulfillment as Trustee Boards, and to review investment data at least quarterly. As noted above, the point of a look back over an historic 12-month position gains or adds little to nothing and will be something merely noted at meetings.

c) Actively engaged investors will already monitor and decide upon investment fund suitability, usually via fact sheets other provider produced collateral and data. An historic position once again adds little to nothing to their sources of information.

d) Default members will neither look for the data nor be concerned about it.

2.36. We make these points because we believe that it is vital to avoid overcomplication where no tangible benefit is derived. Firms will otherwise spend time and money focusing merely on avoiding regulatory censure for failing to disclose information, in a particular format, that nobody finds useful. Therefore, we do not believe that these requirements should be included in the VFM Framework. If disclosure is a policy requirement, that should be addressed as a separate disclosure requirement outside of the VFM Framework.

2.37. **Question 10 – Do you agree that asset allocation disclosures should be limited to firm designed in scope arrangements only? Why or why not? If not, how would you broaden the requirement and to which arrangements?**

2.38. In the main, yes, we agree with this - subject to our comments above around the benefit and purpose of the disclosure.

2.39. However, there are caveats. For example, where non-firm designed arrangements have not been reviewed by its introducer (usually an EBC advising a specific employer) for a period of (say) three years, and the introducer has not written to the provider to confirm its ongoing suitability, we question whether it is still appropriate to treat the arrangement as bespoke. Such analysis should already form an implicit part of an IGC's remit, and part of the provider firm's Customer Duty obligations, and therefore it should not be an onerous task for the provider to produce such data where the demographic meets other disclosure criteria.

2.40. The SPP recommends that the FCA consider that designation as bespoke should cease to apply if the arrangement has not been reviewed for more than three years and its introducer has not written to the provider to confirm its ongoing suitability.

2.41. **Question 11: Do you agree that we should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR points? Will this be of use to firms, and will it be an added burden to disclose?**

2.42. Subject to our overall comments regarding the lack of tangible benefits of asset disclosure, we do not believe this will add more difficulty for providers, but it will certainly add volume for any party for whom it is deemed appropriate. We would add that firms currently have an obligation to contact members before they enter a decumulation period, which would fundamentally alter the asset allocation.

2.43. **Question 12: Do you agree with the proposed definitions for UK assets? If not, what would you propose?**

2.44. It is difficult to answer this question without a better understanding of the intended purpose of such disclosure.

2.45. As noted elsewhere, IGCs will already understand the geographic focus of their default strategies.

2.46. Diversification is a better investment objective for default strategies than a specific political or geographical focus. Thus, introducing a UK specific asset allocation may confuse members, given the investment material they routinely have access to, which exhorts the virtues of diversification. Rewriting investment collateral merely to explain why the UK has been called out for special treatment could prove costly for providers, especially if government ambitions, such as those set out in the Mansion House compact, change with successive administrations and economic priorities for the government of the day.

2.47. Members are not renowned for having either patriotic or anti-patriotic investment objectives. The disclosure as proposed here would do little to inform them (and would probably mislead them) given that a UK listing is not the same as UK investment, geographically.

2.48. It would make sense for the FCA to await the outcome of the Government's current Pensions Review (Investment) before deciding on an appropriate definition of a UK asset. On the surface, it would seem that the Government's objectives for UK investments are not aligned to the proposals in this consultation document – see further our comment on the application of the Framework to smaller schemes (at 2.15).

2.49. For further information on the SPP's view on such definitions, it may be worth exploring our September 2024 paper on Productive Finance, "Solving the UK Investment Puzzle[1].

2.50. **Question 13: Do you think we should break out 'Quoted but not listed' (e.g. AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much**

2.51. We have no evidence or expectation that the proposal would add any material cost but as noted above, the FCA should await the outcome of the Government's Pension Review (Investment) before deciding on an appropriate definition of a UK asset. On the surface, it would seem that the Government's objectives for UK investments are not aligned to the proposals in this consultation document.

2.52. Again, for further information on the SPP's view on such definitions, it may be worth exploring our September 2024 paper on Productive Finance[2].

2.53. **Question 14: Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?**

2.54. A key measure of value is net performance (as set out in Chapter 4) but we agree it is useful to have the transparency provided by separating out the costs and charges data for comparison purposes.

2.55. The proposed metrics (i.e. reporting periods and retirement age cohorts and investment charges and service costs), are in a consistent format with the investment performance data, which is as expected.

2.56. We recommend that the definitions of service costs and investment costs are provided / clarified so that it is clear what is to be included in each.

2.57. We disagree that employer funded costs should be included because such subsidies are a relevant benefit to members that contributes to the overall value of the arrangement. We accept the point about possible distortions but as the proposed Framework is a holistic assessment that looks more broadly than costs, the other aspects of the arrangement will be taken into account when determining the overall assessment outcome.

2.58. Employer subsidies do make membership of a scheme / arrangement better value for members than the scheme / arrangement would otherwise be. Therefore, we are keen to know if the FCA is concerned about the value being offered to the employers in these cases. Although we can see that this is relevant to the value of the product overall, this seems to stray beyond what we normally see from the FCA in relation to consumers / members.

[1] SPP Guides and Papers, Solving the UK Investment Puzzle, September 2024:
https://the-spp.co.uk/document/spp-paper-solving-the-uk-productive-finance-investment-puzzle/
[2] Ibid

2.59. We agree with the inclusion of performance-based fees and the exclusion of transaction costs. However, there are challenges with regard to estimating accruing performance fees between valuation points.

2.60. We do not see the value in comparing costs and charges on a historical basis and therefore suggest that the calculation of data for previous reporting periods is not needed (although we note that the historic costs and charges data will be needed for the past investment performance data). However, if historic data is to be shown, we believe the proposed calculation methodology using the geometric average does not work and that fees should be calculated arithmetically.

2.61. We note that there is an inconsistency between the chain linking requirements for investment performance data and the costs and charges data.

2.62. We agree with the proposed approach for the legacy arrangements (particularly with-profits). However, we note that the necessary data has not always been easily available in the past.

2.63. We note that it would not be possible to accurately include employer-funded costs for some trust-based schemes e.g. where a scheme is administered "in-house". And it may be practically difficult to identify service costs for hybrid schemes where some or all costs are not split between the administration of the DB and DC benefits. Such schemes may have their own approach to allocating costs, sometimes depending on the funding position of the DB benefits. If the Framework is applied to trust-based schemes this aspect will need careful consideration.

