Email: cp21-32@fca.org.uk

John Reynolds
Financial Conduct Authority
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Dear John

SPP response to CP21/32 - Improving outcomes in non-workplace pensions

We welcome the opportunity to respond to this consultation.

Executive Summary

We are broadly supportive of the proposals put forward in the consultation paper. In our view the remedies of a default option for non-advised customers and cash warnings for all, represent proportionate solutions to the deficiencies highlighted as part of the review of the market.

However, in relation to the delivery of cash warnings, we believe the FCA should simplify the measurement to a single, annual snapshot of a customer's holding. In addition, we do not understand why guidance has been added suggesting it is not allowable for the cash warnings to be delivered as part of an annual benefit statement, when no such guidance exists for the delivery of cash warnings to drawdown customers. The solution should be the same for both, and as drawdown cash warning have been delivered without that guidance, it should not be included for non-workplace pensions.

Detailed Response

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

Yes, we agree with the proposal and agree that a single default option that has to be proactively chosen by a customer is the correct solution. Multiple defaults or investment pathways would run the risk of disengagement when, in all likelihood, the primary objective is making pension contributions and building up a retirement fund.

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Q2: Do you think there is a case for requiring firms with only legacy NWP business to make a default option available to their customers?

We expect firms with only legacy NWP business will be better placed to comment on the impact of implementing the requirements in terms of costs, timing and likely engagement, including how the default option should be brought to the attention of customers.

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?

Yes, we agree.

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?

Yes, we agree. In both scenarios the onus for the investment funds chosen should be lie with the intermediary or discretionary fund manager.

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?

While we can see the logic in the FCA's proposals, as set out in 3.27, we are unsure whether the rules will be properly interpreted in the years to come, i.e., via the application provision. It makes sense now, in the context of the consultation, but readers of the Handbook in future will read the application in isolation. We believe the FCA needs to reconsider how it makes the outcome set out in 3.27 more robust in the Handbook.

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?

Yes, the default option should be presented upfront, with equal prominence, when investment options are offered to non-advised customers.

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

Yes, we reiterate our response to Q6.

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

Yes, we agree with this proposal as it will ensure a level playing field in the market.

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?

We are comfortable with the proposals.

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

We are not clear what the FCA intends when it refers to a "pause" on extending the IGC remit to defaults. Any new rules and requirements need to be given time to bed in before being scrutinised and this is the case for defaults. Can the FCA clarify that it does intend to extend the remit, it is simply the timescale to do so that is to be determined?

We agree with position around caps.

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

We agree with the proposed timeline.

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

Yes, we agree that a reduced threshold of 25% is a more appropriate for the accumulation phase and that a period of 6 months before the warnings are delivered is proportionate. We also agree that resending the warning no more frequently than annual is the correct way to proceed.

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?

In our view it would be simpler to extend cash warnings to the expected pension access age or state pension age. We believe this to be in line with the FCA's thinking on non-mandatory cash warnings up until this time.

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

Yes, we agree. Advised customers should be included as it will capture orphaned clients or encourage those who still have a relationship with their adviser to revisit their investment choices.

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

Yes, we agree. A cash warning may not engage a customer and achieve an active decision.

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

Yes, we agree.

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

Yes, we agree with the proposals as they are consistent with those for drawdown.

However, we do not agree with the FCA's guidance that the cash warning must be provided in a separate document. There is no such guidance in relation to drawdown cash warnings and we can see no reason why a difference in approach is justified. The solution should be the same for both, and as drawdown cash warnings have been delivered without that guidance, it should not be included for non-workplace pensions.

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

No, the solution appears to be overly complex with no rationale to support the period of three months. We would propose a far simpler solution to assess once a year, on or around the same time as annual statements.

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

The three-month timescale appears to be an appropriate timescale.

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?

We have no comment to make on this question.

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

Yes, we agree.

Q22: Do you have any comments on our cost benefit analysis?

We have no comment to make on this question.

Yours sincerely

Brian McBride
Chair, Financial Services Regulation Committee, SPP

Fred Emden
Chief Executive, SPP

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