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

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By email: pensions.vfmframework@dwp.gov.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to DWP's consultation on Value for Money: A Framework on Metrics, Standards and Disclosures

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 policy and regulation of financial services in the UK. Our focus is predominately on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policies where relevant to the FCA's remit.

The Panel welcomes the opportunity to respond to the DWP's Consultation Paper on Value for Money. Following the success of auto-enrolment in boosting the proportion of people who save into a pension, it is more important than ever that savers achieve Value for Money from those savings. The Panel therefore strongly supports the intent behind the proposed framework; we hope our responses can help the reforms get closer to achieving this intent.

The Panel would also like to use this opportunity to raise our concerns regarding the delay to the Pension Dashboard. The Panel understands that these delays are caused by the need to pursue a technical solution that can enable the connection of pension providers and schemes. However, the eventual provision of VfM data through the Dashboard will be important to supporting consumer understanding.

Our responses to the questions posed in the consultation are included at Annex A below.

Yours sincerely,

Helen Charlton

Chair, Financial Services Consumer Panel

Annex A – Response to consultation questions

Q1: Do you agree with the proposed phased approach?

The Panel recognises the value of a phased approach, in particular by allowing a reform to be tested and refined over time. However, we also note the downside risk that phasing could delay full implementation by years. We therefore recommend that the FCA take a phased approach but also publish a clear timetable for Phase 2, signalling future intent and mitigating the risk of future delays.

The Panel would also return to the comments, made in our cover letter above, in relation to the Pensions Dashboard and the recently announced delays.

Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

The Panel broadly agree but with some caveats.

First, we would emphasise the importance of comparability. We would therefore lean towards an approach based on set categories of asset mix, rather than leaving these decisions to firms.

Secondly, we are cautious about removing the top and bottom 10% from data reporting. While we appreciate the desire to trim the data of outliers, the Panel are concerned about the incentive effects of excluding 20% of all data; for example, could this reduce the incentive to bring down outlying fees and charges? We would therefore lean towards including all data or, at minimum, excluding only a far smaller number of extreme outlying data points.

Third, we understand the rationale for reporting scheme performance net of employer subsidies. However, the Panel are concerned that this could make the data harder to compare, while also getting in the way of a purer disclosure of a fund's underlying VFM. The Panel would therefore recommend not taking employer subsidies into account and allowing employers to take subsidies into account when making their considerations locally.

Q3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

Yes, the Panel agree.

Q4: Do you agree with our proposals on "chain-linking" data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

The Panel recognise the need to create a dataset that can be compared fairly over time. However, if performance is linked to a snapshot of a portfolio at a certain point in time, this carries the risk of reducing any incentive to improve the value of an investment portfolio over time. Perhaps the framework could require two measures, one chain-linked and one not, to provide a broader view?

Q5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

Yes, it is vital to include the impact of all fees and charges – including transaction charges.

Q6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

Yes, the Panel agree.

Q7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

Yes, albeit with caveats. 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.

Chapter 5: Costs and charges

Q8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

None that we are specifically aware of.

Q9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

None specifically. The Panel recognise that this will be complex in some cases, but such conversations are vital to ensuring comparability, which is a keystone of the scheme, so we hope this aspect of the proposal is retained. Comparability is particularly important in the context in which so many consumers are defaulted in.

Q10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

Yes, using cohorts is a good way to show a range of charging levels while maintaining an adequate degree of simplicity and comparability.

Chapter 6: Quality of services

Q11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

Yes, The Panel strongly support an approach that focuses on the outcomes that are to be delivered for consumers, rather than on intermediary or output measures. In addition to the outcomes listed, we would encourage measures of clarity and comparability - namely: 'do scheme trustees, employers, and ultimately savers genuinely understand VfM and can they compare different schemes?' This is a central goal of the proposals, so it is important to measure this outcome directly.

Q12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

Yes, broadly. However, when it comes to customer service metrics, such as response times, we would encourage the use of simple averages and also 'worst experience' (such as the longest time) rather than reporting 'the percentage of interactions that took place within the legal threshold'. A straightforward measure, capturing performance against the average, would incentivise schemes to compete not just on whether they have met legal minimum standards but also on whether they have delivered the best outcome for consumers. It would be for the FCA to consider how best to ensure that firms seek to be the best they can be and avoid the risk that performance herds towards the average. Furthermore The Panel has concerns that with the 'percentage of interactions that took place within the legal threshold' approach, once an interaction has missed this there is no incentive for this interaction to be dealt with as a priority.

Chapter 7: Disclosure templates and publication timings

Q13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

This is an outdated distinction. A modern approach would adhere to the government's data publication standards as developed by the Data Standards Authority.[1] This would require firms to publish data to simple, widely recognised technical standards, ensuring machine readability. This makes it trivial to create a central repository of the data while also allowing firms to publish local versions. It is important that DWP, FCA, TPR begin to work to the government's data standards, which are developed in order to deliver a more consistent experience for citizens and consumers. The reporting requirements inherent in the new framework should be developed as a data reporting standard in partnership with the DSA.[2]

Q14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

Yes, the Panel agree. Timely publication of performance data is vital so we would encourage authorities to resist pressure to extend these annual deadlines.