2.64. **Question 15: Do you agree that historic costs and charges information should be calculated in the first year of implementation, rather than waiting for this data to build over time? Please explain your answer. If you do not agree with either approach, what alternative would you suggest?**

2.65. As mentioned above, the SPP does not see the value in comparing costs and charges on an historic basis and therefore suggests comparison of historic data is unnecessary.

2.66. **Question 16: Do you agree with our proposed approach to converting combination charging structures to annual percentage charges? Why or why not? If not, what alternative would you suggest?**

2.67. We agree with the recommended approach.

2.68. **Question 17: Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?**

2.69. We agree unbundling historic costs would be challenging and so we support the proposed transitional provisions.

2.70. We note that the investment charges to third parties for standalone products may vary by client and therefore this may not be an appropriate measure to estimate the investment charge – we are also unclear as to precisely what the FCA considers to be a "standalone product". The same applies in relation to comparable external investment products.

2.71. **Question 18: Do you agree with the proposed approach to multi-employer cohorts? Why or why not? If not, what alternative would you suggest?**

2.72. We believe there is an inconsistency between the proposed format of the investment performance data and the proposed format of the costs and charges data for multi-employer schemes and would suggest further clarity is provided regarding this.

2.73. In particular, as the investment performance data in Chapter 4 is to be provided net of charges and costs, we believe the investment performance metrics would also need to be disclosed through cohort tables for multi-employer arrangements (this does not seem to be suggested in either Chapter 4 or in the excel template that sets out the proposed data points).

2.74. **Question 19: Do you agree with the proposals on scope? If not, what alternative approach would you suggest?**

2.75. SPP experience is that the FCA Consumer Duty appears to be working well for FCA regulated firms and is driving standards in consumer service with marked improvement in outcomes, for example on dealing with complaints and supporting vulnerable customers. As a result, it might be argued that this section of the Framework is not, or is no longer, necessary for FCA-regulated firms. However, we can very much see the argument for including robust metrics for trust-based schemes where trustee duties are less specific. As the aim must be to deliver a level playing field, we agree that the service metrics should apply in the Framework although we are conscious of the volume of data that the proposed Framework will require and note it will involve cost and upheaval to implement some of the proposals.

2.76. Measuring quality of service is, as the consultation paper suggests, difficult. We agree that the counterfactual argument is valid – in other words, would not measuring these particular metrics disadvantage and disincentivise arrangements that offer more to the saver? And fail to identify arrangements that fail to deliver service value or necessary quality?

2.77. Our responses in this section reflect consideration of that counterfactual.

2.78. We would encourage service quality metrics to be tested at a much wider level than is appropriate for the investment/cost metrics. We support the proposal to test service quality at the level at which service offerings are uniform, rather than at the arrangement level.

2.79. However, we are concerned about the proposed optionality for firms in term of who is counted as a “saver” for these purposes (COBS 19.5A.13R Annex, paragraph 2.2R(8)(b)).

2.80. For service quality, it should not be relevant whether the member is still in the default/quasi-default investment arrangement. It should be sufficient that the member had been enrolled into that particular arrangement and is still in the scheme and service level offering. Otherwise, there is a risk that protection effectively wears off as soon as a saver takes a proactive step in respect of their investment allocation.

2.81. **Question 20: Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?**

2.82. The SPP broadly agrees with the proposed indicators, although we have in our response to Q21 drawn out a number of areas where the indicator as expressed risks being misleading, primarily around accuracy.

2.83. We also have concerns around the sheer quantum of data and the risks of any unintended consequences, for example leading providers to focus on specific event-based interactions at the cost of others (please see our response to Q23).

2.84. If one overarching policy aim is to encourage employers, as the true decision-makers, to select better offerings, pay more for better offerings or drive improved service, the current indicators may not be sufficient. There is an argument for testing offerings against a good practice list as well, so that members, and employers, can see where on the spectrum their particular offering now sits. Any such list of service offerings (apps, modellers etc) would need to be monitored as the industry develops and improves so that it is not reduced to a lowest common denominator. The lowest common denominator risk is a real one, driven by cost-competition.

2.85. It is also important that these five indicators are considered in relation to the Consumer Duty as there appears to be some duplication. That is likely to prompt repeat assessment of the same consumer and could therefore be considered overly prescriptive, disproportionate and creating further cost for no obvious benefit.

2.86. Of course, the counter argument to this is that, under the Consumer Duty, different providers use different data and metrics, and this is likely to make scheme comparisons under the proposed VFM Framework challenging.

2.87. The SPP suggests it would therefore be worthwhile the FCA considering what, if any, steps could be taken to minimise duplication and costs here.

2.88. **Question 21: For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.**

2.89. A number of the metrics involve testing against a firm's own service level agreement or internal policy. We are concerned about the subjectivity involved in testing delivery against service level agreements. For a decision-maker, a green rating on tracking SLAs could hide the fact that the SLAs (or worse, internal unpublicised policies) are not market-standard. There are two aspects to this, transparency and objective quality.

2.90. **Transparency**: if firms are to be permitted to measure themselves against their own standards, firms must be transparent on what those standards are (which may well vary by service level offering). If the aim is to drive competition on quality, then firms should be required to disclose within the report the standards against which they are testing themselves.

2.91. **Objective quality**: We would encourage the FCA to consider whether there should be an objective test as well for each of these key financial transactions, or a requirement to identify the SLAs or policies used for this particular service level group to test actual delivery, so that decision-makers can compare like with like.

2.92. **Indicator 1: Savers can be confident that transactions are secure, prompt and accurate**

2.93. **Common data and scheme-specific data**: We agree that keeping and updating common data is essential, and operating the same list as for trust-based schemes makes sense.

2.94. We would recommend adding the identity of the sponsoring employer from time to time to the common data list for all schemes, whether FCA-regulated or trust-based. We would also like to see firms encouraged to hold details of name changes – the failure to hold birth names (where a married name is held) can be a particular problem for female members who may change surnames several times over the course of their lives.

2.95. As an aside, we have seen an example of data being "updated" following data cleanse exercises with incorrect information (e.g. addresses). The data cleanse search found another person with the same surname and initial living in the same area as the original address on file, but at a different address, so "updated" the record, with the result that the original, correct, address was deleted from the record. Should "updating" come with a requirement to retain the old information as well? This would be helpful for Pensions Dashboards matching purposes as well.

