Which?, 2 Marylebone Road, London, NW1 4DF
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Response to: FCA 'Independent Governance Committees: extension of remit'

Consultation Response

FCA consultation on 'Independent Governance Committees: extension of remit'

Which? welcomes the FCA's proposals to extend the remit of Independent Governance Committees (IGCs) by introducing a new duty for IGCs to oversee the value for money of investment pathways for pension drawdown.

The pensions and retirement income sector supports over 34 million consumers either saving for or taking a private pension in the UK, so decisions on pensions can have a significant impact on the financial well-being of consumers. People in workplace pensions are typically invested in default invest funds, whereby investments are chosen on their behalf. More than 10 million people who have already been auto-enrolled into workplace pensions are also protected by a charges cap if they are invested in the scheme's default fund. But when accessing their retirement savings, consumers are required to make complex choices, including how best to initially access savings, how to provide an ongoing income, and whether and how to invest for the long term.

The FCA's Retirement Outcomes Review has found non-advised consumers in particular may be making poor decisions. 94% of consumers who accessed their pots without taking advice accepted the drawdown option offered by their pension provider, compared to only 35% of advised consumers. A much higher share of non-advised consumers (32%) were invested in cash than advised consumers (6%). The Review also found that almost a quarter of non-advised income drawdown consumers are paying 1.5% or higher, double the 0.75% rate that firms are able to charge consumers saving into pension scheme default funds.

It is therefore essential that the FCA and the TPR work together to create a robust regulatory environment that takes full account of the risks associated with making retirement income decisions and the risks associated with high charges and a lack of competition. We have previously set out our strong support for the FCA's proposals for investment pathways, which will introduce a simpler choice architecture for non-advised consumers. Consumers will also be required to make an active decision to invest in products that are predominantly cash, and firms will be required to explain to consumers the risks of investing in cash or cash-like products before they make a decision to invest.

Investment pathways will only be an effective intervention if the underlying products are suitable and good value for money. The governance of pathway products is therefore crucially important. IGCs already oversee workplace personal pensions, providing independent oversight of value for money. Investment pathways will operate similar to the default investments that people are invested in when saving via workplace pensions, so the FCA is right to propose extending the remit of IGCs to these products.

We agree with the scope that the FCA has proposed, in particular requiring that all firms offering investment pathways have an IGC (or a Governance Advisory Arrangement for firms with smaller numbers of relevant customers). Even if they don't directly provide the pathway, the firm offering the pathway determines the price charged to its customers and is responsible for ensuring that investments are suitable, so this firm should be responsible for the governance of these pathways. We also agree that IGCs should be in place in time to assess the initial designs of investment pathways, so consumers are protected from the outset.

We welcome the FCA's commitment to review the effectiveness of IGCs within the next year. The FCA's findings on the variation in how IGCs have assessed value for money underline the need to review how these relatively new governance bodies are performing. However, the FCA should work with the TPR to jointly review the functioning of both trustees and IGCs. This would help to ensure there are consistent standards of governance in place to protect members of workplace pension schemes, regardless of the type of scheme that has been chosen for them by their employer.

Transaction costs and charges are one of the largest sources of detriment to consumers right across the pensions industry. We therefore agree that the FCA, in collaboration with TPR, should be more prescriptive in its rules and guidance for firms and IGCs on how value for money should be assessed. TPR and the FCA should also regularly monitor the value for money achieved in both personal and trust-based workplace pensions.

Transparency for IGCs and trustees is key to ensuring judgements can be made at a scheme level about value for money. Transparency is also important for consumers, regulators and industry. Which? has called for a range of measures to improve the transparency of costs and charges in the pensions industry:

- For trustees and independent governance committees, by requiring asset managers to complete a mandatory template for the disclosure of costs and charges.
- For regulators and industry, by requiring pension schemes to annually report scheme costs and charges - inclusive of administration costs - to regulators using an industry template, and requiring the regulators to publish the data in a standardised and searchable format.
- For consumers, by requiring all pension schemes to show how much a member has paid in costs and charges as part of consumers' annual statements.

While all these remedies are welcome, stronger governance and transparency alone are unlikely to be sufficient to protect consumers from high charges in a market with such weak competition. We therefore continue to call for non-advised consumers accessing drawdown products, in particular those consumers using investment pathways, to be protected by a cap on charges.

About Which?

Which? is the largest consumer organisation in the UK with more than 1.3 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers. We are funded solely by our commercial ventures and receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

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