

FCA

Financial Services
Consumer Panel

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By email: cp25-39@fca.org.uk

Dear Sir/Madam,

Financial Services Consumer Panel response to FCA CP25/39 Adapting our requirements for a changing pensions market

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to the FCA's consultation paper (the CP) titled Adapting our requirements for a changing pensions market. We are an independent panel that represents the interests of consumers of financial services including both individuals and small businesses. Our focus is on the outcomes and impacts to these stakeholders.

We agree with the FCA that pensions are a key component of consumers' financial lives and that consumers must be given accurate and complete information whenever they engage with or make decisions relating to their pensions. The Panel also agrees that the environment has evolved and that regulation must be adapted to address the changes. Therefore, overall, we are very supportive of the proposals contained in this consultation and are pleased to see that the FCA has emphasised consumer protection in the new approaches.

Tools and Modellers

Technology has made positive advances that now present opportunities for firms to provide consumers with the flexibility to generate projections that are specific to their needs and that provide substantially improved data and information. This should increase consumer engagement with their pensions and should help them better understand their choices and the impact of any decisions, which should lead to improved consumer outcomes. The Panel agrees that regulations need to evolve to accommodate technology that is now readily available and can and should be used by consumers to improve their pensions journey.

However, the Panel also:

- recognises that this functionality may lead to increased consumer confusion if projections are not communicated properly and if consumers receive different information from multiple service providers. The Panel

suggests that the FCA encourages a degree of standardisation supported by consumer research.

- notes that flexibility in projections can be used by firms who do not take the Consumer Duty to heart and use projections to lead consumers to choices and outcomes that may not be in their best interest. To reduce the risks to consumers, we are fully on board with the restriction of the ability to transact within the tool. However, we are of the view that this restriction should apply to all digital tools. It should not be limited only to those that do not have sufficient underlying pension information, as consumers will not be able to understand the distinction.
- is concerned that the increased flexibility may result in unintended consequences that might harm consumers. We suggest that the FCA closely monitors the implementation, including obtaining input directly from consumers, and has an action plan at the ready if needed.

Please also refer to our relevant responses in the Appendix.

DC to DC Transfers and Consolidation

The various initiatives to increase engagement of consumers with their pensions, including the pension dashboard and targeted support, are likely to significantly increase pension transfers. The FCA's proposals to ensure that consumers are fully informed prior to initiating a transfer is welcomed. The Panel notes that consumers "don't know what they don't know", therefore, we firmly believe that if consumers are able to compare like for like and are alerted to valuable benefits that could be lost, this will improve the likelihood that consumers achieve the best pension outcomes.

Because a consumer's decision to transfer the pension may have life-long implications, the Panel believes that the information used to make this choice must be complete, relevant, and of high quality. We appreciate that the FCA has proposed that the consumer is provided with a like for like comparison between the ceding and receiving schemes, and that the responsibilities for collating and sending this information is clear, so as to remove any ambiguity. We also agree with the proposal for time limits for the provision of this information; however, we want to highlight that accuracy is a much higher priority than timeliness.

We do have some additional points that we would like the FCA to consider:

- The Panel strongly believes that pension schemes could make significant improvements when it comes to the identification of their vulnerable members and provision of the adjustments/personalised support that they require. Therefore, the Panel encourages the FCA to give greater thought to the identification and support of vulnerable consumers/scheme members. For example, we believe that a ceding scheme may need to take action if they have reason to believe that a consumer may not have the capacity to make an opt out or transfer choice, whether the fact that a ceding scheme is aware of vulnerability should be

communicated to the receiving scheme (following approval by the consumer), etc.

- We encourage the FCA to set clear expectations and / or provide guidance (supported by consumer testing and MI) to ensure that consumer warnings are salient, directive and designed to avoid habituation/click-through.
- We concur that the investment mix, and thus investment risk, in both the ceding and receiving schemes may not be directly comparable. However, we do not agree that the description of investment risk in the receiving scheme should be based on the default fund / asset mix. We strongly recommend that the closest comparators are provided, with a full explanation. We have no objection to the default fund information being provided as well.

Please also refer to our relevant responses in the Appendix.

