Caroline Donellan
Strategy and Competition Division
Financial Conduct Authority
25 The North Colonnade
London E14 5HS

30 April 2018

Dear Caroline,

**FCA Smaller Business Practitioner Panel response to DP18/1 – Effective Competition in Non-workplace Pensions**

The Smaller Business Panel is pleased to respond to the consultation on non-workplace pensions. We have responded to the specific questions, but also have some observations to make on the regulation of pensions in general, which we have already made to the FCA Board in the context of the Retirement Outcomes Review.

The key issue in saving for later life is not charges or specific product issues, but whether consumers are making informed decisions about their later life choices. Consumers must have access to an appropriate range of products and services, including advice and guidance. For example, we have highlighted the issue of a disconnect between the appropriateness test and the ability to give guidance, which can result in firms considering they are unable to direct customers without falling foul of the test.

We encourage the FCA to consider the broader picture when considering remedies, to avoid the unintended consequences of excluding customers from taking actions in their best interests. It is difficult, especially from an advice perspective, to separate pre, at and in-retirement advice, as well as other assets available to a consumer. The discussion on non-workplace pensions is one of three consultations in the pensions area alone, and it is important that they are looked at in the round to avoid confusion and discontinuity.

We also encourage the FCA to look at technology-based developments, particularly in sales and distribution, in order to ensure that any remedies and changes to regulation remain relevant and do not only address the market as it is today.

Yours sincerely,

Craig Errington
*Chair, FCA Smaller Business Practitioner Panel*

**Responses to specific questions**

*Q1: Do you agree with our high-level description of the market? Have we omitted any significant elements or dynamics?*

The key difference between workplace and non-workplace pensions markets is that non-workplace pensions have to be articulated and promoted to greater extent than workplace, which comes at a higher cost.

We believe the current non-workplace pensions market is working well, for example with wrap platforms driving down costs and offering flexibility and other specialist providers providing very low cost pension options, mainly passive investments, for smaller pots.

The issue of legacy business is more complex. Charges are not the only feature of older products which influence whether a customer should make decisions about whether these are appropriate for them. Although they may be higher-charging, old style pension schemes may have other benefits such as life and health cover and it should not be automatically assumed that customers would be better off by moving to, for example, a lower charging platform-based product.

*Chapter 3 – Demand-side weaknesses*

*Q4: Do you have any comments on the impact of regulated advice on consumers' ability to understand and assess their pension throughout the product lifecycle?*

Analysis has shown that those who take advice achieve better outcomes. This should be publicised more with appropriate signposting to encourage the public to seek advice.

*Q6: Do you believe that demand-side weaknesses are present in the market for non-workplace pensions? Do they apply across the market or are they specific to particular consumer groups, products or sales channels?*

More work could be done to educate consumers on cost as there are still many retail investors in legacy products with high charges which in modern products have disappeared. Most of the complexity around pensions is driven by taxation and legislation rather than the products themselves and it is therefore difficult to solve other than by taking advice.

The Panel disagrees that product performance may not be apparent for many years. Changes to reporting requirements under MiFID have resulted in more transparency, however this is not always in the consumers' interest as transparency in itself without the knowledge and understanding to provide context can lead to consumers making poor decisions which are not in their long-term interest. Any remedies which increase transparency without also increasing access to advice may therefore be unhelpful.

*Chapter 4 – Charges*

*Q10: Do you have any comments on how industry might better support consumer choice (including monitoring and identifying when it might be appropriate to switch to a more competitive product and / or provider)?*

In order to facilitate consumer choice providers need to be confident about how to encourage legacy book clients to look around and take action without the fear of crossing into giving advice. Greater clarity from the regulator about the advice boundaries would help in this area.

*Chapter 5 – Summary and next steps*

*Q15: Do you have any other comments on the matters discussed in this Discussion Paper?*

Many providers are now moving to wrap platforms. We believe over time the numbers of platforms will inevitably reduce from the current number of around 20 to around four main platforms and two or three secondary platforms. We also believe that once there are fewer, but larger, providers this will create more competition between those remaining, which will be more efficient and a positive move for the market.