

## Written evidence submitted by Hargreaves Lansdown (FGCB25)

### On behalf of Hargreaves Lansdown

1. Hargreaves Lansdown is the UK's largest direct-to-investor provider of investment services, administering £82 billion of investments for over 1 million clients. Our purpose is to empower people to save and invest with confidence. We aim to provide a lifelong, secure home for people's savings and investments that offers great value, an incredible service and makes their financial life easy.

### 2. Summary

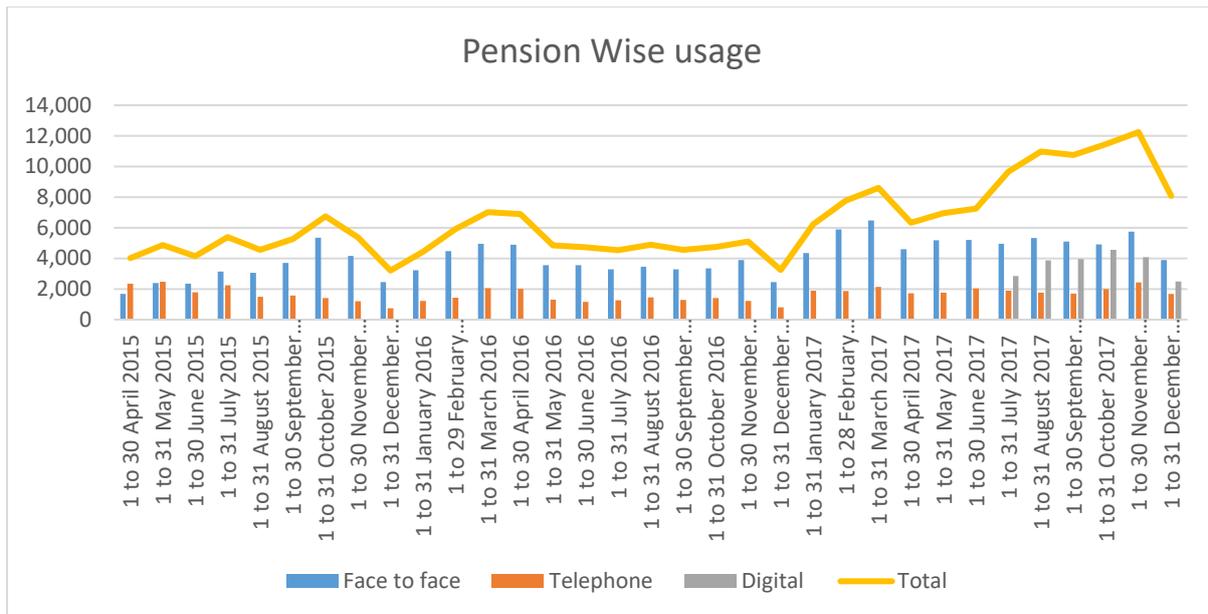
- Take up of Pension Wise can be driven higher
  - Trying to 'force' customers to take it up through default guidance from the Single Financial Guidance Body would be counter-productive
  - If even half the eligible consumers take up Pension Wise through the SFGB, this service alone would cost the new body over £70 million a year
  - The Pensions Industry already provides guidance to its customers; its resources can be harnessed to bridge the Guidance gap
  - Using industry resources would be consistent with the aims of the Financial Advice Market Review
  - Alongside the public Pension Wise service, the SFGB should work with the pensions industry to formalise the delivery of guidance by commercial partners under controlled circumstances
3. A collaborative approach to the delivery of Pensionwise, with the new SFGB working with the industry would deliver the following benefits:

- **Save Money**
- **Increase choice for consumers**
- **Reach a broader audience**
- **Stimulate innovation and allow the SFGB to learn from providers' experience**

4. **We ask the Committee to encourage the SFGB to work with the industry to now develop more detailed proposals for how the pensions industry could deliver Pension Wise guidance to its customers.**

### Background

5. Pension Wise has proved popular with those who have used it however take-up has been disappointing, with only around 10% of those accessing their pensions taking advantage of the service.
6. As the following chart shows, take up has averaged around 5,000 a month, increasing through 2017 to around 9,000 a month across all delivery channels.



