

**Response from
The Independent Governance Committee (“IGC”) of Phoenix Life Limited, Phoenix Life
Assurance Limited and Standard Life Assurance Limited
To
FCA Consultation Paper 19/10 “Publishing and disclosing costs and charges to
workplace pension scheme members and amendments to COBS 19.8”**

Introductory comments

We are, in general, supportive of disclosure of costs and charges paid by pension scheme members as the level of costs and charges is a fundamental aspect of the assessment of value for money (“VfM”) received by members. We are also supportive of consistency of reporting across firms and types of workplace pension arrangements, where appropriate, as this better enables benchmarking which can be an important tool in making that assessment. However, we have a number of serious reservations with what is proposed in the CP.

In common with other Independent Governance Committees, we have considered costs and charges including transaction costs, and described our findings in our annual report. Indeed, this year we felt it was important, in the interests of transparency and benchmarking, to publish the detailed transaction cost information that we had received, and not just our conclusions in respect of it.

In terms of the timing of implementing whatever further publication and disclosure the FCA chooses to mandate, our immediate concern is that the existing COBS 19.8 rules must become fully embedded before this should take place. From our own work, and references made in the reports of IGCs of other firms, it is clear that the industry is continuing to develop its systems, data and processes to fully comply with the existing requirements. This, and the IGC scrutiny of it, should continue to be the priority as it will form the bedrock of any further disclosure requirements.

As set out in our responses below, our primary concerns are:

- (a) **Disclosure of costs and charges to individual members of contract-based schemes or at a “scheme” level should be the responsibility of firms in the first instance and not IGCs. However, IGCs should then consider the effectiveness of that disclosure (to members within the scope of the IGC) as part of its overall VfM assessment and, if felt necessary, raise any concerns it has about the effectiveness.** The proposals, as drafted, appear to be predicated on IGCs performing the same role as trustees of trust-based workplace schemes when they do not. Trustees are directly responsible for scheme administration and member communication and thus have direct access to member records and issue member statements. For contract-based schemes those responsibilities fall to provider firms. IGCs are appointed *by the firm* and not by the schemes that are administered by the firm. IGCs therefore do not (and should not) have direct access to member records or the means to directly communicate with individual members.
- (b) **Volume of data** – the proposals imply the disclosure of a huge volume of data and we would question the practicality of doing so and the usefulness to members. We are, however, supportive of firms disclosing costs and charges and their effect in a transparent way to members through their annual statements.
- (c) **Definition of scheme** – the proposals seem to be predicated on an assumption that each scheme has a unique set of charges and that all members of it fall within the remit of an IGC (or its equivalent). In practice, neither may be the case. Rather, more than one product type could sit within a single “relevant scheme” and, within a particular product type, the charges that apply to one employer’s group pension arrangement could differ to

those that apply to another. In addition, the product types within a particular “relevant scheme” could include individual business which is not within the scope of the IGC. For example, across the two Phoenix life companies that we are concerned with, there are 46 personal pension and stakeholder pension schemes registered with HMRC, each having their own Pension Scheme Tax Reference (PSTR) and scheme rules originally approved by the Inland Revenue. Twenty of these schemes contain group personal pension or group stakeholder policies, as well as individual personal pension or stakeholder policies. (The other 26 schemes contain individual policies only, and so would not fall within the definition of “relevant scheme” for the purposes of COBS 19.5.) Within the 20 “relevant schemes” there are c. 790,000 members, but only c. 100,000 of these (i.e. less than 13%) are within the scope of the IGC.

	Question	Response
1	<p>Do you agree that we should, where appropriate, mirror DWP’s approach in making our rules?</p>	<p>We agree that, as a general principle, consistency of approaches across different types of workplace pensions is beneficial as it can, for example, better enable comparison, benchmarking and, in turn, assessment of VfM.</p> <p>However any rules need to cater for differences in:</p> <ul style="list-style-type: none"> • the nature of contract-based and trust-based schemes (and the definition of what constitutes a scheme); and • the roles and responsibilities of IGCs (for contract-based schemes) vs. trustees (for trust-based schemes). <p>In particular we would re-emphasise points (a) and (c) of our Introductory comments. For example, the proposed text for COBS 19.5.7R refers to “each relevant scheme’s IGC”, whereas the IGC is not appointed by a “relevant scheme”; rather, the IGC is appointed by the provider firm that operates the “relevant scheme” and only acts in the interests of the group policyholders and not any “individual business” policyholders within that scheme.</p> <p>Thus, there are significant differences in the role of IGCs compared to that of the trustees of a single pension scheme which do not seem to have been fully allowed for in the mirroring of the DWP’s approach that is behind the CP proposals.</p>
2	<p>Do you agree with the proposed structure and scope of our new provisions?</p>	<p>We agree with the principle that costs and charges paid by individual members of workplace pension arrangements should be disclosed to those members. However based on point (a) of our Introductory comments:</p> <ul style="list-style-type: none"> • The requirement must be on <i>the firm</i> to communicate costs and charges to members and on its website because the firm operates the scheme and the group contracts within it, is responsible for member administration and communication and maintains a website (IGCs do not); • As outlined in point (c) above, “relevant schemes” can include members who are not within the scope of the IGC; • Any disclosure to individual members is likely to form part of an annual statement mailing already made by the firm; and • IGCs should continue to consider costs and charges, and the effectiveness of the firm’s disclosure and communication thereof,

