UKSIF
UK Sustainable Investment and Finance Association

18 September 2014

Maggie Craig
Policy, Risk and Research Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Dear Ms Craig,

UK Sustainable Investment and Finance Association Response to FCA Consultation Paper CP14/11: Retirement Reforms and the Guidance Guarantee

Thank you for the opportunity to submit a response to the Guidance Guarantee consultation paper. Our response draws on feedback from our large membership. In principle, the UK Sustainable Investment and Finance Association (UKSIF) welcomes the decision to give greater choice to retirees over how they access their pensions savings. It is well-established that the current UK pensions system is in need of reform and we are hopeful that the thrust of the measures the Government is seeking to introduce will help bring about some of the necessary changes, including the encouragement of a longer-term approach to savings.

However, we are concerned that the Government's current proposals:

- Include a very short timescale for what amounts to a fundamental shake-up of the pensions market. The advice industry in particular is still adjusting to a post-Retail Distribution Review world and there may be capacity problems which would be exacerbated by such a rapid rate of change.
- Are insufficiently detailed and lack any reference to the personal values of the saver. We feel it is essential to ensure the provision of fully impartial, high-quality guidance which takes into account the full range of a saver's interests and requirements, including those related to environmental, social, governance and ethical issues. Given clear public demand for access to these kinds of long-term investment and savings products, we hope that the technical guidance issued by the delivery partners will acknowledge and encourage this.
- Have become far weaker in scope than the guaranteed face-to-face advice that was announced during the Budget in March 2014.
- Do not take into account or address the many difficulties that are associated with providers giving information regarding 'legacy' arrangements.

About the UK Sustainable Investment and Finance Association

The UK Sustainable Investment and Finance Association supports the UK finance sector as a global leader in advancing sustainable development through financial services. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

We have approximately 250 members, including service providers such as IFAs, fund managers, investment banks, retail banks and investment consultants, and asset owners such as pension funds and foundations.

Ensuring consumers can invest in line with their values

The progress of auto-enrolment should encourage greater numbers of consumers to engage on their retirement investment options. It is therefore important that the FCA work with HM Treasury and the delivery partners to ensure the kind of guidance provision that enables consumers to use financial products in ways which support their overall well-being, including their ability to reflect their values and social priorities in investments. This is important to support equality and diversity as well as general consumer well-being.

Research undertaken by YouGov for UKSIF as part of National Ethical Investment Week 2013 also found that a far wider range of clients are interested in such issues than is sometimes assumed. For instance:

- 63% of British investors would like to be offered a sustainable and ethical option when choosing investments
- In particular, 66% of investors would like to be offered the option to choose a sustainable and ethical <u>pension</u> product.

There is also widespread concern among consumers that poor corporate governance and companies pursuing unsustainable or unethical business practices could put investors' money at risk:

- 67% of respondents would be concerned about losing money if it was invested in companies pursuing activities that could be unsustainable in the long-term, for example in oil and gas
- 43% would be likely to move their money out of a company that engaged in unethical or unsustainable activities.

It is therefore vital that guidance must be shaped so as to allow people to choose pension products in accordance with their values.

Both UKSIF and its members have engaged with the FCA and its predecessor body, the FSA, on how best to approach the issues of guidance on ESG issues. Although the FCA currently 'allows' the consideration of ethical and sustainable products, our members tell us that in reality financial advisers often feel unable or constrained in their ability to 'recognise' that clients have considerations other than financial return. Possible remedies could include:

- The provision of a sustainable 'default' pension fund option under auto-enrolment
- FCA, HM Treasury and the delivery partners to work with the sustainable advice industry when issuing guidelines with the explicit aim of encouraging advisers to examine SRI products with their clients
- Relevant government bodies and regulators to work with the industry on training for financial advisers and the individuals who will issue guidance in SRI products, ESG factors and long-termism.

It is within this context that we have prepared our answers to the consultation, which you will find below.

Question 1: Do you have any comments on the proposed standards for the delivery partners?

We are concerned that there is currently a lack of capacity in the adviser market in a post-Retail Distribution Review (RDR) environment, both in terms of the number of advisers as well as the depth of advice capability. We hear from our adviser members that they are still 'getting to grips' with the changes – particularly those in smaller firms – and although the reforms are potentially a good opportunity, it may be difficult for the financial advice market to provide consistently good value and high-quality advice. This problem may be exacerbated by the FCA's proposal that individuals issuing guidance will not be required to be authorised.

