FCA
Practitioner Panel

Value for Money Team: DC Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

By email

27 March 2023

Dear Sir/Madam,

CP23/4: Value for Money: A Framework on Metrics, Standards and Disclosures

The Panel welcomes the proposals for a Value for Money (VFM) framework to increase comparability, transparency, and competition across DC pension schemes, regardless of whether DWP or FCA regulated. Fundamentally, we support the creation of a framework which requires trustees and managers of DC schemes to prioritise member outcomes when making decisions about people's savings and investment as this aligns with consumer duty principles and will help drive improvements in household financial resilience. To truly deliver value for money in pensions however, there is a need to enable pension schemes to provide greater support to clients to improve their decision making, which requires a change in the advice / guidance boundary. It is important the development of the framework aligns to this wider work.

We strongly agree that the definition of VFM needs to be equally focussed on investment performance and quality of services as well as costs and charges. On costs and charges, we agree with measuring investment returns received net of cost paid and support proposals to introduce metrics to gain clarity on the charges for administration separate to costs paid on investment management. For bundled schemes however, we do not support the separation of investment management and administration charges as vertically integrated firms can adopt different and arbitrary approaches as to how the charges are allocated. The key focus should be on providing clarity on total member-borne charges.

We are also supportive of the proposals to enable comparisons of net investment performance, including the disclosure of two specific risk-adjusted metrics to be reported alongside net returns. If a forward-looking performance metric is required, we are of the view this should be a straightforward deterministic measure. On backward-looking data, there is need for caution in the use of asset allocation data as asset allocations drift over time. We therefore support that the proposal to require disclosure of asset allocation under the 8 existing categories for all in-scope default arrangements only covers the portfolio mix from the previous reporting year. As an additional observation, it may also be useful to consider the possible inclusion of opt out or cessation rates within the VFM framework.

With respect to regulator-defined benchmarking, we share wider industry concerns that proposals around investment return assessment may create herding into conservative strategies and could stifle opportunity to introduce productive finance assets, if otherwise deemed appropriate.

Another broader issue with measuring investment performance is that although comparability requires prescription, it also creates a tension with the principle-based Consumer Duty and

Trustees fiduciary duties. It also prevents IGCs and Trustees from applying the prescribed metrics to the specifics of their membership, workforce or target markets. Given the diversity in investment objectives and the investment budgets allocated to delivering those objectives in DC schemes, market-wide comparisons and benchmarks should be considered with significant caution. Member returns will differ because schemes have different overall cost bases and follow different investment strategies with varying investment objectives and asset allocations. Simply comparing one set of returns to another does not always support the conclusion that a better performing scheme (relative to a specific benchmark) delivers better value to one that performs worse. Rather than seeking to drive market-wide benchmarks, the aim should be to instead encourage schemes to assess their investment performance against investible benchmarks that are appropriate to the scheme's own strategy, with IGCs and Trustees determining how the prescribed metrics should be weighted in the context of their specific scheme characteristics.

On the approach to measuring quality of service, we wholeheartedly support the comments in the consultation that the quality of communications should be measured and assessed based on whether or not they drive improved member outcomes. While supportive of the proposed 2 communications metrics outlined, we think there is more that can be done to assess how effective a scheme is with communicating than is currently set out. A key component of measuring VFM should be effective member communication driving meaningful engagement. In this context, there is a need to encourage providers to consider what good service metrics are, going beyond measuring response times and complaints to such areas as evidence of clients increasing the amount they pay in as consequence of engagement, and whether they are consolidating their investments. Whilst we recognise the challenges to providing comparative data on service, it would be useful to set out expectations so this can evolve over time, noting also that a pragmatic approach needs to be taken to allow firms to transform and innovate. This should also help create the conditions for pension providers to compete on the quality of information delivery.

To provide a holistic assessment of VFM there are also other factors which make a meaningful contribution to long term outcomes which should be considered. This includes the contribution to the wider UK economy made through supporting critical infrastructure and buildings, and through supporting high growth companies such as technology, life sciences and renewable energy etc. There should also be a drive to measure the sustainability credentials of the investment strategy, including how much the manager is pushing for Human Rights improvements, the transition to Net Zero and biodiversity improvements with regards to the companies and assets the strategy invests into.

We agree that the targeted audience of the VFM framework should be pension professionals, such as IGCs, Trustees, Pension Providers and Employee Benefit Consultants. Without context, direct member access to underlying metrics may lead to bad client outcomes.

The scope of this Value for Money framework should be limited to workplace qualifying schemes chosen by employers for their employees. Non-workplace pensions and decumulation (e.g. drawdown) should be out of scope. This focuses on protecting members who have not chosen their workplace pension where the need for transparency/regulatory protection is highest. In the longer-term we are comfortable that Phase 2 should include decumulation but do not think that it should include non-workplace pensions. We believe that publishing data on non-workplace pensions is likely to be complex and add little value. The wide variation in levels of charges, investment opportunities and service levels within non workplace pensions would likely to lead to enormous amounts of data, which would often apply to relatively small numbers of consumers. The target audience for the data proposed in this consultation are not the decision makers for non-workplace pensions and we do not consider the provision of this type of data would aid consumer decision making.

We would be happy to discuss these points further if required.

Yours faithfully,

[signed]

Matt Hammerstein
Deputy Chair, FCA Practitioner Panel