

## **Regulator Assessment: Qualifying Regulatory Provisions**

**Title of proposal:** PS19/30: Independent governance committees: extension of remits

**Lead regulator:** FCA

**Date of assessment:** 2 March 2020

**Commencement date:** 20 April 2020

**Origin:** Domestic

**Does this include implementation of a Cutting Red Tape review?** No

**Which areas of the UK will be affected?** England, Wales and Scotland

### **Brief outline of proposed new or amended regulatory activity**

In December 2019, we published our Policy Statement on Independent Governance Committees: extension of remits ([PS19/30](#)), in which we confirmed our policy and final rules. The new rules came into effect on 6 April 2020. This PS follows our Consultation Paper ([CP19/15](#)) published in April 2019, in which we proposed to extend the remit of Independent Governance Committees (IGCs) to two new areas:

1. A new duty to oversee the value for money of investment pathway solutions for pension drawdown
2. A new duty to report on the firm's Environmental Social and Governance (ESG) and stewardship policies, and how the firm takes member concerns into account in its investment decisions.

#### **1. A new duty to oversee the value for money of investment pathway solutions**

The 2015 pension freedoms gave consumers more complicated choices to make about how to invest their pensions savings and how to draw on them.

Our new rules to extend the remit of IGCs to investment pathway solutions (PS19/30) are the final part of our package of measures to improve outcomes for non-advised consumers accessing their pensions savings through drawdown. This package of measures is to address failings identified in our [Retirement Outcomes Review](#), which we carried out in response to 2015 Pension Freedoms.

In January 2019, following our Retirement Outcome Review, we published our Consultation Paper ([CP19/5](#)) on proposed new rules and guidance for investment pathway solutions. In CP19/5, we said that we will consult on extending the IGC regime to oversee the value for money of pathway solutions.

In July 2019, we published our Retirement Outcomes Review Policy Statement ([PS19/21](#)) which set out our final rules and guidance on pathway solutions. The new rules will require firms to offer investment pathways solutions to consumers entering drawdown without advice. The IGC remit extension, introduced in [PS19/30](#), is an additional layer of governance to provide scrutiny of the firm's pathway solutions on behalf of consumers who are likely to be less engaged. The new rules in PS19/21 were scheduled to enter into force on 1 August 2020. The FCA board decided to extend the implementation date for these rules by 6 months until 1 February 2021. This extended implementation date recognises the operational challenges of implementing new rules in the current circumstances.

## **2. A new duty to report on the firm's ESG and stewardship policy, and how the firm takes member concerns into account in its investment decisions**

We also made related guidance for providers of pension products and providers of investment-based life insurance products on how these firms should consider ESG risks and opportunities, and non-financial consumer concerns, when making investment decisions.

Our proposals in this area address recommendations made by the Law Commission in their [2017 report on Pension Funds and Social Investment](#). In this report, the Law Commission concluded that barriers to pension funds investing for social impact were mainly structural and behavioural rather than regulatory. However, to reduce the impact of these barriers, the Law Commission recommended that we make rules requiring IGCs to report on firms' policies on how they take into account ESG-related risks and member concerns in investment decision making and to report on firms' stewardship policies.

### **Background information on IGCs and GAAs**

In 2015, we made rules requiring firms that operate workplace personal pensions to establish and maintain Independent Governance Committees (IGCs).

IGCs have a duty to scrutinise the value for money of the provider's workplace personal pension schemes, raising concerns and making recommendations to the provider's board as appropriate. They act on behalf of consumers who are likely to be less engaged.

Governance Arrangement Committees (GAAs) are a proportionate alternative to IGCs for firms with smaller numbers of relevant customers and less complex relevant products. GAAs are provided by a third party, typically a professional trustee firm. As the third party may provide GAAs for multiple firms at once, and there is less work involved per firm, the cost of a GAA is much lower than the cost of an IGC.