Cross-theme topics

We have the following comments that apply across both themes:

- The helpfulness (and harmfulness) of the presentations of pension projections and comparisons preceding scheme transfers must be established by consumer testing. This must be done by firms offering these services, but wider research by the industry and the FCA is also essential. The FCA Sandbox provides an excellent opportunity for establishing supporting evidence. The outcomes of all testing should be shared, so that consumers ultimately benefit from a consistent approach and best practices. Among other benefits, this can serve to address some of the Panel's concerns relating to inconsistencies in information and data delivered by different firms to the same consumer.
- Mandatory signposting to independent authoritative resources, such as MaPS, is critical for supporting consumers on all aspects of their pensions journey. This is particularly important when they are at a point of contemplating decisions that may have significant implications for their financial lives.
- Within a reasonable timeframe following implementation, we believe the FCA must undertake good and poor practice and / or multi-firm reviews to ensure that firms are meeting expectations and delivering the best outcomes to consumers. We also encourage the FCA to conduct a post-implementation review to compare its expectations to actual experiences to further inform subsequent interventions and future consultations.
- The FCA must take quick action when firms are not compliant with the Consumer Duty. This applies to any firm, regardless of size, that may be causing consumer harm. The intervention may take the form of Supervisory engagement up to and including Enforcement. We also suggest that "revisits" to firms highlighted as engaging in poor practices are important to reinforce the benefits of compliance.

Yours sincerely,

Chris Pond
Chair, Financial Services Consumer Panel

Appendix

Question 1: Do you agree with the application and scope of our proposed regime as set out above? If not, what are the challenges for firms or unintended consequences of this approach?

The Panel partially agrees because:

1. **the proposals treat consumers as customers of a single firm, not individuals of multiple providers.** Consumers struggle to integrate information from different providers so there is a high risk that inconsistent assumptions across tools will impact on decision quality and trust. The scope should therefore explicitly require firms to consider how their tools interact with other projections that their customers are likely to see, including dashboards. Without this, there is a risk the Consumer Duty will be undermined.
2. The scope should not be limited to 'tools and modellers', given the behavioural impact of other aspects of the consumer journey.
3. To comply with the Consumer Duty, firms should identify the parameters that their target markets need and want; this should not be mere compliance with the FCA's proposed minimum.
4. All consumer journey options (including the possibility of inconsistencies across providers) should be supported by appropriate consumer testing to ensure that the options are well understood and there are no unintended consequences.

Question 2: Do you agree firms should have flexibility to present either a deterministic, stochastic or both types of simulation based on the understanding and engagement needs of their target consumers?

The degree of flexibility is constrained by the Consumer Duty, and the FCA should lean heavily on this in their final proposals, adding specificity where required. The Panel supports flexibility only where firms can demonstrate that their chosen presentation improves overall consumer understanding as opposed to engagement with a single approach. This is important because 1. consumers have difficulty reconciling probabilistic outputs across providers; and 2. there is a high risk of confusion, and ultimately loss of trust, if stochastic models for individual consumers are based on different sets of assumptions.

Question 3: Do you agree firms should have flexibility to present deterministic simulations either individually (with at least a higher and lower option), or multiple simultaneously?

Yes, but the minimum requirement should include at least three scenarios (low/middle/high) to reflect the inherent uncertainty. The Panel has previously highlighted the risks of optimism bias when customers are presented with single projections.

As part of supervision, the FCA should be prepared to ask firms for evidence of the rationale for the scenarios used.

Question 4: Do you agree with our proposed approach to the calculation and presentation of growth rates? If not, why not? Are there consumer risks with this approach that should be addressed through further requirements (such as setting a maximum cap on growth rates)?

The Panel partially agrees because flexibility in growth assumptions across firms will lead to different projections for consumer with multiple pensions, increasing the risk of harm. Evidence shows that customers anchor on higher projections and are unlikely to reconcile conflicting figures. We therefore support the use of stronger guardrails (e.g. percentiles, recalibration) to reduce inconsistency across the market, comply with Consumer Duty outcomes on understanding, and avoid systematic optimism bias. These guardrails should be transparent with respect to inputs (charges, inflation, asset mix) and percentile anchors and to the underlying methodology. With appropriate guardrails, it should not be necessary to impose a hard cap; however, we believe that a hard cap might, in fact, be an additional guardrail that should be seriously considered. At a minimum, the FCA should monitor firm's use of high growth rates and take action accordingly.

Question 5: Do you agree with our proposals for stochastic models? If not, why? If so, why?

The Panel partially agrees because, without safeguards, there is a risk of 'false precision'. Safeguards should include disclosure of assumptions, tail risks, presentation of the 5th/50th/95th percentiles. The risk of consumer confusion can be mitigated with outputs that are layered, giving consumers the option to view more detail accompanied by plain-language summaries.

Question 6: Do you agree consumers should be given the choice to see and interact with the decumulation proposals set out above? If not, why? If so, why?