2.96. We would expect further specificity on the individual tasks of "review" and "update" in the guidance i.e. what does reviewing a scheme's common data for accuracy actually entail? The equivalent Pensions Regulator guidance for trust-based schemes sets out what is expected of a review – is this going to be replicated in FCA guidance?

2.97. The trust-based regime also requires an improvement plan to be put in place for any gaps shown up by such a review. We would expect a review in the FCA-regulated space to have the same consequences (over and above any overall consequences of an amber or red score for VFM as a whole).

2.98. It must be recognised that this metric is not perfectly matched to the indicator – it does not ensure accuracy – it just improves the chances of accuracy. Using the trust-based scheme test of "review" as a guide, the exercise boils down to checking that every relevant data box holds data and that the data is not nonsense. It does not include checking that the data held is up to date or actually correct. It may therefore be more honest to express the test in the Framework in terms of reviewing common data <u>completeness</u>, and exercises to increase data completeness rather than reviewing and updating common data.

2.99. This issue also flows through to the metric list proposed for 7.2R(1)(d) and (2)(d) and the statistics drawn from that data: we would suggest the test is expressed to be of "complete" data rather than "complete and accurate" data, with "complete" to be interpreted in line with guidance as discussed above. It would be misleading to members to suggest the results show levels of accuracy.

2.100. Firms are to be asked to say how frequently common data (or more accurately, completeness of common data fields) is reviewed. It is not clear why FCA-regulated firms are not already expected to review the completeness of common data at least yearly. Should it be made clear that an answer of less frequently than annual should automatically trigger an amber or red rating?

2.101. Given that "reviewing common data" is only measuring completeness of data fields, should there be an aspirational metric for work done to ensure the data is actually correct and up to date? Accuracy (as opposed to completeness) will be important for the operation of the Pension Dashboard system in due course. So, could there be a test of how often during a member's period of membership does the firm initiate contact to confirm common data? Or a measure of whether the firm does this exercise at key points e.g. does a firm undertake reviews on a timely basis e.g. following enrolment (or expiry of the opt-out period for auto-enrolment), or when a member's status is notified to be changed, or when the member reaches a particular distance from target retirement age?

2.102. In theory, completeness could be measured against a list of common data, but it must be remembered that schemes are reliant on employers or trustees providing the data **and** it being accurate.

2.103. Once firms have the data, it is entirely dependent on the savers themselves to notify the administrators if any of the data was inaccurate via normal communication e.g. if an individual joins their employer's scheme and the employer provided an incorrect date of birth, the individual would need to see something from the provider that would alert the member to that and then the provider would need to be told to change it. It is therefore largely impractical to measure accuracy.

2.104. **Key financial transactions**:

2.105. Again, the metrics proposed do not measure accuracy, which begs the question of whether the indicator is misleading. Should there be a metric for corrections having to be done after a transaction has initially been reported complete? This could drive improvements in checks and balances to get it right first time.

2.106. **Transfer between schemes**: it won't always be possible for the transferring scheme to determine when the monies have been successfully received by the receiving scheme.

2.107. **Payments out to beneficiaries**: again, as with transfers, it won't be possible to determine when payment is received by the beneficiary's receiving account.

2.108. Also, the process and therefore time frame to pay a death benefit can be complex (probate etc.). Reporting raw end-to-end dates will likely produce some big numbers so how do we contextualise that and how can firms explain why the time lag is so long?

2.109. **Contributions**: we would suggest separating out one-off contributions from regular scheduled contributions (including regular AVCs once set up) made direct from payroll.

2.110. **Beneficiaries**: we are concerned about the time period for this metric. The proposal is that the clock starts at "the point at which a request is made for payment to a beneficiary to be issued". It is not clear where this request is to come from, and it ignores the process that leads to the request "for payment to be issued". If the term "beneficiary" is being used to embrace beneficiaries of survivor benefits, the majority of the processing delay can be in the period from when notification of death is received to the point at which "payment" is "to be issued". That delay can be on the part of the beneficiary, failing to respond to questions, but it can equally be down to lack of proactivity on the part of the firm in chasing down responses. Injecting some accountability on firms for following up should be beneficial in raising standards.

2.111. Quality should be measured not just in pure processing terms, but also in the overall experience. We have seen a "stop the clock" approach to such processes resulting in very long gaps which could have been reduced had the firm had an incentive to follow up. A proxy for this would be an objective metric covering the period from date of notification of death (or if later, identification of possible beneficiaries) to the first, or only, payment being issued (or closure of the claim without payment being due).

2.112. **Indicator 2: Savers are satisfied with the service they receive**

2.113. **Negative perception**: we agree with collation of complaints data. However, the definition of complaint, although taken from the FCA Handbook, does not appear entirely suitable in the context of VFM. We have broken out its elements below to highlight a few issues:

- oral or written and expressed within a contact with the firm/scheme/complaints platform;

- by or on behalf of an individual - we suggest this should be limited to contact by or on behalf of a saver or alleged saver or actual or alleged beneficiary;

- allegation of financial loss, material distress or material inconvenience - what is materiality here? In the trust-based arena, the bottom end of the Pensions Ombudsman's tariff structure might be a suitable threshold. Will there be guidance to make sure that the allegation does not have to specifically identify one or more of the heads, as long as it would ordinarily be interpreted as amounting to such?

- expression of dissatisfaction - It is not clear what this formula adds as a qualifier to the allegation of financial loss, material distress or material inconvenience. It is important to ensure that the data does collect saver contacts where a saver observes that something has been done incorrectly, asks for it to be corrected, and it is corrected – is that the same thing as expressing dissatisfaction? Should the requirement for dissatisfaction be separated from the allegation of financial loss, material distress or material inconvenience so that it covers complaints about service quality which do not actually amount to material distress or material inconvenience? Guidance could be helpful here. A similar approach to the maladministration regime of the Pensions Ombudsman would probably make sense.

2.114. **Customer satisfaction**: We support the concept of a satisfaction survey, and of metrics covering engagement with such surveys. This could encourage innovation in the approach to surveys to improve member engagement. We have commented against Q23 on the specifics of such a survey.

2.115. **Indicator 3: Savers are supported to make plans and decisions for their retirement**

2.116. We very much support this indicator. Please see our more detailed comments in response to Q24 for how this is measured.