Additionally, the rules we have already made for pathway solutions include an easement for smaller firms. Firms with fewer than 500 non-advised consumers entering drawdown per year will not be required to provide their own pathways solutions. These firms may refer non-advised consumers entering drawdown to another firm's pathway solutions (so the consumer becomes a customer of that other firm), or to the drawdown comparison tool that will be operated by the new Money and Pensions Service (MAPS). If the firm does not offer pathway solutions and does not operate workplace personal pensions, the rules do not require an IGC or GAA. We consider that this will reduce the risk that firms will have to provide their own

pathway solutions where the costs of doing so, including the costs of having an IGC or GAA, are disproportionate.

**Which type of business will be affected? How many are estimated to be affected?**

The new rules will affect all firms that provide workplace personal pensions in the UK, and firms that intend to provide pathway solutions, such as insurance companies and SIPP operators. Based on our supervisory activity, we estimate that the number of affected firms will be in the range of 64 – 85 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2018	2020	10	-90.4	10.5	52.5

**Please set out the impact to business clearly with a breakdown of costs and benefits**

We have established six categories of firms that will incur different costs:

- 1- Firms with existing IGC, not offering pathway solutions – 1 firm
- 2- Firms with an existing IGC, offering pathways solutions – 14 firms
- 3- Firms needing to establish an IGC, offering pathway solutions – 7 firms
- 4- Firms with existing GAA, not offering pathway solutions – 6 firms
- 5- Firms with existing GAA, offering pathway solutions – 6 firms
- 6- Firms needing to establish a GAA, offering pathway solutions – 30 -51 firms

For each of these categories of firms, we have established various one-off and ongoing costs.

**One-off costs**

The one-off costs consist of three main categories of costs: (1) cost of setting up an IGC or GAA, (2) familiarisation and ‘gap analyses’ costs and (3) learning costs. These costs will also vary by category of firms described above.

**1. Cost of setting up an IGC or GAA**

From our supervisory activity, we know that the majority of firms that will need an IGC already have one in place, and approximately 7 firms will need to establish one from scratch. Based on our market insight, we estimated the total costs of establishing an IGC in the range of £200,000 - £400,00 per firm. We also know from our supervisory activity that approximately 30 – 51 firms will need to establish a GAA, but the total cost of setting up a GAA is minimal, as it only involves finding a GAA provider and signing the contract.

**2. Familiarisation and ‘gap analyses’**

We also expect firms to incur one-off cost of familiarising themselves with the policy documentation and conducting the ‘gap analyses’. We’ve calculated these costs based on our standard costs calculator, which in turn is based on a review of previous CBAs, internal consultation, and desk-based research, combined with consultation with firms and trade bodies, discussions with software vendors and the 2016 Willis Towers Watson UK Financial Services Report. To put a cost on time, we have sourced salary information for a range of

occupations in financial services. In this context, we estimate hourly compliance staff salaries, including 30% for overheads, as: £66/hour for larger firms with an IGC and £43/hour for smaller firms with a GAA. We estimate that approximately 10 compliance staff at larger firms, and 2 at smaller firms, will take approximately 2 hours to read the policy document. We estimate that 2 legal staff at larger firms, and 1 at smaller firms, will take approximately 1 hour to review the legal instrument, with hourly costs of £66/hour and £52/hour, respectively

The familiarisation and 'gap analyses' costs are small in relation to other costs, and are estimated at £1,584 per firm for firms with an IGC, and at £224 per firm for firms with a GAA.

### 3. Learning costs

We also assumed that in the first year, firms will incur costs associated with the time needed to learn about their firm's products and assess these products for the first time. Based on our market insight we estimated that the average learning costs will be in the range of 30-50% of annual ongoing costs. For a detailed breakdown of the learning cost by category of firm, please see the table1 below.

We estimated total one-off costs as follows:

- Across firms which have, or will need, an IGC, in the range of £3.1m - £7.7m
- Across firms which have, or will need, a GAA, in the range of £0.7m - £2.4 m
- Across all firms, in the range of £3.7m - £10.1m

