Association of British Insurers

Pension Schemes Bill

Public Bill Committee

1. The Pension Schemes Bill is a key step to encouraging pension saving and ensuring the protection of individuals' pensions, a journey the ABI and its members support. As the UK faces the challenges of an ageing society and the need for many people to have longer working lives, legislation is urgently needed to facilitate Pensions Dashboards – such innovation in long-term savings is crucial to ensuring consumers have adequate and sustainable savings for their retirement, and are able to make decisions about them. The Bill also introduces further measures to protect consumers from pensions scams by clamping down on the statutory right to transfer, and we also welcome measures to introduce climate change reporting requirements for pension schemes, encouraging alignment with the Paris Agreement. We are also supportive of increased powers for The Pensions Regulator, giving the regulator sharper teeth.

2. With many households facing severe financial pressures in the current climate as a result of COVID-19, it is more important than ever that households are equipped to make decisions ensuring they have adequate provision for their retirement. Throughout the COVID-19 crisis, the ABI has been collecting data from our members to assess the impact of COVID-19 on pensions. Reassuringly, we have not seen people withdrawing their pensions at an alarming rate, in fact the number of people accessing their pension or requesting information from their provider is at a significantly lower level than in previous years. We also have not seen an increase in COVID-specific pension scams. We continue to monitor the situation, particularly as the furlough scheme has now come to an end and new job support schemes are introduced. We welcomed the Government's commitment to making employer automatic enrolment contributions through the first phase of the furlough scheme and in the Kickstart scheme, and note pension contributions are not included in the new job support scheme.

3. The measures in the Bill will help pension savers to locate and view lost pension pots, boosting consumer engagement with pensions, as well as preventing pension scams, and increasing consumer knowledge about pension schemes climate related investments. The ABI and our members look forward to working closely with Government and the Opposition to see these measures implemented.

Part 3: Powers of The Pensions Regulator

4. The ABI endorses greater powers for The Pensions Regulator (TPR) as set out in Part 3, which will protect consumers and provide the much-needed regulatory teeth to prevent the mismanagement of pension funds.

5. We support a fine and criminal sanctions for non-compliance, however the proposed fine cap of just £1 million on fines is unlikely to be an effective deterrent for employers who can easily afford this. Instead, the fine should reflect the potential savings made by the sponsor by wilfully acting to the detriment of scheme members. A more appropriate fine may be based on the Information Commissioner's Office's

fine for GDPR infringement, a percentage of revenue rather than an arbitrary and ineffective, absolute value. There are also industry concerns that the current wording of the legislation may inadvertently bring within scope ordinary activities of agents of occupational pension schemes.

6. TPR has recently published its interim regime for superfunds, for-profit financial institutions which will be responsible for people's retirement. As the regulator in this intervening period, TPR will need suitably robust powers to enable them to act in the event of unacceptable superfund behaviour. The Committee Stage would be a good opportunity to test DWP's view of whether, and how TPR would use these new powers to regulate superfunds.

Part 4: Pensions Dashboards

7. The importance of helping people keep track of their savings is more pressing than ever. Pensions Dashboards will allow savers to see all of their pension savings, including the State Pension, in an online place of their choosing. This will transform consumer engagement with pensions over the long-term and reunite individuals with lost pension pots. The ABI led the prototype project which reported to HM Treasury in 2017, and made recommendations about how to deliver Pensions Dashboards. We are delighted to represent members on the Steering Group, part of the Pensions Dashboards Programme (PDP) by the Money and Pension Service (MaPS) which is taking the project forward.

Why are Pensions Dashboards needed?

8. Pensions Dashboards are a necessary addition to Automatic Enrolment. More than 10 million people have now been automatically enrolled into workplace pensions through inertia, and will need to find their pension pots and make decisions about them.

9. Already 1 in 5 adults admit to having lost a pension pot and latest PPI research suggests that there is at least £19.4bn held in pots that consumers have lost track of. Without a dashboard, the Department for Work and Pensions (DWP) estimates 50 million pension pots will be lost or dormant by 2050 and people are highly vulnerable to fraud and scams.