The Panel agrees because we have consistently argued for better post-retirement support due to the low take-up of advice. These proposals have the potential to be particularly impactful alongside stronger nudges to Pension Wise. However, the choice must be actively prompted by providers, not hidden or difficult to find. We also urge the FCA to ensure that consumers use Pension Wise; therefore, the default position should be opt-in rather than opt-out.

Whilst we agree with the decumulation proposals above, we also advocate that firms may want to offer more sophisticated consumers the ability to set decumulation parameters that might differ from person to person, such as tax

rates, desired periodic income amounts, etc. To minimize confusing less informed consumers, these should be presented only on "as requested basis".

Question 7: Do you agree with our communications proposals? If not, why? If so, why?

The Panel supports the proposals in principle, assuming that the details meet the Consumer Duty requirement to avoid foreseeable harm from partial or misleading understanding:

- communications testing must reflect real consumer journeys across multiple firms. There is a risk that consumers who receive conflicting outputs will be confused, even though they may understand the outputs from a single provider. This has the potential to reduce consumer engagement and trust
- firms should be required to clearly state what information is excluded and prompt consumers to consider pensions held elsewhere
- firms should be given little leeway where existing research on best practice already exists eg:
 - the use of layered information, plain language and understanding of relevant warnings
 - standardized consent/wording patterns based on previous tests in order to reduce confusion across journeys
 - communications research on pensions and other complex products (robust academic research is publicly available on GoogleScholar)
- given the flexibility given to firm communications, we think it is important the FCA is clearer about what "effective warnings" look like in practice and how firms should evidence this. In particular, where a consumer chooses to opt out of the information-gathering process, the opt-out warnings should ensure the consumer understands the risks of proceeding without first comparing relevant features. We suggest the FCA strengthens expectations (supported by consumer testing and MI) that warnings should be:
 - Salient by design – clearly distinguished from routine communications (including on mobile/small screens), so they are noticed and not treated as standard content.
 - Directive and action-oriented – stating what the consumer should do next (eg pause, review charges/employer contributions, consider alternatives where relevant, and where to get guidance), rather than relying on passive statements.
 - Active rather than passive – requiring a deliberate acknowledgement/interaction that supports comprehension and reduces automatic progression.
- Designed to avoid habituation ("warning fatigue") – with firms expected to review and evolve presentation over time so repeat exposure does not

lead to automatic click-through, and to use MI to monitor engagement and understanding.

This supports our wider point on consistency: core language can be standardised across firms to reduce confusion, but warnings must still be designed to maintain impact.

Question 8: Do you agree with our record keeping and regular review proposals? If not, why? If so, why?

Yes. This will ensure that firms take this seriously. Furthermore, it can be used to inform the pensions market more broadly. The Panel has consistently called for better data to assess Consumer Duty outcomes.

The FCA should periodically review the quality of firm records through supervision and / or multi-firm or good and poor practice reviews.

Question 9: Does our proposed regime (for pension simulations in interactive, digital tools as a whole) strike the right balance between relying on outcomes-focused rules, the Consumer Duty to enable more effective and engaging tools and specific rules to deal with harms? Are there any areas where we need more specific rules to deal with potential harms, such as lack of consistency across different tools or pension projections in the consumer journey?

No. The Panel does not fully agree the balance is right because it doesn't address the risk of cross-firm consistency. During our feedback to the Consumer Duty proposals, we raised a concern that reliance on outcomes-focused regulation alone risks firms optimising locally while harming consumers' overall understanding. These proposals do not reduce this risk. We are sympathetic to the complexities but believe that the FCA has just one chance to get this right for consumers. Loss of trust caused by confusion will be very difficult to regain.

At a minimum, we suggest that the FCA encourages the industry to develop effective standardisation.

Question 10: Does our proposed regime (for pension simulations in interactive, digital tools as a whole) support the adoption of technology, including AI? Are there any proposed rules which may inhibit technology adoption?

The Panel is broadly supportive but AI outputs must be documented, explainable, auditable and user-tested. This means the FCA should emphasise transparency, fairness and human oversight; an SMF must be assigned responsibility to ensure that this is the case. If AI models are opaque, there is a risk that consumers will make ill-informed retirement decisions.

Question 11: Do you agree with our proposed approach for simulations in a PDS digital tool? If not, why not?

Yes, assuming that:

- PDS tools align with the wider consumer journey
- projections are clearly delineated from other types of income
- any and all possibilities of conflicting outputs are clearly explained to the consumer

We are concerned that consumers may receive simulations from a PDS provider (without sufficient underlying information) and their pension provider (with the relevant underlying information) and will be confused because they differ. The FCA needs to propose standard wording to explain both situations, which must be disclosed in each tool, and which must have been validated by consumer testing. Furthermore, PDS providers should be required to signpost that more accurate information should be available from their pension provider.