**Table 1: Summary of one-off costs by category of firms in the tables below.**

Firms which have, or will need, an IGC	Firms with an existing IGC, not offering pathway solutions	Firms with an existing IGC, offering pathway solutions	Firms needing to establish an IGC, offering pathway solutions	Total
Cost of setting up an IGC	NA	NA	£200,000 - £400,000	
Familiarisation and gap analyses	£1,584	£1,584	£1,584	
Learning costs	£12,000 - £50,000	£63,000 - £220,000	£105,000 - £250,000	
<b>Total per firm</b>	<b>£13,584 - £51,588</b>	<b>£64,584 - £221,584</b>	<b>£306,584 - £651,584</b>	
<b>Number of firms</b>	<b>1</b>	<b>14</b>	<b>7</b>	<b>22</b>
<b>One-off costs (IGCs)</b>	<b>£14,000 - £52,000</b>	<b>£0.9m - £3.1m</b>	<b>£2.1m - £4.6m</b>	<b>£3.1m - £7.7m</b>

  

Firms which have, or will need, a GAA	Firms with an existing GAA, not offering pathway solutions	Firms with an existing GAA, offering pathway solutions	Firms needing to establish a GAA, offering pathway solutions	Total
Cost of setting up a GAA	NA	NA	Minimal	
Familiarisation and gap analyses	£224	£224	£224	
Learning costs	£2,400 - £12,500	£10,500 - £27,500	£19,500 - £42,500	
<b>Total per firm</b>	<b>£2,624 - £12,724</b>	<b>£10,724 - £27,724</b>	<b>£19,724 - £42,724</b>	
<b>Number of firms</b>	<b>6</b>	<b>6</b>	<b>30-51</b>	<b>42 - 63</b>
<b>One-off costs (GAAs)</b>	<b>£16,000 - £76,000</b>	<b>£64,000 - £166,000</b>	<b>£0.6m - £2.2m</b>	<b>£0.7m - £2.4m</b>

  

<b>Total one-off costs</b>	<b>£30,000 - £128,000</b>	<b>£1.0m - £3.3m</b>	<b>£2.7m - £6.7m</b>	<b>£3.7m - £10.1m</b>
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## **Ongoing costs**

The ongoing costs consist of such categories as (1) cost of operating an IGC or GAA, (2) cost of additional meetings, (3) cost of acquiring and maintaining new expertise in drawdown and ESG issues and (4) other costs that the firm may incur in supporting its IGC or GAA. Similar to the one-off costs, the ongoing cost will vary by category of firms described above. Estimation and assumptions about costs were made based on what we know from our supervisory activity, discussion with industry and industry view.

### **1. Cost of operating an IGC**

Based on discussion with industry, we know that the average ongoing direct cost of operating an IGC covering workplace personal pension is in the range of £175,000-£250,000 per year. We took this number as a starter and based on further discussions with the industry, we concluded that the cost of operating an IGC for pathway solutions and the firm's ESG policies will be in the same range. This cost is relevant for firms that don't have an IGC in place and will have to establish one for their pathway solutions.

### **2. Cost of additional meetings**

Existing IGCs will need on average between 3 and 7 additional meetings to assess pathway solutions and/ or consider firm's ESG, member concern and stewardship policies. Based on discussion with industry, the average annual cost per firm for additional meetings and associated work to discuss pathway solutions and ESG policies will be in the range of £75,000-£150,000 per year.

Firms not offering pathway solutions will only need additional time to discuss the provider's ESG-related policies. Based on our discussion with the industry, the cost of the additional time and associated work to consider the firm's ESG policies is in the range of £10,000-£30,000 per year.

### **3. Cost of acquiring and maintaining new expertise in drawdown and ESG issues**

Based on what we know and views from the industry, we assume that the average additional cost of drawdown expertise or advice provided to the IGC will be in the range of £20,000-£50,000 per year. The average additional cost of ESG expertise or advice will be in the range of £10,000 - £20,000 per year.

### **4. Other costs that the firm may incur in supporting IGC or GAA**

These other costs include the cost of a secretariat, liaising with and providing information to the IGC, and senior management time. From discussion with the industry, we know that, for workplace personal pensions, these additional costs are approximately the same as the direct costs of the IGC and we assume the same for a new IGC for pathway solutions. So, we estimated that the other firm costs to provide information and support to the IGC, focusing on pathway solutions and ESG, will be in the range of £175,000-£250,000 per year. For further detail on the additional costs per category of firms, please see the table below.

