Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: smallpots.policyteam@dwp.gov.uk

Dear DWP,

Financial Services Consumer Panel response to DWPs consultation on ending the proliferation of deferred small pension pots

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of financial services policy and regulation in the UK.

Our focus is predominantly on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policy where relevant to the FCA's remit.

The Panel's vision for the market is as follows:

- Consumers can easily understand their pensions: where they are, how they are invested, their current value, the potential retirement income they will provide and where to get help.
- Those considering accessing their pensions for the first time receive high-quality impartial guidance on the options available to them
- Those withdrawing lump sums make fully informed decisions, including understanding any tax implications and the risks of holding cash
- Consumers understand the options available to them, and are able to select an option based on their immediate and potential long-term needs
- Firms act in consumers' best interests when managing pensions and pension assets and when providing advice
- Delivery of significant improvements in measurable outcomes including: sustainable withdrawal rates and evidence that consumers are selecting products that are appropriate for their needs at any particular point in time
- Pension products offer value for money

The Panel believes that the following member-focussed principles should underpin policy-making concerning pensions :

- Decisions should be based on members' best interests or outcomes, not on the impact on firms of having to manage individual 'pots'
- Assumptions about consumers' behaviours should be evidence-based (not, for example, based on the attitudes or beliefs of pension providers or firms)
- Taxation policies that hinder good outcomes for members need to be addressed (e.g. Uncrystallised Funds Pension Lump Sum (UFPLS) v drawdown)
- Due to the complexity of pensions and low overall engagement, there should be an assumption that high quality guidance or advice is an essential component of good outcomes

Please find the Panel's responses to the questions posed in Annex 1.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

Annex A – Response to consultation questions

Q1. Do you agree with this proposal, or do you believe a central registry would be a more effective approach to support the consolidation of deferred small pots, if so, how would you design a central registry?

The Panel largely agrees with the proposal. The key concern for the Panel is that any process used to support the consolidation of deferred small pots should be (i) secure, to ensure consumer data is protected and (ii) efficient and effective to ensure that any costs borne by consumers' pots are as low as possible and the consumer receives significant value for money.

At some point in the future, there may be the opportunity to replace/enhance the registry with a Pension Dashboard based solution, however the Panel would expect this step only to be taken if it was cost beneficial to consumers.

Q2. Which, of the options we have set out, do you think is the best approach to allocate a member a default consolidator in cases where a member does not make an active decision? Are there alternatives?

The Panel has no preference for the options presented, as long as the ultimate solution rewards and supports those consolidators that are efficient in terms of service and low in cost – and that the solution doesn't, as an unintended outcome, perpetuate service models offering poor/sub-optimal value for money.

Q3. Do you agree that there is a need for an authorisation regime for a scheme to act as a consolidator? If so, what essential conditions do you think should form part of the authorisation criteria?

The Panel believes it is critical to have an authorisation regime for schemes acting as a consolidator. Furthermore, the Panel would urge DWP to ensure that this authorisation regime is both quick to act and decisive both in the initial authorisation and (more importantly) the ongoing authorisation and regulation of consolidator schemes. It would be a poor consumer outcome to end up with consolidator schemes offering poor value for money but having grown to such a size that it is considered too onerous to close such schemes. This means the only way to prevent this is through ongoing supervision and authorisation.

Q4. Do you agree with setting the initial maximum limit for consolidation at £1,000, with a regular statutory review?

The Panel agrees with the two criteria outlined (inactive for 6 months and £1,000 limit). Key to both these criteria is a regular statutory review. Regarding the maximum pot size, the review should look at the effectiveness of the policy to date and the number and size of inactive pots above the maximum in coming to a decision.

In regard to the time of inactivity for a pot to be classed as deferred, the Panel would propose a regular and contextual review of the criteria. For example, some scheme members have paused pension contributions during the cost-of-living crisis to prioritise daily living expenses. Potentially under the proposed 12-month rule, some of these pots would be classed as deferred and swept to a consolidator. The Panel would expect DWP to take an ongoing agile and insight- driven approach to maintain or alter the inactive period as required to achieve the right outcomes for consumers.

Q5. Do you agree with this proposal not to mandate schemes to undertake same scheme consolidation at this current time?

The Panel agrees with the proposal.

Q6. As a whole, do you agree with the framework set out above for a default consolidator approach? Are there any areas that you think have not been considered, that need to form part of this framework?

The Panel agrees with the framework set out for the default consolidator approach with the addition of the comments made within this response.

Q7. Do you have any comments on the positive or negative impacts of a default consolidator approach on any protected groups, and how any negative effects could be mitigated?

The Consumer Panel has no comments however would encourage DWP to consider the potential impact on any vulnerable consumers.

The Panel would like to share their views on vulnerability, if useful for DWP, see below:

Firms should apply the FCA's vulnerable customer guidance, and identified best practice, in all their communications with consumers (including SMEs). Consumers in vulnerable situations should receive outcomes that are at least as good as other consumers. Firms must be able to demonstrate how they ensure this is the case as part of compliance with the new Consumer Duty.

Firms must understand that vulnerability – whether permanent or temporary – may be caused by a wide range of risk factors: social, medical and situational. These factors can impact consumers' ability to understand information, communicate, make decisions and pursue redress.

Firms must be alive to their responsibilities – their behaviour can create, exacerbate or reduce vulnerability – and they should ensure their products, services and communications are accessible to consumers and do not create unfair barriers or disadvantages to consumers in vulnerable circumstances.

Once vulnerabilities have been identified, flexibility and empathy are important. Inclusivity does not mean treating everyone the same, but rather tailoring the response to best support the consumer's needs.