THE INVESTMENT ASSOCIATION
INVESTMENT MATTERS

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Dear Sandra and David,

RE: CP19/25 – Pension transfer advice: contingent charging and other proposed changes

The Investment Association[1] welcomes the opportunity to respond to CP19/25. Our members do not generally provide advice on pension transfers and we think the majority of issues raised in the paper are best dealt with by the adviser community. However, on the basis of our members' experience in the DC workplace pensions market, we do wish to respond to the FCA's proposal to require the prioritisation by advisers of DC workplace pension schemes when considering receiving schemes for a pension transfer.

We have been very supportive of default investment strategies for workplace pension scheme members because they remove the need for investment decision-making from individuals who might otherwise struggle with such decisions in the absence of an adviser. A well designed, governed and executed default strategy can significantly improve outcomes for members who lack the understanding, time or inclination to make their own investment decisions.

However, it is important to note that default investment strategies are a particular response to a situation where individuals are being defaulted into pension products without their active consent and engagement. The effect of such disengagement is that providers of the default strategy do not have information about default investors' specific circumstances and

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[1] The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages 37% of European assets.

More information can be viewed on our website.

must therefore construct a solution capable of broadly catering to the needs of all the individuals within it. However, the diversity of individual circumstances and preferences makes it impossible to cater perfectly for default investors and they are by definition going into a ‘one-size fits all’ arrangement.

For advised customers the case for default strategies is not clear. The benefit of investment advice is that customers will have a solution that is tailored to their precise needs and circumstances and while there is nothing to prevent an adviser from recommending the default investment strategy in a workplace scheme for an incoming transfer, it is not clear why the starting assumption should be that the default is *more* suitable. Indeed the ‘average’ nature of the default means it is unlikely to be more suitable for an individual compared to an investment solution designed specifically to meet their needs.

Furthermore, we note that the starting assumption of the workplace default being more suitable than any other arrangement is not based on any assessment of the investment strategy used by the scheme and its suitability for the individual. In the absence of such an assessment, it is not clear what the basis is for this starting assumption, other than the fact that workplace pension scheme default charges are low, a factor cited in CP19/25. This is indicative of a view that equates quality with low cost. This appears contrary to the FCA’s ongoing work with The Pensions Regulator on the development of a ‘value for money’ framework for DC pensions.

While we note the FCA’s concerns, articulated in paragraph 4.5 of the consultation paper, about the effectiveness of the existing requirement in COBS 19.2.2R to explain why a recommended scheme is at least a suitable as a workplace scheme, the proposal to change the starting assumption in favour of a workplace default scheme seems disproportionate and unlikely to result in optimal customer outcomes in light of the reasons given above.

We agree that advisers should consider a workplace pension default strategy, if available to the individual, when preparing their suitability reports but, rather than changing the starting assumption, a more proportionate approach would be to instead provide alongside the existing requirement in COBS 19.2.2R the proposed guidance on circumstances under which the FCA thinks a recommendation to a scheme other than a workplace default is not sufficient to demonstrate suitability (the proposed COBS 19.1.6G(9)).

As a final comment we would expect that the correct solution for most advised clients, especially DB transferees, is an investment strategy tailored to their needs rather than a default strategy, and that this should remain the case whatever approach to this issue is taken in the new rules.

I hope this response is helpful and would be happy discuss it with you further.

Yours sincerely,

Imran Razvi

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