10. Pensions Dashboards will not only help to find lost pensions and reduce the cost of financial advice, but should also prompt people to engage more closely with and save more into their pension, consolidating small pots, aiding consumers to make informed retirement decisions.

11. Pensions Dashboards are now woven into nine different Government and regulatory policy strategies, including the Government's UK Digital Strategy, the FCA's Retirement Outcomes Review and the Cabinet Office's Dormant Assets Commission.

Why is it important to have multiple dashboards?

12. The ABI believes that consumers will be best served by multiple Pensions Dashboards in a robustly FCA-regulated environment as proposed within the Bill, endorsed by Which? and the Work and Pensions Select Committee, as well as wider industry representatives including the PLSA. Multiple dashboards will reach more people and enable them to reconnect and engage with their pensions. They will use exactly the same data, with rules in place on who operates dashboards and how the data is presented.

13. Consumer engagement is a key aim of the Pensions Dashboards project, and dashboards have the ability and potential to bridge the gap in consumer engagement and knowledge. Dashboard-like services already exist, and are demonstrating large numbers of savers viewing their pension information. For example:

- Lloyds Banking Group customers who also have a Scottish Widows pension are already able to view their pension savings in their banking app – with an average of **165,000 engagements per day**.

- Pension Bee customers can already see their pensions via Open Banking apps, with **over 700,000 engagements** across various apps between March and July this year.

- Moneyhub users can view pensions and investments from **dozens of providers**. Dashboards would enable them to see all pension information via a secure, controlled access point with consistent data.

14. Trade unions, employers, civil society groups and charities will also have the ability to host pensions dashboards. Multiple points of contact for consumers to choose from are likely to promote greater awareness of, and therefore the need to plan for, retirement.

15. Furthermore, ABI-commissioned polling demonstrates that different people want to access their pension savings in different locations[1]. There is no one clear location that individuals would prefer to view their data, and this difference is particularly noticeable when looking across different age cohorts. Therefore, in order to reach as many people as possible, dashboards need to be available in locations that are convenient and where there are existing touchpoints, such as mobile banking apps.

    - **60% of 25-34-year-olds** would be most comfortable viewing their pensions through their mobile banking app, in comparison to only **11% of those aged 65+.**

    - **20% aged 65+** comfortable receiving their pension data via post, in comparison to only **4% of 18-24-year-olds**.

    - **61% of those aged 55-64** with would find it most convenient to view their savings through their pension provider's website, in comparison to **37% of 18-24-year-olds**.

    - **24% of women** say they do not access information about their pension, in comparison to **15% of men.**

16. Whilst **1 in 5 people** feel comfortable using a public government service dashboard, the MaPS dashboard may only be used by a relatively small group of self-selecting people, and will not fulfil the engagement or reconnection aim of the dashboard by itself. People are far more likely to engage with their pension saving if they are able to view it in a place of their choosing. However, it is vital that a public-good dashboard exists in order to cater to the needs of those who wish to view their pension in this location, and the existence of a public dashboard was a key recommendation of the 2017 Prototype Project.

Multiple dashboards will foster innovation

17. In the long term, further, more detailed information will be included on pensions dashboards. This will help savers to become more informed about their pension. In particular, we believe pensions dashboards can be used as a tool for disclosure of charges, so that savers can assess value for money. It will be able to show savers how their pension is invested with regard to climate change, showing how schemes meet TCFD requirements and whether or not schemes are invested in line with the Paris Agreement. Climate risk will be able to be communicated in this way, increasing awareness and allowing savers to make more informed choices. We believe it is much more likely that a specialist dashboard

[1] Values equal to or less than 5% have been excluded. Full data is available here: https://www.abi.org.uk/globalassets/files/publications/public/lts/2020/abi-pensions-dashboards-polling.pdf

could provide this kind of innovation in functionality than a state-provided dashboard.

18. A tightly regulated, secure market for pensions dashboards is also more likely to foster innovation than the Money and Pensions Service dashboard alone. The private sector is more likely to develop dashboards that have functions and features that appeal to customers and better suit customer needs.