7. **Average cost per transaction is £180** (source <https://www.gov.uk/performance/pension-wise/cost-per-transaction> ).
8. **According to HMRC data, around 800,000 people a year are accessing their pensions flexibly** ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/675350/Pensions\\_Flexibility\\_Jan\\_2018.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675350/Pensions_Flexibility_Jan_2018.pdf) )
9. If even half these people were to take advantage of the free guidance service, it would cost the new Single Financial Guidance Body over £70 million a year to deliver. If everyone took it up, the cost would approach £150 million a year.

### Shopping around

10. FCA data shows that where customers deal direct with their pension provider (rather than through a financial adviser), 94% of them do not choose to move their money to an alternative provider before accessing their pension pot. This is hardly surprising: if they want to access some of their pension and their money is currently held with Provider A, they're hardly likely to ring up Provider A and ask them to send the money to Provider B so they can then draw some money from Provider B.
11. When customers contact their provider to access their pension, they have already decided they want the money. Any attempt to obstruct this process is resented by the customer. Providers can and do encourage their customers to talk to Pension Wise, however very often at this stage in the proceedings, the customer's priority is to take control of their retirement savings, not to go off for a guidance service. This is why take-up of Pension Wise has been so poor.
12. Pension providers are able to engage customers in a risk warning process because the customer actively wants to talk to them, even if in many cases the customer just wants to get through the risk warning process as quickly as possible. Providers are already discharging this responsibility to protect their customers.

### 3 different drawdown customer profiles

13. There are broadly 3 different drawdown investors:

Taking their tax free lump sum but no income

Taking their tax free lump sum plus ad hoc additional lump sums

Taking their tax free lump sum and ongoing regular income

14. These investors have different characteristics and needs. Pension providers can and do recognise these needs and tailor their communications according to their customers' circumstances.

### Industry engagement with customers

15. Providers are already required to talk to their customers about the risks and issues associated with taking a retirement income:

- Whether they have taken advice
- Whether they are happy to take responsibility
- Whether they understand they could run out of money
- Whether they understand how income is generated in their drawdown plan
- Whether they understand that drawing on capital could run down the fund
- Whether they could afford to reduce their income withdrawals in poor market conditions
- Whether they understand the tax treatment of withdrawals
- How charges could impact on their drawdown plan
- The impact of the money purchase annual allowance
- If transferring pensions, the risk of possible loss of guarantees or of exit penalties
- The potential impact of inflation
- The fact withdrawals could impact their entitlement to means-tested state benefits
- The possible implications of taking withdrawals if they are in debt
- The risk of investment scams

16. As the following customer research output shows, the free financial guidance services do not rank particularly highly as trusted sources of information for customers. Instead they prefer to seek information from 'experts' and pension providers.

Sources of influence		
Ranking	Day to day decisions	Major Decisions
1	Own life experiences	Own life experiences
2	Internet (authority sources) eg consumer champion (eg Money Saving Expert) or 'industry 'expert' opinions	Internet (authority sources) eg consumer champion (eg Money Saving Expert) or 'industry 'expert' opinions
3	Internet (provider websites)	Information you've requested from providers eg your bank, mortgage provider, broker
4	Financial articles in newspapers and/or magazines (including online)	Internet (provider websites)
5	Information you've requested from providers eg your bank, mortgage provider, broker	Financial articles in newspapers and/or magazines (including online)
6	Internet ('peer' sources) eg consumer reviews, social media, forums etc	Internet ('peer' sources) eg consumer reviews, social media, forums etc

