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

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

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By email: vfmconsultationpaper@fca.org.uk

Dear FCA,

Financial Services Consumer Panel response to CP24/16: The Value for Money Framework

The Financial Services Consumer Panel (the Panel) welcome the opportunity to respond to the FCA's Consultation Paper on The Value for Money (VfM) Framework (the Framework). The Panel would like to thank the FCA team for their engagement to date.

The Panel would like the FCA to consider the following in relation to the consultation and its proposals:

- The consultation paper is 220 pages long and contains 46 questions. It is therefore unlikely that consumer groups will have the capacity to review and respond. It is not clear to the Panel how the FCA intends to engage with and capture the views of savers, who are the ultimate beneficiaries (or losers) of these proposals.
- The proposals raise the potential for risks and unintended consequences, many of which can be mitigated by testing. It is not clear how the FCA intends to test, prior to implementation, that the proposals are likely to lead to the desired outcomes.
- The success of these proposals depends on effective supervision and enforcement by both the FCA (including of the Consumer Duty) and The Pensions Regulator (TPR)
- Savers who find themselves in arrangements rated amber or red may suffer significant financial losses, especially as these compound over many years. Consideration should be given to the inclusion of express provisions regarding the compensation of such savers, for example, requirements that steps to address amber/red ratings include steps to put savers in the position going forward that they would have been in had the scheme not been rated red/amber.

The Panel's responses to the questions posed can be found in Annex A. Many of the questions in the consultation are best answered by other parties; therefore, the Panel has responded to the questions we are able to provide insights on and has focussed on areas where we view a consumer voice is required.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

Annex 1 – response to consultation questions

Question 1: Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?
and
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?
and
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?
The Panel agree in general with the scope and exclusions and consider that the thresholds offer a solution to concerns about proportionality and burden.

However, further consideration needs to be given to ensure that savers in arrangements that are not in scope are not disadvantaged vis a vis savers in in-scope arrangements (noting that individual savers may belong to both in- and out-of-scope arrangements).

The Panel would like the FCA and TPR to commit, and make note of that commitment, to periodically review the out-of-scope arrangements in order to determine whether changes to the framework are needed.

Question 4: Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?
and
Question 5: Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?
and
Question 6: Do you agree with the proposed requirement for chainlinking? Why or why not? If not, what would you propose?
and
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?
Responses to the previous CP FS23/3 suggested the use of internal rates of return to measure what savers actually receive. CP 23/3 did not offer IRR as an option, and the FCA responded that '[The use of IRRs] would be a large change from our currently proposed metrics, which were supported by most respondents as an effective way to measure past performance'. The FCA has not responded to the suggestion that IRR is a

superior measure of performance, nor addressed its existing use for this purpose. There is a risk that continued use of other metrics outside of the proposals, particularly if superior, could undermine the efficacy of these proposals.

There is now ever more encouragement, especially from the UK government, for arrangements to include non-listed assets, with the expectation that these will improve long-term returns for savers. This may well be the case, but these are also the investments most likely to suffer losses and / or go into liquidation. Since there are no readily published values for these investments, which makes it difficult for ICG's and / or Trustees to make determinations of value for money, it is the Panel's view that calculation methodologies for unlisted assets must be defined but are not at present. The original investment amount cannot be used as a proxy, as it is not an accurate reflection (as it is often based on future projections of growth and does not reflect the profitability, or lack thereof, over time). Furthermore, the practice where subsequent investment into non-listed assets, at a higher price, is used as evidence (by the same investor/scheme etc) to support a revaluation of previous investments to the new, higher, price must be prohibited.

This consultation is underpinned by an unproven assumption that VfM assessments will lead to better outcomes for savers via enhanced competition and oversight. There is also a risk that the FCA and TPR will lack the capacity to oversee compliance and undertake enforcement where necessary in respect of both the Consumer Duty and the proposed framework.

The FCA and TPR also need to be alert to the possibility that the framework may lead to extensive consolidation, which may ultimately be to the disadvantage of consumers and could seriously harm the reputation of the regulators. If this is the case, the FCA and TPR need to ensure that any consolidation improves outcomes for members of both the receiving and ceding schemes.

While the FCA recognises that the arrival of pension dashboards is likely to engage savers in new ways, we are concerned that the FCA's intention to: 'consider how VFM results will be directly communicated to savers in a way that is informative and mitigates against adverse consequences' takes a very restricted view of the role of savers. There is a risk that savers' capacity to engage with their pensions will be limited if this process fails to obtain their input via testing or other means. The Panel believe that consumers should be empowered to make decisions about their pensions, either directly through their own actions or indirectly through the actions of others who make decisions on their behalf.

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?
Forward-looking metrics are a poor indicator of future performance. In our response to the DWP's consultation on Value for Money: A Framework on Metrics, Standards and Disclosures[1], we said 'The Consultation declares the hope that, over time, schemes with consistently over optimistic forecasts will be called out. The Panel are sceptical of this because it will not naturally be easy to compare a scheme's performance against its previous forecasts. We would therefore suggest adding a requirement (over time) that schemes report their 'performance against previous performance projections'. We would recommend that this intention be stated upfront, since this would create an incentive from day one for firms not to overstate their future performance.'