19. The ABI therefore strongly disagrees with the approach taken by amendments added to the Bill in the House of Lords, bringing about a one-year delay to the entrance of multiple dashboards. ABI research demonstrates that there is no one place where all individuals will feel comfortable accessing their pension information, and only one in 5 will feel most comfortable viewing their pension information through a Government service. We agree multiple dashboards should operate in a tightly regulated environment and encourage the Government to provide clarity on when the regulatory framework will be introduced and what it will look like. Furthermore, in order for effective infrastructure testing to be conducted, multiple dashboards will be required. We do not believe that the MaPS dashboard alone will meet the Government's policy objectives of widespread engagement and enabling individuals to easily save more. Allowing a one-year exclusive running period for the MaPS Dashboard risks losing further pension pots, an unregulated market in similar services growing, and preventing innovation in the market.

Consumer protection and digital identity are critical

20. Multiple dashboards give consumers the ability to choose how they want to engage, a right that has been extended to them in other areas of their financial lives. This will require a tightly regulated environment. In order to create the required robust regulatory framework, effective collaboration across public bodies will be vital. Open Banking has demonstrated how such a regulatory structure can work and the FCA should build on its regulation of Account Information Service Providers to provide a safe environment for innovation. Before Open Banking implemented safe API-based data sharing, a market in 'screen scraping' applications emerged, where consumers had to hand over login details. We are already seeing services like this offered for pension scheme members, and these need to be regulated effectively.

21. Another area where inter-departmental co-operation is essential is digital identity, so that customers can log on once to access information about multiple pensions. It is welcome that Government work on this is ongoing, and it is essential that this work is completed quickly to provide clarity to providers and to DWP.

Swift regulation is required

22. The Bill gives MaPS a role in setting the rules of the road through consultation with industry and consumer groups, but the government has committed on numerous occasions to making providing a Qualifying Pensions Dashboard Service a regulated activity. This means that secondary legislation will be introduced which will amend the FSMA (RAO) 2001 to include pensions dashboards. By creating the regulated activity, the government is then giving the FCA the power to create rules regarding those who can offer the regulated activity, which in turn requires a consultative process.

23. Work on process should begin apace, as the FCA rule making process generally takes around two years and would feature at least two public consultations. The process could include a call for input, a consultation on principles and a consultation on a draft version of the rules. This extensive process is designed to ensure that all voices are heard, and all potential consumer harms are considered. The outcome of this process should be a regulatory environment that ensures consumer protection whilst allowing for some innovation and variance to better serve different groups of consumers. Furthermore, FCA regulation means that consumers will also be able to refer their case to the Financial Ombudsman

Service, should the need arise for an external body to arbitrate on their case.

Ensuring dashboards display accurate Estimated Retirement Income data

24. One of the most difficult pieces of information for Pensions Dashboards to display will be a comparable estimated retirement income from different pensions. Many people will have some incomes that will provide them with a pot of money (Defined Contribution) and some that will provide them with an income (Defined Benefit). The Pensions Dashboards Programme will be testing different ways of displaying this type of data over the next year to find the best solution for consumers. There are however two key issues that need to be addressed in order to find the optimal solutions.

25. One of these elements is the provision of annual benefit statements to deferred members of defined benefit schemes. There is currently no obligation for Defined Benefit Schemes to provide up to date valuations to their members. Some schemes do, as a matter of best practice, but many more do not. This means that the information that the scheme holds could be decades out of date as they will only perform another calculation if it is requested by the member.

26. This issue would have been addressed by the implementation of the Institutions for Occupations Retirement Provision (IORP) II directive. Whilst some elements of this directive were implemented in 2018, crucial elements relating to communications were not. It is unacceptable that some consumers do not receive any communications relating to their pensions unless they request it, and it has led to a situation where some of the data that will be provided to Pension Dashboards could be decades out of date. Without up to date data, the information provided by dashboards may be erroneous, and it is essential that Government implements the remaining directive elements.