### **Ongoing costs for firms with GAA.**

As mentioned above the cost of operating a GAA is much lower than the cost of an IGC and consists of the cost of a contract with a third-party provider. Based on our discussion with industry we know that the cost of an existing GAA contract for workplace personal pension is in the range of £25,000- £30,000 per year. For firms that currently don't have a GAA and will have to sign a new contract for their pathway solutions, the cost of the contract will be slightly

higher, in the range of £30,000-£40,000 per year. We also know that the firm will incur other costs for supplying information and engaging with the GAA, which will be in the range of £35,000- £45,000 per year.

For firms that already have a GAA, the cost of their existing contract will increase to reflect additional GAA meetings and associated work to assess the firm’s pathway solutions and to consider ESG policies. We estimated that the average additional cost per firm will be in the range of £15, 000 - £25,000 per year. We have not assumed additional cost for drawdown or ESG expertise, because we expect the third party GAA providers to have this expertise. The average additional firm cost to support the GAA is estimated in the range of £20,000-£30,000.

For firms that have an existing GAA but will not offer pathway solutions, the average cost of additional GAA meetings to consider the ESG policies will be in the range of £3,000-£10,000 per year. The average additional costs to support the GAA will be in the range of £5,000-£15,000 per year.

We estimated total ongoing costs as follows:

- Across firms which have, or will need, an IGC, in the range of £5.4m - £9.8m per year
- Across firms which have, or will need, a GAA, in the range of £2.2m - £4.8m per year
- Across all firms, in the range of £7.6m - £14.6m per year

**Table 2: Summary of total ongoing costs per category of firms in the tables below.**

Firms which have, or will need, an IGC	Firms with an existing IGC, not offering pathway solutions	Firms with an existing IGC, offering pathway solutions	Firms needing to establish an IGC, offering pathway solutions	Total
Cost of IGC members and external expertise/advice if necessary (IGCs newly established for pathway solutions)	NA	NA	£175,000 - £250,000 p.a.	
Additional meetings/time (for existing IGCs)	£10,000 - £30,000 p.a.	£75,000 - £150,000 p.a.	NA	
Drawdown expertise (for existing IGCs)	£0 p.a.	£20,000 - £50,000 p.a.	(included in above)	
ESG expertise (for existing IGCs)	£10,000 - £20,000 p.a.	£10,000 - £20,000 p.a.	(included in above)	
Other firm costs to support the IGC	£20,000 - £50,000 p.a.	£105,000 - £220,000 p.a.	£175,000 - £250,000 p.a.	
<b>Total per firm</b>	£40,000 - £100,000 p.a.	£210,000 - £440,000 p.a.	£350,000 - 500,00 p.a.	
<b>Number of firms</b>	1	14	7	22
<b>Ongoing costs (IGCs)</b>	£40,000 - £100,000 p.a.	£2.9m - £6.2m p.a.	£2.5m - £3.5m p.a.	£5.4m - £9.8m p.a.

Firms which have, or will need, a GAA	Firms with an existing GAA, not offering pathway solutions	Firms with an existing GAA, offering pathway solutions	Firms needing to establish a GAA, offering pathway solutions	Total
Cost of contract (GAAs establish for pathway solutions)	NA	NA	£30,000 - £40,000 p.a.	
Additional meetings/time (for existing GAAs)	£3,000 - £10,000 p.a.	£15,000 - £25,000 p.a.	NA	
Other firm costs to support the GAA	£5,000 - £15,000 p.a.	£20,000 - £30,000 p.a.	£35,000 - £45,000 p.a.	
<b>Total per firm</b>	£8,000 - £25,000 p.a.	£35,000 - £55,000 p.a.	£65,000 - £85,000 p.a.	
<b>Number of firms</b>	6	6	30 - 51	42 - 63
<b>Ongoing costs (GAAs)</b>	£48,000 - £150,000 p.a.	£210,000 - £330,000 p.a.	£2.0m - £4.3m p.a.	£2.2m - £4.8m p.a.
<b>Total ongoing costs</b>	£88,000 - £250,000 p.a.	£3.2m - £6.5m p.a.	£4.4m - £7.8m p.a.	£7.6m - £14.6m p.a.

In order to calculate the EANDCB and BIT we used the mid-range from all of the costs.

**Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.**

[PS19/30](#)

[CP19/15](#)