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

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By email: cp21-32@fca.org.uk

Dear Sir/Madam

Financial Services Consumer Panel (the Panel's) Response – CP21/32: Improving outcomes in non-workplace pensions

The Panel welcomes the opportunity to respond to this the consultation on measures to help consumers with non-workplace pensions build their pensions savings for retirement.

Alongside the below responses, the Panel would like to additionally highlight the following:

- The Panel agrees that firms should offer a single default option, this will allow for an easier decision-making process for the customer
- The Panel is concerned that there may be a large amount of customers who are holding cash in their non-workplace pension
- With regard to the potential harm to consumers from holding cash, the Panel agrees that cash warnings can be effective in showing consumers how their cash savings are at risk of being eroded by inflation and prompt consumers to consider investing in other assets with the potential for growth
- The Panel believes that a professionally designed investment strategy is likely to deliver better outcomes for consumers who may not have enough experience to choose the right investments

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

Yours sincerely

Wanda Goldwag, Chair Financial Services Consumer Panel

Consultation Questions

Q1: Do you agree that we should require firms to offer a single default option rather than multiple default options/ investment pathways?

The Panel agrees that the FCA should require firms to offer a single default option as opposed to multiple default options, as we believe this will make the choice easier for the consumer – which is the aim of having a default in the first place.

The Panel would expect this default to be presented alongside other pathways and investment tools. It also considers that the provision of a default option should not reduce either the choice of funds, or the help in choosing funds offered to consumers.

Where the pension provider is a vertically integrated firm and has chosen its own funds, as part of the default option, we would expect this to be clearly highlighted to the consumer and would expect the provider to justify both the selection of funds and their price.

Q.2 Do you think there is a case for requiring firms with only legacy NWP business to make a default option available to their customers?

Whilst a firm with only legacy NWP business may not be accepting new business, the consumers holding pensions with this firm may have tens of years of investing ahead of them. The potential harm from remaining in cash, potentially due to not understanding how to choose investments, is as real, if not more so, for these consumers as it is for those investing with active firms.

The Panel would therefore propose a requirement on legacy firms to also offer a competitive, well considered, default investment option.

Q3. Do you agree that we should require firms to offer a default option to all non-advised consumers entering into an NWP? If not, what would you propose?

The Panel agrees that the FCA should require firms to offer a default option to all non-advised consumers entering into an NWP.

Q4. Do you agree that we should not require firms to offer a default option to advised consumers or consumers using discretionary investment management services for their NWP?

The Panel agrees that the FCA should not require firms to offer a default option to advised consumers using discretionary investment management services. However, The Panel would also suggest that when consumers de-link from their advisor, that pension provider should make them aware of the default option at that point.

Q5. Do you think we are right to exempt bespoke SIPPs? Do you see any issues with our proposed approach? If so, what would you suggest?

The Panel agrees with the FCA approach to exempt bespoke SIPPs.

However, there is a likelihood that some consumers in bespoke SIPPs, for a variety of reasons, may end up sitting in cash for long periods of time. This is the poor outcome that this consultation paper is attempting to address. The Panel would therefore be supportive of an approach which required bespoke SIPPs to write to customers who have the majority of their investment in cash (and have done so for a defined period of time) to remind them of the potential downside impacts of remaining in cash.

Q6. Do you agree that the default option should be offered upfront, in menus of investment choices, and alongside decision trees or tools? If not, what would you suggest?

The Panel agrees that the default option should be offered upfront, in menus of investment choices and alongside decision trees and tools.

Additionally, the Panel would propose that the rules include an obligation that the default option should be offered, promoted or presented in the same style and manner and with the same prominence, as other investment options. Firms should not present the default fund in a way that makes it look like a lesser choice, or a less preferred option (especially considering that the firm may well make higher profits when a consumer chooses non-default options).

Q7. Do you agree with our proposals for how a default option would be offered?

Yes.

Q8. Do you agree that we should extend our product governance rules in PROD 4 to all manufacturers and distributors of default options?

Yes.

Q9. We have sought to enable different models of default option while ensuring that firms take account of ESG risks and the need for lifestyling. Do you think we have provided sufficient flexibility? Alternatively, do you think we should be more prescriptive?

The Panel believes these proposals provide sufficient flexibility for firms whilst making the choice of the default fund easy and simple for the consumer.