27. Another issue that will affect how Estimated Retirement Incomes will be displayed is how an income will be calculated from a DC Pension. There are currently two different ways in which this can be done: using the FCA rulebook or the Statutory Money Purchase Illustration. Both methodologies leave considerable discretion to the provider or scheme, so consumers could be comparing incomes calculated from different bases. These calculations are also generally performed annually, which means that consumers could be comparing incomes that were calculated 11 months ago.

28. The current crisis has illustrated how much could have changed in those 11 months. Our preferred solution would be for Pensions Dashboards to perform calculations on a standardised basis. This was not the position indicated by DWP in its policy response on dashboards, but we believe it would produce the fairest and most accurate projections as they would all be performed on the same basis. This approach could provide additional benefits like being able to model different retirement ages which is a popular feature of the Dutch version of pensions dashboards.

29. In the recent response on Simpler Annual Benefit Statements, DWP said respondents were supportive of standardising assumptions and setting them in a mixture of regulations and guidance, including aligning them with the FCA's rules. It is important that the same approach is taken for pensions dashboards.

Governance and implementation alongside compulsion

30. Compelling all providers to make individuals' data available is an essential element in ensuring the creation of dashboards to unlock greater consumer engagement. Pensions Dashboards which do not include the state pension or public sector pensions would not be truly comprehensive and partial coverage may present a long-term risk of consumers making poor decisions based on incomplete information. We therefore strongly welcome the Government's commitment to legislative compulsion. Equivalent technology is currently used in countries like Sweden, the Netherlands, Denmark and

Australia and lessons from overseas show that the best way of providing a comprehensive service is to make participation compulsory, so all schemes know what they must do to get their data up to the necessary standards.

31. The role of MaPS in facilitating dashboards is crucial. This is in addition to developing its own public Pensions Dashboard, which was a key recommendation of the prototype project and which we welcome. We are delighted to be represented on the Pensions Dashboards Programme (PDP) Steering Group overseen by MaPs. The PDP have published their initial thinking regarding the scope and nature of the data that will be shared by the dashboards ecosystem. It is crucial that the task of converting these principles into useable data standards continues at pace.

Part 5: Other issues

Clause 124: Climate Change

32. As institutional investors and as product providers, the long-term savings industry has a role to play in tackling the climate crisis and we welcome the Government's consultation on climate risk in pensions which will improve schemes' management of these risks and enable pension savers to be more informed about their investments. The ABI is a formal supporter of the Taskforce on Climate-related Financial Disclosures (TCFD) and we are encouraging our members to adopt TCFD and supporting them in doing so. The PRA already expects banks and insurers to manage and report their climate-related risks, and the FCA has confirmed it will consult on climate-related disclosures by asset managers in the first half of 2021. However, there must be consistency in regulators' approaches, to avoid a patchwork of regulation which could diminish the benefits derived from improved disclosure. Time will be needed for the industry to fully develop and embed any new expected practices – it will require disclosure across listed firms and asset managers to enable asset owners to act effectively.

Clause 125: Statutory Right to Transfer

33. Pension savings will be the largest financial asset held by most individuals in their lifetime but worryingly, statistics from TPR show that victims of pension scams **lost £91,000 each to fraudsters in 2017**. This Bill is an opportunity to limit the destinations to which consumers can transfer their long-term savings, preventing their savings falling into the wrong hands and giving providers and trustees a greater ability to prevent severe consumer detriment. It also corrects an anomaly that meant providers had little option but to let a transfer go to a suspicious scheme, even to an 'occupational' scheme with no employment link.

34. In principle, we welcome the Government amendment requiring guidance where a 'red flag' has been identified. We also support proposals to enable providers and schemes to block suspicious transfers.

35. Indeed, once suspicious transfers are defined and identified, routine transfers should happen more quickly and we would support measures to ensure this happened. But the detail is critical, and we would welcome confirmation that consultation continues with the industry to take these proposals forward.

36. However, this measure alone will not be enough to combat scams, and vigilance from industry and from policymakers will be required. **A consistent definition of a scam is needed** across government and regulators; the FCA could go further by **limiting or banning unregulated investments within pensions;** and fraud, especially **investment fraud, should be included as a priority in the Online Harms Bill**.