Without adequate safeguards (preferably tested), forward looking-metrics could entice or incentivise actions that cause harm to savers.

And if forward-looking metrics are included, the scenarios under which the metrics are provided would need to be prescriptive and applied across all arrangements.

Question 9: Do you agree with the approach to asset allocation disclosures? Why or why not? If not, what would you suggest? Do you think asset allocation disclosures will support better decisions in the interests of savers?
Asset allocation is the largest determinant of long-term returns to savers. Short- and medium-term outcomes are heavily determined by uncontrollable events and tactical decisions. For example, differing views on the outlook for inflation will lead to different allocations of assets.

While we agree in principle with disclosures, there is a risk that transparency with respect to asset allocations could lead indirectly to herding around key assumptions, potentially leading to sub-optimal outcomes for some savers.

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 this requirement and to what arrangements?
No, the Panel do not agree. In the interests of transparency to savers of all schemes, disclosures should be available to enable consumers/members to easily compare and contrast.

[1] final_fscp_response_fca_tpr_dwp_value_for_money_consultation.pdf

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?
The Panel agree that the FCA should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR products.

Any and all information that leads to better outcomes for savers should be disclosed. Where firms claim that disclosure is an 'added burden', then a cost-benefit analysis should be conducted to evaluate the relative usefulness of such information against any increase in costs.
The usefulness of such information should be tested with decision makers, both to assess efficacy and in order to avoid overburdening them with information.

Question 12: Do you agree with the proposed definitions for UK assets? If not, what would you propose?
and
Question 13: Do you think we should break out 'Quoted but not listed' (eg AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much?
and
Question 14: Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?
Any and all information that leads to better understanding and outcomes for savers should be disclosed. The usefulness of such information can and should be tested in order to avoid overburdening decision makers.

However, the FCA should not assume that disclosures about costs and charges will lead to lower administrative costs. There is a risk that costs and charges will bunch around particular points. The largest driver of efficiencies is economies of scale[2].

The definitions of UK assets are not necessarily clear; for example, the definition of private debt / credit refers to "borrowers located in the UK". Is this assessment made on the number of borrowers, the amount owed by the borrowers, the total lines of credit, etc.?

The FCA should also ensure that there are no unintended consequences associated with the disclosure of the split of UK and non-UK assets, which could result if the UK economy underperforms.

[2] Rethinking Pension Reform (Orzag & Stiglitz, 2001) http://digamo.free.fr/holzstig.pdf#page=36

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?
Yes, the Panel agree. Disclosure of historic information is likely to have a material impact on current costs and charges, particularly in firms that are outliers.

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?
In principle, yes. The usefulness of such information can and should be tested with decision makers.

Question 17: Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?
Yes – it is critical that savers and decision makers receive information that enables them to evaluate the value of what they are paying for. Where firms claim that the approach is 'overly burdensome', then a cost-benefit analysis should be conducted to evaluate the relative usefulness of such information against any increase in costs. However, the presumption should rest in favour of the saver/decision maker.

Question 18: Do you agree with the proposed approach to multiemployer cohorts? Why or why not? If not, what alternative would you suggest?
Yes, the Panel agree. This approach allows for maximum transparency.

Question 19: Do you agree with the proposals on scope? If not, what alternative approach would you suggest?
and
Question 20: Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?
It is appropriate that the 5 indicators derive from work undertaken by the FCA. This evidence-based approach provides assurance about the service outcomes for savers. The FCA should therefore set a very high bar for any alternatives proposed by industry.

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.

The Panel agree with the proposed metrics and agree that these should also reflect useful data for decision makers. We agree that the proposed metrics, together with the inclusion of both quantitative and qualitative data, should reduce the likelihood of gaming but the Panel agree this should be tested prior to implementation.

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.
Yes, the Panel agrees. This aligns with the ambitions of the Pension Dashboard in terms of ensuring that savers are connected with any pension to which they have contributed.

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.
Yes, the Panel agrees. It is more likely that such surveys will be completed with those who have received poor service, therefore offering a useful counter to other metrics.

However, a set of useful metrics should be developed by reference to robust sources (e.g. academic research), consumer groups or from direct testing with savers otherwise there is a risk that the metrics will not provide useful information. For example, the suggested metric: 'I have been satisfied with the communications that I have received over the past year' is arguably too broad and too vague to be of use. This could be split into distinct questions relating to the helpfulness of information, clarity of information, timeliness of communication, etc. Furthermore, it may seem odd as part of an event-based survey that is not aligned to the question.

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?
The direct link between this suggestion and VfM is not clear. The outcomes of this should be evident in other metrics.

It is likely that metrics relating to the availability and use by savers of the firm's tools, such as digital solutions, dashboards, workshops, help-lines, etc. would be relevant to gain a better understanding of the specific services that customers value. In developing such metrics it should be remembered that the time of occurrence and urgency can be key factors – e.g. an online outage from 1am to 2am on New Year's Eve is likely to have less impact on savers than, say, an outage from 6pm to 7pm in the last few days of the tax year.