It is our view that for the pensions market reforms to be successful, the guidance must be of the highest standard and that individuals offering it should be subject to authorisation by the FCA. Alternatively, the FCA may wish to consider the introduction of a qualification with a robust syllabus for individuals wishing to provide guidance. The introduction of the reforms in April 2015 mean recruitment and training will be subject to a tight timescale, but this must not result in lower quality advisers or guidance.

Question 2: Do you agree with the proposed use of the FCA periodic fees framework to collect the retirement guidance levy? If no, please provide alternatives and set out how they would be implemented.

Yes.

We want a competitive market where innovative firms have the ability to create and promote new products. It is therefore important that the levy does not hamper the ability of firms to introduce new products to the market.

Question 3: Do you agree that only firms in the proposed five retirement guidance fee-blocks (Table 3.1) should contribute to the retirement guidance levy? If no, please provide your reasons.

Yes.

Question 4: Do you agree that firms in the remaining fee-blocks set out in Table 3.2 should not contribute to the retirement guidance levy? If no, please provide your reasons.

Yes.

Question 5: Do you have any comments on the three options for allocating the overall levy across the five retirement guidance fee-blocks? If you do not agree with any of these options please advise us of your proposed alternative allocation options.

No.

Question 6: Do you agree with the proposed content of the signposting information? If not, please provide alternative suggestions.

Yes. However, we are very concerned that there appears to be no limit to the amount of times an individual can use the guidance service. UKSIF is in favour of an effectively funded scheme but not the issuing of a blank cheque. This clause (4.5) is far too vague and needs to be clarified.

Question 7: Do you have any thoughts on the standardisation of this information for the future?

No. We believe the market will standardise the information over time.

Question 8: Do you agree with the proposal to align the timing of the signpost with the existing timing requirements for wake-up packs?

Yes.

Our members have highlighted to us the need for consumers to be given as much time as possible to prepare for greater control over their savings; this will also be important to minimise the burden on the taxpayer should people fail to save a sufficient amount for their retirement.

UKSIF also believes that taking a truly long-term approach to the take-up of guidance at retirement places greater importance on the provision of good-quality financial education while future consumers are still in the education system. Although there have been some encouraging 'first steps', much higher priority must be given to encouraging financial literacy and long-term thinking both within educational curriculums and among the general public. We would direct the FCA to the excellent work carried out by pfeg (Personal Finance Education Group) and others in working towards ensuring wider and deeper financial education takes place in schools.

Question 9: Do you agree with the proposal to introduce a transitional provision to ensure that those receiving wake-up packs before April 2015 do not miss out on being signposted to the guidance?

Yes

Question 10: Do you agree with the proposal to add this guidance?

Yes

Question 11: Do you agree with the proposal that firms should refer to the availability of the guidance whenever they are communicating with a customer about retirement options?

No. Firms should make explicit the availability of independent guidance and make it clear this guidance is not meant to be a substitute for tailored advice.

Question 12: Do you agree with our proposal to clarify the information provision requirement and add guidance on information that should be included?

Yes

Question 13: Do you have any comments on whether further requirements should be placed on provider behaviour and communications?

No

Question 14: Do you agree with the proposal to remove the reference to maximum withdrawals and require a general statement about sustainability of income and to add to the guidance that the suitability letter should include a description of the potential tax implications?

Yes. This is in line with the purpose of the legislation i.e. to put responsibility back in the hands of the consumer. However, we wonder whether further provision is necessary in the interests of protecting the rights of savers. UKSIF accepts that, in general, many savers who have been responsible enough to save up throughout their lives should be considered responsible enough to make their own choices in retirement. Automatic Enrolment means around nine million more savers; we feel it may be necessary provide a clause in the legislation to stop creditors and others accessing the funds following a withdrawal of the whole amount.

Question 15: Do you agree with our proposal to remove the reference to maximum withdrawals in COBS 13 Annex 2 2.9R?

Yes.

Question 16: Do you agree that there do not need to be any changes to the Key Features contents rules? If you disagree, please explain why.

Yes.

Question 17: Do you agree that the projection of an annual income in retirement and a projection of the total fund is still useful and therefore this rule should not be amended?

Yes.

Question 18: Do you agree with the proposal to add a requirement for providers to provide their customers with a description of the possible tax implications when they are applying to access some or all of their pension fund using any of the options available?

Yes.

Question 19: What are your views on the approach taken on costs and benefits?

We accept the FCA’s assurance that the increase in costs will be minimal.

I trust that the comments above are self-explanatory but please do contact us should you require any further information or clarification.

Yours sincerely,

Simon Howard
Chief Executive
The UK Sustainable Investment and Finance Association (UKSIF)