Question 12: Do you agree with the proposals for how the new regime will apply to digital tools that include a broader range of retirement income? If not, why not?

Yes. Tools must clearly show the assumptions behind State Pension, DB and DC income, and should present tax/longevity effects. Such tools could also encourage consumers to take-up income-related benefits (e.g., Pension Credit) given the persistent under-claiming reported by DWP.

We also agree with the proposal that firms cannot enable any transactions within the tool. In addition, we also agree that pension transfers must go through a rigorous process for comparison between ceding and receiving schemes, as explained further in this consultation.

Question 13: Do you agree a transition period is needed to effectively implement the proposed regime for simulations in digital tools? If so, is 12-months an appropriate timeframe?

We do not have a view on the transition period; however, we note that some firms will implement the regime before others, potentially resulting in inconsistent information being presented to consumers. Once again, the Panel proposes that the FCA provide standard wording to explain the situation, and firms must indicate in their associated communications to consumers whether they have or have not implemented the new regime.

Question 14: Do you agree with our proposal to exempt projections provided in SMPIs on how pension members can give themselves more

money, as set out in DWP's statutory guidance? If not, please explain why.

The Panel agrees with a narrow exemption to ensure alignment of methods and principles across regimes. There is a risk of conflicting messages if SMPIs and tools are not aligned. Furthermore, we agree that it will be helpful for consumers to see projected amounts if they were to increase contributions to their plan or give their pension pot more time to grow.

Question 15: Do you have any comments on the proposed scope and trigger for our non-advised transfer rules?

The Panel supports the scope, noting that the focus must be on preventing foreseeable consumer harm (eg non-advised transfers) rather than on procedural compliance.

Whilst we understand and agree that it appears reasonable to exclude small pension pots (as defined in legislation) from the proposal, we urge the regulators to monitor this closely to ensure that unexpected consumer harm does not occur. We highlight that consumers that experience multiple job changes could accumulate a material sum, albeit in different pots. This information should be available via pension dashboards. We believe that these consumers should also benefit from the wider protections.

We also urge the FCA and The Pensions Regulator to ensure that there is complete alignment of the approaches taken on all pension plans, which should be informed by consumer testing. Furthermore, if not already undertaken, the FCA should review lessons learned on the British Steel Pension Scheme to see if any of these proposals should apply to advised transfers.

Question 16: Do you agree with our proposed approach to obtaining the consumer's consent? Is consent the appropriate lawful basis for processing the data? Do you foresee any practical challenges with our approach? If so, how might they be overcome?

The Panel agrees, subject to the following principles:

- consent must be meaningful
- consumer protection will be weakened if consumers experience consent fatigue (ICO)
- consent must be specific, informed, time-bound and based on clear explanations which have been tested for consumer understanding
- procedures should use standardised templates and clear revocation pathways

- a key risk is drop-off, so friction should be reduced. However, the Panel believes that ensuring that the consumer fully understands the impacts of the decisions takes priority over processing speed.
- the FCA must restrict the initiation of a transfer by the consumer unless the relevant opt-out warnings and signposting have been communicated and accepted in writing. We support greater consistency of core wording and key prompts across firms for consent/opt-out steps to reduce confusion in multi-provider journeys. However, this should not constrain firms from presenting warnings in a way that preserves salience and avoids habituation. Please also refer to our response to Question 7 for further details and Panel suggestions.
- as we noted in our cover letter, the Panel believes that DC (and DB) pension schemes could substantially improve their identification and support of their vulnerable members in general. This becomes critically important if a consumer chooses to opt out. In this situation, we believe that the firm should assess whether the member has any vulnerabilities that might indicate an impaired ability to make the decision, especially if the firm already holds records that indicates that the consumer might be vulnerable. If so, the firm should take appropriate action prior to processing the transfer request.

Question 17: Is our proposed acknowledgement process an unnecessary administrative step? Can issue and receipt of the information request be considered instantaneous? Are technological solutions available to make this possible?

No, the Panel does not believe this is an unnecessary administrative step. The use of technology can support prompt acknowledgement without unnecessary manual intervention. In principle the Panel supports streamlining where there is no loss to consumer protection.

Question 18: Do you consider 10 working days a reasonable timeframe for ceding schemes to respond to information requests? If not, why not?

The Panel believes that 10 working days is ambitious but necessary because delays are a known cause of consumer harm. We also believe that this is a reasonable timeframe with the use of standard data fields and SLAs.