Data relating to periods when savers could not access tools should also be shared.

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

No. Allowing IGCs and trustees to select their own comparator arrangements gives rise to two risks: (1) gaming, and (2) persuasion/coercion by firms. The FCA's proposal to use tightly defined criteria is aimed at mitigating the risk of gaming but is unlikely to eliminate either risk completely.

In addition, the risks of IGC member / trustee conflicts of interest must be fully documented and managed carefully.

For the Consumer Duty to be maximally effective it must be supported by regulations that reduce any scope for sub-optimal behaviours at the margins. Other suggestions should be considered and tested to reduce the risk of unintended consequences and ensure good outcomes for savers.

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?

and

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?

RAG ratings are ubiquitous and simple to understand in some contexts eg food labelling. Feedback to the previous CP raised a number of concerns that the FCA will no doubt wish to test before implementing.

The FCA and TPR also need to be alert to the differing attitude towards risk of the IGCs and trustees across arrangements, as there may be material differences in approach that may impact the ratings of different arrangements.

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?

Where there are risks to savers, the FCA should err on the side of caution.

The FCA should also track and analyse any increase in the use of bespoke in-scope arrangements, as firms may use this as a means to escape the more rigorous requirements.

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?
Yes, the Panel agree. Scale is a major driver of efficiencies.

However, there is a risk of unmanaged consolidation at pace, particularly in the trust-based market.

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?
As ESG is part of the VfM outcome this seems unnecessary.

However, this is complicated by both forward-looking factors (which, as noted previously, are generally imprecise) and saver attitudes. Therefore, ESG could be an optional consideration, depending on the arrangement. Given new labelling and disclosure requirements, this may feature more in some arrangements than in others, but for those where it does feature, it may be important to the savers involved.

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?
Yes.

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?
Yes, the Panel agree, but we note that this provides an additional disincentive to rate an arrangement as amber or red.

However, on occasion, there may be extenuating circumstances that might warrant an exception, for example, if there is a new group entity for an employer that is already in an existing arrangement.

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?
The Panel agree with the proposed actions and timings for firm arrangements rayed amber or red.

Savers who have been in an amber rated scheme for three years will experience long-term harm that may have a seriously detrimental effect on their retirement income. Any resistance from the industry should be offset against the necessity of securing better outcomes for savers.

IGC's must provide firms with as much advance notice as possible, so that firms can develop well thought out and thorough action plans, otherwise, firms should be granted up to 3 months rather than 1 month to prepare the plan.

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?
Yes, but 'a reasonable period of time' needs to be clarified.

In addition, the impact to savers should be assessed on a case-by-case basis.

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?
This is unlikely, but firms may be able to provide specific examples.

In the event that there is any possibility that one group of savers would be disadvantaged over another in a required transfer, then alternative solutions would need to be acceptable and explored.

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?
Yes, the Panel agree with the proposals for how the Chair's annual reports should be expanded to include the results of VfM assessments. The VfM assessments included in the annual reports should be tested with savers and decision makers to ensure they are clear and understandable and support and enable savers to make informed decisions about their pensions and are not simply fulfilling a compliance obligation.

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?
Yes – but is of limited use if schemes are permitted to choose their own comparator (see Q25).

Question 38: Should IGC Chairs be required to produce a plain-language summary of their reports?
The reports should be understandable in the first instance by decision makers and savers.

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?
This should be tested with decision makers and savers. Too much information may impact on decision making.

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?
Yes, the Panel agrees.

The publication of a flat file will facilitate further analysis by all interested parties.

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?
Yes. Machine-readable information will drive standardisation and ultimately reduce the costs of comparisons.

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?
Yes, the Panel agree that the proposed new rules should be under existing requirements for IGCs, with carve outs as appropriate.

Question 43: Do you have suggestions for further amendments to existing requirements for IGCs and if so, why do you think these are needed?
The Panel has no further suggestions.

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?
Yes, the Panel agree that this is a proportionate approach.

Question 45: How do you think the use of data will evolve and what other measures may be needed?

Involving savers in these proposals, whether by testing or other means, will enhance the quality, accessibility and usefulness of the data and reveal other measures in ways that enable savers to reach well-informed decisions and lead to better outcomes for savers as soon as possible. It is particularly critical that the outcomes of this CP do not constrain the achievement of similar outcomes of the forthcoming pensions dashboards.

Question 46: We invite views on the roll out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.
Any developments that provide comprehensive, informative, understandable, and timely information to savers to support and enable effective and informed decisions should be considered. In particular, the Panel therefore suggests that the FCA considers how other types of information and datasets can provide a more meaningful view of performance from the perspective of savers.

Given the importance of the role and the flexibility granted to IGCs, GAAs, and trustees, serious consideration should be given to integrating them into the Certification Regime and / or requiring some other type of professional certification.