2.117. **Indicator 4: Savers can amend their pension with ease**

2.118. The two amendments envisaged – updating survivor benefit beneficiaries and changing contributions – are very limited in their ambition and do not encourage any innovation. They may also skew providers' focus to performance in these areas rather than their wider services. We would suggest adding other amendments e.g. checking and changing personal data, initiating a transfer out, initiating a decumulation step, checking and changing investment choices.

2.119. This indicator is not reflective of how good a firm's service is. Amendments are far more likely to be driven by something specific in a saver's circumstances, e.g. they get married or get closer to retirement so want to increase their contributions.

2.120. What is important is how firms deal with these requests once received. The FCA should consider using/moving some of the core financial transactions to be measured under "*Savers can be confident that transactions are secure, prompt, and accurate*" to this indicator.

2.121. **Indicator 5: Savers are supported to engage with their pension**

2.122. The metrics currently proposed: contacts, registration with secure portals and use of secure portals or apps, all make sense, but do not, by themselves, really address the quality of the digital offerings.

2.123. Our comments above about the definition of "saver" are relevant here – measurement of quality should not be allowed to be limited to interactions with members of default/quasi-default arrangements or widened to savers scheme-wide/service level-wide offerings at the option of the firm. The data needs to reveal if there is any drop-off of service comparing those two groups.

2.124. **Question 22: Do you agree with our proposal to include a non-employer related email address and phone number when defining common data? If you don't agree, please explain why not.**

2.125. In theory this principle is sound but in practice much less so.

2.126. The majority of data is initially provided by the employer. The employer may not have, or request, certain data, including a non-employer email address and/or phone number. Even when this is requested, an employee may fail or refuse to provide it.

2.127. As a result, while it should be good practice to seek to obtain this information, we do not think it fair or reasonable to measure firms against this metric.

2.128. **Question 23: Do you agree with our proposals for an event-based member satisfaction survey? We would particularly welcome feedback on the trigger events and proposed questions.**

2.129. Although surveys are often ignored, if engagement with surveys becomes a metric in its own right, it could encourage innovation and thought around how to persuade members to engage, at least briefly.

2.130. However, the trigger events seem somewhat limited and the SPP can see a risk of unintended consequences i.e. that providers focus on these specific interactions to the possible detriment of others. We would therefore favour a wider suite of trigger events.

2.131. Should "calls to the provider helpline" be widened to include access to the secure sections of member portals?

2.132. Registration for an online account is a one-off event and does not by itself measure the ease of use of that online account once set-up.

2.133. We accept that policy is not to address the decumulation phase at this point, but we would nonetheless recommend starting to gather data on satisfaction at that point e.g. including as a trigger event transfers out, or equivalent transition to decumulation arrangement.

2.134. The formulation of the final question of the proposed standard survey is not quite right. There may be many reasons to be dissatisfied with a scheme e.g. because the employer is only making the absolute minimum contributions or has selected a very low service level offering. We suggest the question should be recast as "Overall, I am satisfied with the service from my scheme". That allows firms to manage savers' expectations by being clear on what the required service is and calibrate satisfaction by references to that scheme's own offering.

2.135. Own trust schemes - applying this requirement to an own trust scheme is likely to increase costs and accelerate the move towards consolidation. In this regard the change should satisfy government policy of driving consolidation in order to further government ambitions on investment. But we note it will incur costs to implement, costs that will ultimately be borne by savers.

2.136. **Question 24: Do you think that a firm should be able to provide a saver specific view of access to tools and saver use across its digital offerings? If not, what metric would you suggest?**

2.137. This question appears to relate primarily to the metrics for indicators 3 (savers are supported to make plans and decisions for their retirement) and 5 (savers are supported to engage with their pension).

2.138. We question whether there is sufficient value in requiring firms to track saver-specific data for access to tools, compared to the risks inherent in making that a requirement.

2.139. Firms may currently choose to provide tools, educational materials and other digital support in a tiered fashion, with specific password-protected entry only required for the most member-specific actions such as checking and changing personal data or choices and checking account values.

2.140. We can see a risk here of the need to provide saver-specific metrics causing tools to become locked down, which may actually discourage the very members that this consultation is looking to protect – the least engaged, and potentially therefore the least likely to bother to pierce a firewall. They are the ones that need to be encouraged to interact with their savings.

2.141. Is there an opportunity here to drive innovation and improve member communications by also requiring firms to respond to a checklist of free-to-member digital offerings, expressed in terms of what a user can do, or learn, online, within the firm's website/portal offering for the scheme in question (as compared with where links are simply provided to external sites)? The major providers in the retail market ought to be able to assist with compiling such a list and keeping it updated as services evolve. Consumer bodies and financial advisers may be able to support with confirming what tools are most genuinely useful to members at various points along their journey to retirement. It seems likely that the introduction of pension dashboards will drive greater sophistication of offering once the bare basics can be accessed via the dashboard.

2.142. Usage metrics for those services which are not locked down would need to be more simplistic – hit rates, time spent on the site, etc – so would not necessarily provide data about usage for actual members but could be combined with more specific metrics for those services solely provided via member-specific portals.

2.143. **Question 25: Do you agree with our proposed conditions for the selection of comparator arrangements? If not, what would you suggest?**

Condition 1 (number)

2.144. The SPP does not object to a minimum of three comparisons and, as the consultation documents notes, it is logical to consider more comparisons where the ICG has VFM concerns.

Condition 2 (scale)

2.145. The SPP does not object to at least two comparators having DC workplace assets above £10bn. We acknowledge the rationale for other comparisons, but these can be undertaken on a voluntary basis.

Condition 3 (whole of market)

2.146. There are probably more relevant comparisons to be gained by having comparator schemes of the same type in the assessment. We are not persuaded that a market-wide element to the assessment is of a more meaningful benefit to savers. Furthermore, it is worth clarifying that Nest, for example, is a creature of statute and is neither trust-based nor contract-based. Therefore, it may be better to distinguish between workplace personal pension schemes and workplace occupational pension schemes (or the authorised master trusts subset) – rather than using the terminology of trust and contract.

2.147. It is also worth considering whether, and to what extent, workplace occupational pension schemes and authorised master trusts provide meaningful comparisons for legacy workplace personal pension schemes.

Condition 4 (large, open, provider-designed and VFM)

2.148. This is the most complicated comparison to use in practice and will give rise to various challenges.

2.149. What does "provider-designed" mean? Is it the scheme or the investments that must be "provider-designed"? How should IGCs and providers interpret this?