Q10. Do you agree that we should not extend the remit of IGCs/GAAs or cap the charges of default options at this time?

The Panel does agree, however where the pension provider is including any of its own funds in the default option, the Panel would propose that the rules include provision for:

1. The firm documenting the reasons it felt inclusion of its own funds was appropriate, including an analysis of whether other third-party funds on this platform provided a similar risk/return profile at a lower cost, and if so why the in-house fund was viewed as being more appropriate.
2. The use of a firms' own funds in a default when the pension platform hosts third-party funds, should be clearly outlined to the consumer when they select the default option.

The Panel note a price cap has been effective in other areas of the market and as such the FCA should keep an eye on this and consider if a price cap would be useful in the future.

Q11. Do you agree with our proposed implementation timeline for the default option?

Yes.

Q12. Do you agree with our proposals for cash warnings to be given to consumers with significant and sustained cash holdings in their NWPs?

The Panel agrees with the FCA's proposals for cash warnings.

We would, however, ask the FCA to consider an approach that ensures that where a customer holds 'around' 25% of the assets in cash that they continue to receive the cash warning even if during the six-month evaluation period the cash balance fell slightly below the 25% threshold for a short period due to market movements elsewhere in their portfolio.

Q13. Do you agree that we should make cash warnings mandatory up to the proposed age limit, with guidance that providers should consider giving cash warnings beyond that age limit?

Whilst the Panel agrees that cash warnings should be mandatory up to the proposed age limit, we also believe that these warnings should be mandatory beyond that age limit too, albeit the wording of the warning may well be different.

Q14. Do you agree that we should require cash warnings for all consumers who meet the conditions, including advised consumers?

Yes.

Q15. Do you agree that we should not at this time require providers to ensure an active decision to hold cash in an NWP?

No. The Panel believes that where a consumer holds a significant proportion (e.g. more than two thirds) of their pension in cash, for a significant period (e.g. for more than five years) that the provider should seek an active decision from the customer to hold cash. The Panel would therefore envisage a different set of thresholds (percentage of investments, time held in cash) in this area compared to the threshold used for the cash warning.

Consideration would therefore need to be given as to the steps to be taken if and when a consumer did not respond to repeated requests for an active decision.

This approach would prevent consumers who 'never got round to' taking action following a cash warning suffering significant detriment over the long term of their pension's investment.

Q16. Do you agree that we should not exempt bespoke SIPP operators from the proposed requirement to give cash warnings?

Yes.

Q17. Do you agree with our proposals for the content of a cash warning?

The Panel agrees with the proposals for the content of the cash warning but would stress that this communication must be created for the benefit of the customer and should not be viewed as a sales technique for the firm.

The panel also believes that firms should evidence market research results proving that customers understand the content of the cash warnings they are sending and the action that is required from the customer.

We would propose that information about investments other than the default that the provider be restricted to commentary on the existence of such investments and not any promotion of them. The Panel would consider such promotion to be advice.

There is also a risk that the cash warning, and potential resulting investment by consumer, may happen at a market peak. We note the proposed flexibility on the timing of the cash warning, however the panel would still suggest that the FCA consider that the proposals include guidance on how consumers can stage the movement from cash into an investment option over a number of months to reduce the risk of investing all of the cash at a market peak, to then see the value of this investment fall.

Q18. Do you agree with our proposals for when the need for a cash warning would be assessed?

Yes.

Q19. Do you agree with our proposed timeframe for sending cash warnings? If not, what would you suggest?

Yes.

Q20. Do you agree that we should provide guidance on the data we would expect providers to retain? Are there other data you think important?

The Panel agrees with the proposals on the data providers should retain.

In addition, and this may be inherent in the proposals as written, the Panel believes providers should retain, and the FCA should analyse, data relating to whether consumers that have received the cash warning and subsequently invest into either the default fund or other funds on the providers platform. This may give an indication of whether (intentionally or unintentionally) the cash warning developed by the provider is in effect 'selling' their own funds.

Q21. Do you agree with our proposed implementation timeline for cash warnings?

The Panel agrees with the proposed implementation timeline for cash warnings but would ask that as part of the rules and guidance the FCA encourages providers to start these as early as possible rather than wait until the end of the 12-month period.