		<p>as part of its VfM assessment, and set out its view and/or raise its concerns in its annual report.</p> <p>We have concerns (see Q3) around the volume of data implied by the proposals and that, whilst it is absolutely right for the IGC to report on the level of charges and costs, a requirement to include all of this granular information in the IGC annual report itself will be impractical and run counter to efforts to increase member engagement in the reports.</p>
3	<p>Do you agree with our proposed approach to requiring scheme governance bodies to publish costs and charges information about a relevant scheme?</p>	<p>While we agree with the principle that costs and charges paid by individual members of workplace pension arrangements should be disclosed to those members, we do not agree with the proposal that IGCs should be responsible for ensuring that the disclosure takes place to all members of the “relevant schemes”. We believe this should be the responsibility of provider firms, but with appropriate oversight and assessment by the IGC.</p> <p>Even with such a change in responsibility, there are significant practical considerations with what is proposed in the CP.</p> <p><i>Definition of “relevant scheme”</i></p> <p>The definition (or intention) is not clear:</p> <ul style="list-style-type: none"> • From a provider firm perspective, as outlined in point (c) above, a scheme is operated at a “design’ level i.e. a “relevant scheme” (as registered with HMRC) is typically used by multiple employers and, possibly, multiple contract types. With this as a definition the amount of data may be large when cross-multiplied by the number of default and alternative funds available. However as charging arrangements within each scheme “design” may vary by contract type and, within that, possibly by employer (e.g. based on size and therefore employer negotiating power) disclosure at scheme-level would need to be by way of a range or a form of “average”. • For example, across the Standard Life Assurance Limited contract-based workplace pensions business there are 3 overarching “relevant schemes”, covering 8 different products and over 32,000 employer arrangements. Each employer arrangement is individually priced to reflect (among other factors) the size and nature of the workforce, contribution levels and the complexity of the administration requirements. When the number of different pricing points is combined with the number of fund choices available (over 300 some cases), the number of columns in the table set out in the proposed COBS 19.5.15(G) could run into the 1000s. • From an IGC perspective, it is more practical and meaningful to consider, assess and report on: <ul style="list-style-type: none"> (a) product charges and how they vary across the member population, and (b) transaction costs and how they vary by fund and type of asset.

		<p><i>Definition of ‘scheme year’ and proposed requirement to publish within seven months of the end of a scheme year</i></p> <p>Contract-based schemes (unlike trust-based schemes) do not in general have the concept of a “scheme year”. Transaction costs in particular will typically be calculated and reported to IGCs based on calendar year (or half year). In order for IGCs to be able to report on transaction costs in their annual reports in March then the information needs to be available in a more timely manner than seven months. Otherwise a report in March 2021, for example, would be assessing the effect of transaction costs for the year to December 2019 (or possibly June 2020). COBS 19.8.4R already requires firms to make available transaction cost information within “a reasonable time” which in our view should be less than seven months.</p>
4	<p>Do you agree with our proposed approach to giving members and certain others costs and charges information about a relevant scheme?</p>	<p>We agree that customers should be given information that demonstrates the charges and costs they have incurred and that this should be a key component of their annual statement.</p> <p>We are concerned that a wider communication about charges in general should not obscure this and other key information e.g. messages around ensuring their fund choice remains appropriate, or that they consider their overall retirement provision generally (given that a pot that they have with an individual firm may be relatively small).</p> <p>As already noted, we would argue strongly against the requirement being on the IGC – in particular it is the provider firm that is responsible for the design and issue of any annual statement that will likely act as the vehicle for issuing the additional cost information.</p> <p>We would highlight that, as currently drafted, the proposals require this information to be disclosed to non-group members of the relevant schemes and not just those members within the scope of the IGC. It may be that there should be a reference to “relevant members” of “relevant schemes”.</p> <p>We would also highlight that, as currently drafted, the proposals would seem to make no allowance for “goneaways”. As a consequence, even with industry-leading customer tracing processes in place, it will be challenging for provider firms with large legacy books of workplace pension contracts to ensure that “all members” are provided with the new information (unless “provided with” only refers to the sending out of information and not the receiving of it).</p>
5	<p>Do you agree with our proposed implementation timetable?</p>	<p>As noted in our introductory comments, we believe that the existing disclosure requirements should be embedded before any additional, albeit important, requirements, that depend on them, are introduced.</p>
6	<p>Do you agree with our proposed</p>	<p>The proposed rule 19.8.22 should be amended such that any limitation to the reported impact of an anti-dilution levy should be by reference to the associated transaction costs rather than all transaction costs in the period.</p>

	<p>amendments to COBS 19.8?</p>	<p>For example, suppose there were the following two “independent” transactions during a relevant period:</p> <ul style="list-style-type: none"> • Transaction 1: incurs transaction costs which have been fully offset by the application of an anti-dilution levy (but with no surplus); and • Transaction 2: has a “negative” transaction cost; such that • in aggregate there are negative transaction costs (after application of the anti-dilution levy) in the period. <p>As written, 19.8.22R would imply that credit for the anti-dilution levy under Transaction 1 would be reduced or eliminated in the associated disclosure. We do not believe that this would be an appropriate reflection of what had actually been the case in practice.</p>
7	<p>Do you have any comments on our cost benefit analysis?</p>	<p>In our view the implementation and ongoing costs of the proposals would appear to be a vast underestimate, but note that provider firms will be better placed to respond in this respect.</p>

D J P Hare, IGC Chair, on behalf of the IGC for Phoenix Life Limited, Phoenix Life Assurance Limited and Standard Life Assurance Limited

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