2.150. This will also inform whether the comparator is open to new employers. For example, multiple products may relate to the same registered pension scheme. Some of those products may be closed to new employers, some open. However, ultimately the registered pension scheme is not closed to new employers (or not entirely closed).

2.151. The consultation then says: "*Of these arrangements, the IGC should choose the largest by assets*".

2.152. This suggests that the FCA wants IGCs and providers to look at large comparator providers (above £10bn) and to then drill down into the data at "employer scheme" level within those providers – picking the largest "employer scheme" by assets. Is this correct? It would be helpful to be as precise as possible on this to help make sure all IGCs and providers apply a consistent approach.

2.153. Finally, it is clear why this kind of comparison (subject to more detail) would apply to open/current workplace personal pension schemes. However, it is less obvious why this would apply to legacy schemes. Open/current workplace pension schemes are subject to charge cap and other pricing constraints. If they are to be the comparison for, for example, non-charge capped legacy, is the intention that the 0.75% limit has some kind of application under VFM which does not arise under charge cap rules? This would be a significant step and may merit separate rules and consideration in light of Consumer Duty measures currently being undertaken by firms.

<u>Condition 5 (Consistent selection each year)</u>

2.154. The SPP has no objection to proposals that at least one of the comparators must be the same as the previous year (unless all comparators used have since became poor value).

2.155. More broadly, we welcome the FCA's proposed guidance about how comparator arrangements should be chosen and used. Otherwise, it may be entirely possible to devise a framework which is intended to have uniform application – only to find it is being used and applied inconsistently across the market.

2.156. **Question 26: Do you agree with the assessment process we have outlined above? Do you have views on what should be considered a material difference in value relative to comparator arrangements? If you think that RAG ratings will not be sufficiently comparable, what refinements would you suggest?**

2.157. Despite there being three indicators, in practice the outcome is binary - VFM or not VFM - and the current proposals therefore place overtly negative connotations on an amber rating. This could be solved by making an amber rating "*VFM with room for improvement*". And for that improvement to be deliverable, and required to be delivered, within a definitive timeframe of say two years.

2.158. Furthermore, the ability for decisive action for red-rated schemes is critical for the success of the Framework. Until firms have the ability to do bulk transfers without savers' individual consent for contract-based schemes, the Framework is really lacking a key component to make it successful.

2.159. As noted, the first three steps use Framework data to consider value demonstrated in investment performance, service, and overall arrangement performance. The fourth step allows for contextualisation and requires determination of a RAG rating.

2.160. An issue arises in the application of the process in practice – since it will be for each IGC to determine if a difference with a comparator is sufficiently material to factor in an assessment outcome. This seems to suggest that two IGCs of substantially similar workplace personal pensions could arrive at meaningfully different VFM assessments. Even with accompanying commentary/explanation from the IGC, this seems unhelpful to consumers and the operation of the market.

2.161. We appreciate that the FCA has concerns that clearer definitions or thresholds may risk "false precision". However, without some regulatory guidance in this very important judgement call, it will be difficult for IGCs to operate consistently.

2.162. Some governance bodies might choose to explain underperformance/difference in value but attribute a green rating; another may attribute an amber rating in exactly the same circumstances.

2.163. Given the implications of a poor rating, this has very serious commercial and market implications. Commercial participants in this market might reasonably expect more consistency in approach by the governance body given the implications of a poor rating.

2.164. Master trusts - Concerns about inconsistent VFM assessments could also have very serious commercial and market implications in the commercial master trust market. Commercial participants in this market might reasonably expect more consistency in approach by the governance body given the implications of a poor rating.

2.165. Own trust schemes - inconsistency would not hurt employer own trust schemes necessarily. However, without more prescription in guidance, it may be easier for trustees to persuade themselves that they are delivering value and can tolerate the differences with comparator schemes.

2.166. **Question 27: Do you agree that a multi-employer arrangement should be rated amber if it fails to deliver value for a material number of savers in relation to at least one employer cohort? If not, what would you suggest?**

2.167. It is logical that IGCs look at the impact of differential employer pricing on value since this is already commonplace in occupational pension schemes/authorised master trusts.

2.168. It is ordinarily reasonable to adopt differential pricing, often justified by purchasing power/volume discounts. Such approaches to pricing are commonplace in many markets and are often familiar to and well understood by consumers.

2.169. Where services are standardised, a workplace pension scheme can provide good value in relation to two different cohorts of employers – even where one is priced cheaper than the other. Both can be good value.

2.170. Such an outcome should not require harmonisation of pricing. This could logically lead to an increased price for the cheaper arrangement, or deterioration in service quality for both.

2.171. On that basis, it does not seem logical to rate an entire scheme or arrangement as amber if the poor rating does not apply across the whole scheme. Such a rating could result in exits from employer cohorts where the value is good – further hindering resolution of any poor value with other employer cohorts. This problem may be resolved if the amber rating was not so negative i.e. it was instead considered "*VFM with room for improvement*" as we have previously suggested.

2.172. It seems more logical to rate poor value only to the extent it arises and address such poor value only to the extent it arises – at directly affected employer cohort level.

2.173. Master trusts - the same principles would apply in authorised master trusts where differential employer pricing is commonplace.

2.174. Own trust schemes - differential employer pricing does not generally exist within own trust schemes. Employers are free to use their purchasing power / volume discount to obtain favourable pricing on such things as administration and investment supply for their pension schemes.

2.175. If the amber rating measures, as proposed, came into being in the commercial market, it could even dampen differential pricing in that market – leading to the largest employers seeking to "go it alone" in order to obtain the best value by setting up their own trust scheme.

2.176. Or it could result in more bespoke in-scope arrangements to circumvent the most stringent value assessments (see Q28).

2.177. **Question 28: Do you have any concerns about our proposals for assessing bespoke in-scope arrangements? If you do have concerns, please explain them. If you anticipate negative effects, what can be done to address those?**

2.178. Some such bespoke arrangements will be maintained by employers with the help of investment consultants. However, many such arrangements will not be so maintained and there may even be a degree of unease as to which party takes the lead in resolving this (contractual and regulatory issues). Some products have been set up so that the employer takes the lead – but this becomes problematic if the employer ceases to show interest in doing so e.g. following M&A activity.

2.179. There is, therefore, cause to do a thorough VFM assessment even if a degree of proportionality is introduced to make it manageable.