7	Friends / relatives (who don't work in financial services)	Guidance providers eg MAS, Pensionwise, Citizens Advice
8	Guidance providers eg MAS, Pensionwise, Citizens Advice	Friends / relatives (who don't work in financial services)
9	Friends / relatives (who do work in financial services)	Independent Financial Adviser
10	Independent Financial Adviser	Friends / relatives (who do work in financial services)
11	Employer	Employer
12	Unsolicited information sent by providers	High street bank adviser
13	High street bank adviser	Accountant
14	Accountant	Unsolicited information sent by providers
15	Other financial adviser	Other financial adviser
16	Other	Other

17. Research conducted on behalf of Hargreaves Lansdown, over 1,000 investors surveyed.

#### **Closing the advice gap**

18. The Financial Advice Market Review has so far failed to close the advice gap. It has introduced many useful measures, such as the £500 retirement advice allowance, however the majority of these measures will improve access to advice, rather than increasing the take-up of Guidance.
19. Analysis of the Guidance Gap by TISA, drawing on the FCA's baseline report and on MAS market segmentation shows that 42 million UK adults are likely to experience a Guidance Gap.

#### **Industry capacity to serve its customers**

20. The pensions industry already has vastly greater resources than the SFGB can bring to bear; it makes sense to harness these resources rather than duplicating them.
21. The following statistics, taken from Hargreaves Lansdown illustrate the industry's capacity to serve its customers:
22. Over the 12 months from June 2016 to June 2017 Hargreaves Lansdown:
- Took 1,380,733 phone calls
  - Had 138.4 million digital visits to its website
23. In total we've had nearly 500,000 downloads of our financial planning App
24. We have 13 different calculators and tools on our website.
25. Resources of this nature are replicated many times over across the pensions industry. Working with the industry would give the SFGB the opportunity to benefit from a vastly greater pool of innovation and creative talent, thereby benefiting all those involved.

#### **Can the industry deliver impartial Guidance?**

26. Yes it can; it already does. All activities of regulated firms are overseen by the FCA. Following the Financial Advice Market Review, the Treasury updated the definition of Financial Advice:

27. "Investment advice" under MiFID involves the provision of personal recommendations to a customer, either upon the customer's request or on the firm's initiative. It comprises three main elements:
- There must be a recommendation that is made to a person in their capacity as an investor or potential investor (or in their capacity as an agent for an investor or potential investor)
  - The recommendation must be presented as suitable for the person to whom it is made or based on the investor's circumstances
  - The recommendation must relate to taking certain steps in respect of a particular investment which is a MiFID financial instrument, namely to buy, sell, subscribe for, exchange, redeem, hold or underwrite a particular financial instrument (or exercise a right to buy, sell, subscribe for, exchange or redeem a financial instrument)
28. Pension providers maintain internal controls to ensure they do not breach regulatory controls around giving advice to customers. These processes, systems, employee training and monitoring are all in place to ensure customers are well served and that firms do not breach regulatory guidelines. In addition to this, firms are subject to periodic supervisory visits from the FCA.
29. Concerns about providers' ability to give impartial guidance to their own customers may have been understandable in 2014 ahead of the launch of pension freedom. Nearly 3 years after it was introduced it is now possible for policy makers to have confidence in the industry's intention and ability to put its customers' interests first.

#### **Building on industry support: a collaboration with the SFGB**

30. The pensions industry wants to engage with and support its customers in their decision making. We want them to be able to save and invest with confidence. We already provide our customers with a structured pre-retirement risk mitigation process to raise their awareness and understanding of the various issues they should take into account ahead of drawing on their pension.
31. The pensions industry and the SFGB can now jointly develop a version of the Pension Wise service which could be delivered by the industry as an alternative to sending those customers off to a third party.
32. The existing regulatory framework and process provides a ready-made system for ensuring any information or guidance delivered by firms to their customers is compliant and impartial.
- 33. We ask the Committee to encourage the SFGB to work with the industry to now develop more detailed proposals for how the pensions industry could deliver Pension Wise guidance to its customers.**

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