In addition to the proposals noted in the consultation, the FCA might want to consider a standardised approach if there is a possibility that the ceding scheme may not hold the particular consumer's assets.

Question 19: How might technology affordably support adoption of this timeframe?

The Panel believes that there should be a presumption of affordability unless there is strong evidence to the contrary. Affordability can be leveraged through shared schemes, dashboards, and shared learnings.

Firms can automate many of the processes to shorten the timeframe, and there are many options available, from simple spreadsheet automations to which most firms already have access to more sophisticated platforms which come at an additional cost. Firms must, however, also bear in mind that some consumers will need personal support. This is more likely to be true as consumers get closer to retirement age.

Question 20: Do you agree with our proposed approach to presenting information back to consumers?

The Panel agrees assuming that:

- consumers are presented with standard comparators (e.g. charges, guarantees, options, service) with clear risk/benefit flags
- the presentation of any information supports consumers who want to collate information across multiple providers. Too much detail and inconsistent framing across firms will reduce comprehension, increasing the risk of ill-informed decisions, poor outcomes, and loss of trust
- summaries are positioned as partial views, so that consumers are prompted to include other pensions
- it is clearly communicated that the consumer can consider the information at their own pace, and there is no need for an immediate decision or action.

Question 21: Do our proposals capture the appropriate benefits and features for consumers to consider ahead of transfer? Should any be added or excluded? If so, please explain why.

The Panel believes that the proposals are generally appropriate, but can be improved by:

- explicitly including risks arising from incomplete information across multiple schemes
- tackling consumers' propensity to consistently underestimate longevity, inflation and sequencing risks when considering transfers in isolation
- adding prompts on how transfer decisions interact with other pensions and retirement income sources

However, we are concerned with the proposal that the comparison of investment risk between the ceding and receiving schemes should utilise the default fund of the receiving scheme. Although it remains to be tested, we believe that the consumer should be presented with risks associated with comparable funds to the greatest extent possible. The default fund should be used only if there aren't reasonable comparables. This should be explained to the consumer.

We believe that it is essential that the FCA, the industry, and / or firms engage in testing of various communication approaches that are then shared industry wide. This will:

- ensure that the messaging is well understood by consumers, delivering the best outcomes, and
- help to lead to consistent approaches across firms, reducing the possibility of consumer confusion as well as reducing firm costs.

We understand that there is not a standardised approach to risk disclosures at present, but this can and should be a catalyst for the FCA and industry to develop one. We firmly believe that this is a significant element to contributing to the financial capability of consumers.

Question 22: Can this information be extracted and returned to the engaging firms in 10 working days? If not, what are the challenges and how might they be overcome?

The Panel believes that these proposals will force firms to reduce or remove manual processing, ultimately benefitting the consumer. These proposals should be feasible with standardization.

Question 23: Do you agree with our proposed record keeping requirements? Are there any additional types of information that firms should be required to retain as part of this process?

Yes. Compliance with the Consumer Duty will be evidenced through MI on requests, responses, outputs, consumer decisions and outcomes. The FCA should also give thought to additional MI to support post-implementation evaluation, such as warnings about the loss of guarantees.

Question 24: Do you agree with our proposed approach to incentives? Please explain your answer.

The Panel has serious concerns that the use of any incentives might well lead to poor consumer outcomes. Therefore, because the FCA is not suggesting an explicit ban, it is absolutely essential that this is monitored closely and urgent steps are taken if firms are seen to offer incentives. Any negative consumer impacts must be met with FCA supervisory and / or enforcement action. In addition, it is critical that rules are immediately implemented to restrict any identified incentives that might affect transfer choices in unintended or harmful ways.

Question 25: Do you agree with our assumptions and findings as set out in this CBA on the relative costs of the proposals contained in this consultation paper? Please give your reasons.

The Panel believes that the CBA is directionally sound because it shows that costs can be reduced through dashboards and the use of existing MI. However, we are concerned that it underestimates the consumer detriment arising from poor projections. It is also likely to understate the benefits because consolidation and better comparisons will lead to better outcomes. It should not be assumed that these additional benefits and harms cancel each other out.

We also believe that specifically relevant consumer testing, in advance, may have provided more and better data to inform the CBA.

We would also advise the FCA to include the costs of multi-firm / good and poor practice reviews as a standard cost in the CBA of any intervention.

Question 26: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

The Panel believes that the benefits are plausible (noting our response to Q25) but notes that the distributional impacts are unclear. It is important to understand how these proposals interact with vulnerabilities.

We would like to see the FCA do a post-implementation analysis of the CBA to compare its projections with actual results. This may help to inform future interventions in the pensions area and can inform future CBAs.