2.180. To help ensure consistency, we would want to know:

- what the FCA considers to be “special features” which can be taken into account; and
- what sort of “further information” IGCs are expected to request of providers in relation to bespoke arrangements.

2.181. The latter is very significant because if the requested information is not forthcoming it seems to lead to an amber or red rating.

2.182. Master trusts typically review value at employer / bespoke level already. However, the variety of bespoke and pricing arrangements might be less in the master trust market.

2.183. **Question 29: Do you agree that IGCs should consider and report on whether their firm’s current scale may prevent it from offering value to savers? If not, what would you propose?**

2.184. Yes, the SPP agrees this is reasonable.

2.185. **Question 30: Do you agree that IGCs should consider how ESG considerations have been taken into account across firm designed in-scope arrangement? Do you think this is sufficient and if not, what would you suggest?**

2.186. Yes, the SPP agrees this is reasonable.

2.187. Trustees will generally undertake this sort of activity in TCFD reporting and the implementation statement for the statement of investment principles.

2.188. **ACTIONS FOR ARRANGEMENTS OFFERING POOR VALUE**

2.189. **Question 31: Do you agree that firms should inform employers of amber and red ratings and proposed steps to address the poor value, where an employer’s current and past employees are at risk? If not, why not and what would you suggest?**

2.190. The SPP agrees with proposals to notify employers who use an in-scope arrangement rated amber or red. Employers may then, realistically, use such a notification as a prompt for re-tender (red) or discussions (amber) with the existing provider.

2.191. This reinforces the point that it does not seem logical to rate an entire scheme or arrangement as amber if the poor rating does not apply across the whole scheme. Such a rating could result in exits from employer cohorts where the value is good – further hindering resolution of any poor value with other employer cohorts.

2.192. It seems more logical to notify only employers affected by poor value, and if the FCA accepts our proposed change to rating amber as offering VFM with room for improvement this would mean notifying only when red, not amber.

2.193. Put simply, the SPP does not object to proposals to notify employers – but only those affected by poor value.

2.194. Similarly, for own trust schemes, the SPP does not object to proposals to notify employers.

2.195. **Question 32: Do you agree that firms should not be allowed to accept business from new employers into an arrangement rated amber or red? If not, why not and what would you suggest?**

2.196. For arrangements rated red, which are therefore not offering value for money, SPP accepts it is reasonable to prohibit the acceptance of new business.

2.197. In relation to those rated amber, as we have suggested above, the amber rating should be considered "*VFM with room for improvement*". In such circumstances, it does not seem reasonable to prevent the acceptance of new business. If there are serious concerns, then a red rather than amber rating should apply.

2.198. It is also worth noting that in Australia, VFM has resulted in herding in investments and delayed policy objectives for investment in the kinds of asset classes now being encouraged in the UK i.e. domestic investment in productive assets. We therefore need to be very careful to ensure well intentioned VFM measures do not undermine other policy objectives.

2.199. **Question 33: Do you agree with our proposed actions and timings for firms with arrangements rated amber or red? If not, what alternative approach would you suggest?**

2.200. We agree that providers should not be required to close to new contributions from existing employers. That would undermine the smooth delivery of auto-enrolment.

2.201. The timescales for notifications and action plans are fairly tight but we recognise that it is important that any poor value is swiftly remedied.

2.202. See also answers to Q32 and Q34.

2.203. However, the FCA should recognise that an amber rating as proposed could be terminal for a commercial business. It would therefore make sense, as repeatedly suggested above, if an amber rating were to be considered "*VFM with room for improvement*". It may also make sense for a scheme to be able to accept new employer business during the period of an amber rating (which should last no longer than 2 years).

2.204. Among other things, this would support employers who may have already been in the process of joining the scheme – something that can take months or even years to complete.

2.205. It is often the case that a firm will have a single 'main' firm-designed default, so it's not just a case of stating that arrangement cannot accept new business, but the scheme will have others that can.

2.206. An IGC or trustee board should only accept an amber rating if there is a credible plan to progress to green, which consequently means they have confidence that the scheme will offer VFM over the long term.

2.207. **Question 34: Do you think that we should require firms to transfer savers out of red-rated arrangements, subject to enabling legislative changes? What are the costs associated with the proposed actions and are they proportionate? If you don't agree with our proposed actions, what would you suggest?**

2.208. Requiring transfer is a very severe solution – although in the context of an IGC determining the arrangement is not offering VFM and more importantly is not capable of doing so within 2 years, then there is no obvious alternative that offers the saver any real protection.

2.209. Given the severity of this consequence, it is important to understand precisely what transfer means in this context. It could for example include:

- transfer to a new registered pension scheme;
- transfer to a new product delivered through the same registered pension scheme;
- without consent investment switches within the same product; and
- without consent changes to the product to enable delivery in line with modern, value products.

2.210. These would seem to be the ways in which a provider could "transfer" a saver to an alternative arrangement that provides VFM. There may be others. What is important is that the solutions should be the same across the FCA-regulated sector and the trust-based sector. That is likely to necessitate some legislative adjustments in respect of transfers from FCA-regulated schemes.

2.211. Provided the available remedy of “transfer” is sufficiently broad, then this seems a proportionate way to resolve red ratings.

2.212. However, for both FCA-regulated arrangements and trust-based schemes there may be very serious adverse consequences for members of a required “transfer” (whatever that may mean), such as the loss of features associated with the ceding scheme / product such as guarantees. Although since the abolition of the lifetime allowance in most cases individual transfers no longer result in the loss of HMRC pension tax protections, protected minimum pension ages can still be lost. We would be in favour of extending a similar framework of protections and guidance for non-consent transfers for FCA regulated arrangements as already apply in the trust-based sector to facilitate the VFM policy aim.

2.213. Transfers could also interfere with the RAS declarations provided in relation to the ceding scheme, which cannot be carried over into a receiving scheme. All of these consequences and side-effects would need to be identified and addressed.

2.214. The fact that a transfer might lead to a consumer ending up in a new product rated good value places a very great emphasis on consistent assessment (and as per earlier answers, we have concerns about whether there is sufficient consistency baked into these proposals).

2.215. Master trusts – bulk transfer is a more straightforward concept in occupational pension schemes – but the same breadth of solutions (or analogous solutions) should be available in the master trust market too. Otherwise, this creates regulatory arbitrage. Non-consensual bulk transfers in the master trust market are not undertaken lightly, but there is a well-trodden path for dealing with such transfers, with protections for members.