Chapter 8: Assessing Value for Money

Q15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

The Panel would lean towards providing comparisons against a regulator-defined benchmark because this is the simpler approach so long as this does not lead to the unintended outcome of performance 'hugging the benchmark', removing all possibility for out-performance.

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[1] Data publication standards are overseen by the Data Standards Authority which provides a range of resources and can provide direct practical support to these reforms. https://www.gov.uk/government/groups/data-standards-authority See also https://www.gov.uk/government/groups/data-standards-authority#guidance-and-resources-for-data-projects

[2] The Algorithmic Transparency Reporting Standards is a recent example of a data standards published in line with the DSA guidelines: https://www.gov.uk/government/publications/algorithmic-transparency-template

If data is published in an open way (see Q13) we would anticipate that over time third parties will emerge to allow for more detailed scheme-by-scheme comparisons. What matters from a regulatory perspective, and in the early months of the reforms, is that clear and simple comparisons to benchmarks are available.

The Panel would also suggest that the FCA considers the potential for gaming by firms, with the result that consumers do not benefit. Third party comparisons can be influential, but the quality of these comparisons is important, and they would need to be presented in such a way as to support accurate comparison.

Q16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

Yes, the Panel agree. This feels to us a methodical way to work through the necessary assessment of VFM.

Q17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

Yes, the Panel agree. Over time, as the new regime beds in, it will be valuable to consider a more graduated approach, allowing for finer distinctions between high- and low-VFM. At the outset, however, a simple traffic light system will create the sharpest incentives for schemes to move up from Red into Amber and Green category, so we strongly support this approach.

Q18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

In general, the Panel would support a robust approach, in line with the stated ambition: "that pension savers cannot be in a poor VFM scheme for a sustained period of time." To this end, we support the idea of legislative provisions to allow providers to transfer savers to another arrangement without consent, assuming of course that careful protections were built in - including, importantly, alerting consumers in advance and allowing a period of time in which they can object. In a marketplace like pension saving that is characterised by pervasive inertia, the most likely cause of harm is inaction - allowing savers to languish in non-VFM schemes for year after year. We therefore think it's important to encourage/require proactive steps to avoid this outcome.

Q19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

Yes, the Panel agree that communications with employers will be an important way to show the impact of the new regime and of increasing trust in the market for pension savings over time.

Chapter 9: The VFM framework and Chair's Statement

Q20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

The Panel feels it would be appropriate for the member-facing component of the Chair's statement to run on similar lines to the proposed mandatory step-by-step process to evaluate VFM, namely by providing easy-to-understand quantitative information on overall performance, investment strategy, and service quality with the right benchmarks to enable the member to understand if this performance is good or poor.

Q21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

Industry respondents will be better placed to answer this question. In general, we agree it is important to avoid duplication and we anticipate there being space to simplify reporting requirements, which have accumulated over a number of years.

Chapter 10: FCA specific issues

Q22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

The Panel can see the case for excluding SIPP arrangements, however we are also mindful of the incentive effects of allowing SIPPs to sit outside the scope of the new rules, especially the requirement to publicly disclose costs and charges. We would therefore suggest including individual SIPP arrangements, albeit potentially within a slimmed down set of requirements.

Q23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?

In general, more information for savers is better, and it is valuable to make information available through multiple avenues to reach the widest possible audience. We would therefore support the addition of a saver-focused summary, although it would be wise to keep this provision under review.

Q24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

The Panel does not have a strong view either way. However, we would err towards making the provider responsible on the grounds that this might in time allow for the timelier publication of data.

Chapter 11: Impacts

Q25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

Not applicable.

Q26: Do you agree with our assumptions regarding who will be affected by the framework?

Yes, assuming that this is a list of the organisations who will bear the direct impact of the changes. Savers are of course another category of people who will be affected (positively) by the framework.

Q27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

Not applicable.

Q28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

Yes. As is often the case, the downside costs of the new framework are small but relatively easy to quantify, while the upside benefits - via competition and transparency - are potentially very large and yet hard to predict. Overall, we would anticipate that the benefits of providing comparable VFM data have the potential to be many multiples higher than the costs of providing such information

Q29: Are there additional benefits we have not identified?

No, beyond recognising that many of the proposed benefits are very large, if diffuse and hard to quantity.

Q30: Do you have any comments on the positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

The Panel share the hope that clearer and more comparable VFM information will, in time, be shared with savers. Since we know that low-income savers often underestimate the value and importance of pension saving, we would anticipate that greater transparency will have a levelling up effect, helping to close the income gap in pension saving and, in time, pensioner incomes. It would also help consumers to better understand what their contributions mean for their anticipated future pension income, helping them to make the right choices about their contributions.