2.216. Very few master trusts operate on a RAS basis, but some do, and this would need to be considered.

2.217. Own trust schemes - there are already a number of drivers towards transfer in the employer own trust space – but we do not object to reinforcing this via the updated VFM process, subject to our comments against Q3 in relation to target scheme size and a level playing field for trust-based schemes and FCA-regulated schemes when it comes to consolidation driven by government investment ambitions. Again, legislative help may be needed to overcome some pockets of “difficult to transfer” members / assets as set out in our response to Q35. The DWP introduced some much needed and most welcome easing of the process in 2018.

2.218. **Question 35: Do you think that requiring transfer from arrangements could benefit one group of savers to the potential detriment of others? If so, please explain and can you suggest an approach that doesn’t risk detriment to some savers?**

2.219. Yes.

2.220. In the FCA-regulated space, bulk transfers (and similar solutions) would need very careful, detailed analysis to identify the impact on different groups of savers. From our experience in the trust-based sector, this can get very granular.

2.221. As per the answer to Q34, some consumers may have tax protections or guarantees which could be lost on transfer.

2.222. Any transfer involves cost, both administrative and in relation to the disinvestment, and reinvestment of account values. That cost will fall on consumers - the members of the scheme – so the cost of transfer needs to be balanced against the expected benefits to consumers of being moved to a different arrangement. The cost impact may affect different groups of consumers differently depending on pot size and asset allocation.

2.223. There are also challenges in transferring consumers who have already commenced lifestyling investment glidepaths since the transfer could interfere with the rate of de-risking relative to the target retirement date. Transfer may also require some investment mapping to a similar but non-identical investment (or with a non-identical set of retirement options) with attendant risks for members. In the trust-based sector there are established practices and member protections for delivering such bulk transfers, which could usefully be adopted in the FCA-regulated sector if the necessary facilitating legislation were made.

2.224. The triggers for a forced transfer need to be carefully constructed. If poor performance in the ceding arrangement could be remedied, the cost impact on consumers of forcing a transfer may be excessive compared with the likely benefit. Equally, if a transfer is required, there is no guarantee that the receiving arrangement will itself maintain the necessary level of VFM in the future.

2.225. Whether this is detrimental is another matter, but some schemes/arrangements have high proportions of gone-aways too. For FCA-regulated providers, it may seem at least uncomfortable to force without consent activity on consumers without their knowledge. Clearly measures can be taken to reduce gone-away numbers but this will not typically resolve the matter completely. The introduction of Pensions Dashboards should, in time, go some way to mitigating this.

2.226. As a result, there may be some initial resistance from FCA-regulated providers. However, tacking these issues is relatively commonplace in the trust-based sector and we therefore see no reason why this could not also apply in the FCA-regulated space. As mentioned above, appropriate protections are needed and there are considerable difficulties to overcome to allow transfers without consent in a contract-based arena, particularly for legacy arrangements. We recommend legislative changes are sought, both to facilitate transfer and to create the appropriate member protections on transfer.

2.227. The SPP believes it would be prudent to make transfer (a) the very last resort after other remedy options and (b) a broadly defined concept which aims to accommodate, potentially, a variety of solutions for different groups of members affected by the poor value. For example, a single solution of conventional transfer (i.e. along the lines of a bulk transfer in occupational pension schemes) may be too blunt an instrument in relation to workplace personal pension schemes – especially if we include legacy.

2.228. Master trusts - transfer is a more straightforward concept in occupational pension schemes – but the same breadth of solutions (or analogous solutions) should be available in the master trust market too. Otherwise, this creates regulatory arbitrage.

2.229. Own trust schemes - bulk transfers from employer own trust schemes can sometimes be thwarted due to features (e.g. guarantees, underpins or protected pension ages) available to some members, though not all. Some easements to address this could be needed to help progress transfers in those cases. This is something that should be considered further with the DWP – and the SPP would be willing to assist in exploring this aspect further if helpful.

2.230. It may also be the case that a receiving vehicle for transfers from very small schemes cannot be found since transacting is uneconomic relative to AUM. Providers are likely to resist accepting uneconomic schemes / members if it could weaken the VFM rating (or the actual value, if different) of a currently good value scheme / arrangement. The policymakers may need to find a receiving scheme of last resort / consolidator to accept these uneconomic schemes / members.

2.231. **Question 36: Do you agree with our proposals for how the Chair's annual reports should be expanded to include the results of VFM assessments? Are there any proposed elements that in practice would not be useful?**

2.232. The SPP agrees that firms should publish their IGC Chair's annual reports and terms of reference on a free-to-access publicly available site, which in practice is likely to be the firm's own website.

2.233. We also agree that it appears reasonable for firms to retain reports for a minimum of six years as well as any evidence used in their assessments.

2.234. Furthermore, we agree that introducing a requirement for firms to publish machine-readable RAG ratings of their in-scope arrangements to facilitate comparisons would not be appropriate at this stage.

2.235. It is not clear to us what the purpose of the cross-arrangement review is or how easy this will be to carry out in practice. It is possible that an IGC may have selected different comparators for different arrangements that it oversees. Different arrangements could also have different RAG ratings. Therefore, it may be difficult to determine any meaningful key themes or trends that prove useful. Further, the contextualisation details for the RAG rating would seem to be a better place for the explanation of how the IGC is encouraging the firm to improve.

2.236. **Question 37: Do you agree with requiring a narrative explanation for the RAG rating for all firm-designed in-scope arrangements including those rated green? Do you think this requirement should be limited to amber and red ratings?**

2.237. The SPP agrees that a narrative explanation for amber and red ratings should be provided, and it appears reasonable that if a narrative is required to explain why something is not VFM, a narrative should also be provided to explain why something is providing VFM.

2.238. **Question 38: Should IGC Chairs be required to produce a plain-language summary of their reports?**

2.239. There were mixed views amongst the SPP membership on this question. As IGCs will have to give a RAG rating and a narrative explanation, some did not think IGC Chairs should be required to also produce a plain language summary of their reports whereas others felt that most already do so, and this would therefore not be problematical.

2.240. **Question 39: Do you agree with the need for a features table and the contents we are proposing? Are there changes we should consider? Do you think that the disclosure requirements for bespoke arrangements should be different and if so, in what way?**

2.241. A features table would be helpful. For multi-employer arrangements it states that the 'characteristics' of employers using the arrangements should be disclosed. Reference to 'characteristics' is quite broad and could be interpreted differently. We consider this should be limited to information on the 'employer cohorts', for example, firms could be asked to state the smallest employer cohort and the largest.

2.242. The SPP believes that it is still helpful to have a features table for bespoke arrangements, but some of the information included in the example table could be stripped out given bespoke arrangements are likely to be for one employer or a group of associated employers. The features table should make it clear within the main heading that the table relates to a bespoke arrangement and give a brief explanation of what a bespoke arrangement is.

2.243. **Question 40: Do you agree with our proposed approach to publication including requiring publication of a flat file? What other solutions would best support the aims of the Framework in due course?**

2.244. In relation to the method, SPP members did not feel particularly strongly either way in relation to a requirement to publish a flat file but welcomed the fact this is a relatively simple, inexpensive method that also enables speedier and easier data transfer. However, we note that flat files are prone to formatting errors; it can be difficult to change the data format, and they are not really ideal for large datasets. The longer-term objective of API usage is certainly worth exploring.

2.245. In relation to the content, the proposed requirement for disclosures of raw data on websites, available for public consumption, very narrowly assumes that it will be IGCs who utilise this. However, there is a real prospect it will be used to collate league tables by third parties, e.g. employee benefits consultant firms etc., who may just end up highlighting/recommending top providers on the lists. This risks "herding" to the perceived top performers while lacking the rationale behind the numbers.

2.246. **Question 41: Do you think we should require machine-readable RAG ratings and potentially other information from the IGC Chair's annual report? What do you think are the benefits and costs or possible negative effects of this?**

2.247. We agree that introducing a requirement for firms to publish machine-readable RAG ratings of their in-scope arrangements to facilitate comparisons would not be appropriate at this stage. It is important to let the Framework bed in first so that consideration can be given to how the format and detail included in the narrative explanations of the RAG ratings (as well as any other relevant information from the report) could or should be taken into account in any comparison. One issue to consider is how to best ensure information is not taken out of context.

2.248. **Question 42: Do you agree that the proposed new rules should be under existing requirements for IGCs, with carve outs as appropriate? If not, what alternative approach would you suggest?**

2.249. Yes. We note that, in the main, the requirements will apply as a new discrete section of the COBS – 19.5A and we believe that this is helpful and clear. However, there should be no duplication of requirements introduced by the new rules. As acknowledged, one such area would be around the requirement to disclose transaction costs that already existing in COBS 19.8.

2.250. **Question 43: Do you have suggestions for further amendments to existing requirements for IGCs and if so, why do you think these are needed?**

2.251. It would be helpful if the FCA would confirm its expectation that the annual report should contain a clear rationale as to why the IGC selected the particular comparator schemes used for the value for money assessment (as set out at 8.5).

2.252. Whilst existing COBS 19.5.5(6)((ac)(iii) *might* cover this, it is not clear (to us at least) that this extends to the choice of comparators under COBS 19.5A.25(2) as COBS 19.5.5(6)(iii) currently cross-refers to an "assessment under [19.5.5]2(e)" only. Perhaps COBS 19.5.5(6)(iii) should be amended to read:

"(iii) (in relation to a relevant scheme only), why the IGC considers that the scheme comparators it selected for the purposes of its assessment under (2)(e) or 19.5A25(1), as applicable, provided a reasonable comparison against the relevant scheme"

2.253. **Question 44: Do you agree that we should exempt "accidental workplace SIPPs" from COBS 19.5 and the requirement for an IGC or GAA? If not, what would you propose?**

2.254. Yes, although the provider should be required to be able – if requested – to demonstrate how they determined that it is an accidental (rather than work-based) SIPP.

2.255. **Question 45. How do you think the use of data will evolve and what other measures may be needed**

2.256. We expect that Pension Dashboards, both statutory and qualifying, will in time provide data that includes some representation of value, and also facilitate transactional consolidation into products that seem to offer greater value. We have used the term 'seem to' because even with an identical investment structure, different members and/or different cohorts of members within the same scheme will experience value differently, depending on their entry date, contribution size and frequency (including transfers in), investment/ disinvestment SLAs, their exit date and their decumulation strategy etc. A 'fortuitous' member of a perceived poor-quality scheme may well enjoy better value than a less fortuitous member of a good quality scheme, for at least a part of their membership.

2.257. We make this point because we anticipate very significant competition from 'good value' providers to encourage consolidation into their own products, and the simplistic methodology in these proposals, being based on average experience, may be misleading. Regulation around Financial Promotions will likely need to be tightened.

2.258. **Question 46. We invite views on the roll out, evolution and future phases of this framework, over what time periods, and on the correct sequencing of these developments.**

2.259. A cautious roll out is necessary to enable periods of reflection - such as understanding which stakeholders use which data (if at all) and for what purpose. The proposals as they stand suggest that the assessments are more likely to be of value to the FCA/TPR and to market commentators than to the IGCs and trustee boards (who should already be fluent in their investment strategy and fulfilment) or to the members who, ultimately, will be paying for it.

2.260. As stated above in response to Q40, the proposed requirement for disclosures of raw data on websites, available for public consumption, will probably be used to collate league tables by third parties, e.g. employee benefits consultant firms etc., who may just end up highlighting/recommending top providers on the lists. This risks "herding" to the perceived top performers while lacking the rationale behind the numbers.

2.261. The authorisation and supervision regimes for Master Trusts already seem to go a long way towards providing detail akin to value assessments e.g. expected returns from the investment strategy) and it would seem to be a comparatively straightforward process to add any missing data points relevant to value in Business Plan updates and annual returns. These could then be published by TPR, and in turn the value rating can become a future data point for Pensions Dashboards. Subjective reviews and conclusions reached by IGCs/Trustee boards could then be highlighted for TPR to investigate as appropriate.

2.262. There do not appear to be any material barriers to providers of contract-based schemes having similar requirements imposed on them. Indeed, in a workplace environment it seems anomalous not to do so.

3. About The Society of Pension Professionals

3.1. Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

3.2. 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.

3.3. The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

4. Further information

4.1. For more information about this consultation response please contact SPP Head of Public Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.

4.2. To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

4.3. Connect with us on LinkedIn at: https://www.linkedin.com/company/the-society-of-pension-professionals/

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