Consultation Response

Financial Conduct Authority CP19-15:
Independent Governance Committees: extension of remit

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About this consultation

This consultation covers the FCA rules for how remit of Independent Governance Committees (IGCs) should be extended to cover the new Investment Pathways, which the FCA is developing to help consumers who move into income drawdown. It also looks at Environmental, Social and Governance (ESG) issues. The response covers Governance Advisory Arrangements, which are similar to IGCs but used by smaller providers.

Key points and recommendations

- Age UK supports the extension of the Independent Governance Committees' (IGCs) remit to cover environmental concerns and – especially – the forthcoming Investment Pathways.
- A strong governance process covering Investment Pathways is essential if drawdown customers are to get good outcomes.
- As part of this remit extension, there needs to be consistent reporting across key measures, for example charges. This is important If IGCs are to improve the demand-side of the defined contribution marketplace.
- We are pleased the FCA is looking at greater prescription to address this.
- Generally, we would like to see the FCA taking a more proactive stance when dealing with IGCs, in terms of consistency of evaluation and good communications; and with the providers in terms of evaluating the IGCs' impact.
- In responding to the FCA's consultation on Investment Pathways (CP19-5), we flagged a concern about what happens if a consumer exhibits contradictory behaviour to their chosen pathway. The role of IGCs in assessing how firms deal with this needs to be made clear.

1. Introduction

Since their introduction in 2015, Independent Governance Committees (IGCs) have changed the landscape across contract-based pensions. Many providers' IGCs have both improved the means by which providers are held to account over members' value-for-money (and other issues), and helped improve member communications and engagement. The report published by Share Action, 'Who Watches the Watchers?" provides an interesting overview of the IGCs' impact based on their 2017 annual reports.[i]

Overall, this and other analysis of IGCs has found that while some have impacted on their sponsoring provider, others have been largely ineffective. In short there is significant variability, and the lack of standard reporting frameworks, which could be applied on some issues, for example charges, is a weakness with the regime.

Age UK supports extending the IGCs remit to ensure drawdown customers get value-for-money under the forthcoming Investment Pathways. The four Investment Pathway options, listed in the FCA's consultation document CP19-5 are copied below for reference.

The four options are unlikely to cover a wide range of transient circumstances experienced after accessing the pension. For example, people might ‘plan to set up a guaranteed income in the next five years’ and then fail do to so. IGCs need to be responsive to changing consumer circumstances, and use current information to identify patterns where behaviour is not as expected. The IGCs should work with their provider to ensure the pathways are fit-for-purpose.

Option 1: I have no plans to touch my money in the next five years.
Option 2: I plan to set up a guaranteed income (annuity) within the next five years.
Option 3: I plan to start taking a long-term income within the next five years.
Option 4: I plan to take my money within the next five years.

We recommend that the FCA conducts a review of Investment Pathway governance in due course to ensure it is working as intended, including the role of IGCs.

In our response to CP19-5 we stated:

“Our only concern at this point is… what happens if a consumer chooses an objective and then exhibits contradictory behaviour, and what can/should the providers do to rectify this?”[ii]

We extend this concern to the role of IGCs in the drawdown process.

2. Consultation questions

Q3: Do you agree that IGCs should report on the firm’s policies on these issues for both pathway solutions and workplace personal pensions?

Yes, we believe IGCs reporting on these issues is important.

Q4: Do you agree that firms should make the IGC’s annual report publicly and prominently available, with 2 prior year reports for comparison?

One of the original purposes of IGCs was to improve the demand-side of the defined contribution marketplace. This was following the Office of Fair Trading (OFT) describing it as “one of the weakest the OFT has analysed in recent years”.[iii] If IGCs are to deliver on this, there needs to be improvement in the consistency and accessibility of communications. The Share Action report, *‘Who watches the watchers?’* contains some examples of and rates the 2017 IGC reports according to the language used and presentation.

If savers are to improve their understanding of their workplace pension, firstly, the IGCs need to publish an easy-to-understand summary report, aimed at the typical scheme member. Secondly, the pension provider must publicise the report to their members, make it readily available, and help answer any member queries.

It also makes clear the need for consistency. Comparison with two prior annual reports is a laudable aim, but unless reports are presented consistently – and this also includes cross-market comparisons – this will be impossible for many consumers to do.

The FCA needs to review what action is appropriate to take to achieve this aim, as it may not be achievable through current policy of allowing IGCs to publish reports how they see fit.

Q7: Do you agree with our proposed approach for providers with smaller numbers of non-advised consumers entering drawdown?

We agree that all consumers should be covered by an IGC or a Governance Advisory Arrangement (the latter in the case of smaller providers).

Ultimately, the FCA must take responsibility for ensuring that firms using a GAA are doing so for legitimate reasons, and that consumers are getting good outcomes. The FCA should conduct regular reviews of the governance arrangements to ensure that IGCs and GAAs are effective.

Q8: Do you agree that IGCs must be in place in time to assess the initial designs of pathway solutions?

Yes, it is important if they are to provide effective governance in future.

Q9: Do you agree that we should be more prescriptive in our rules and guidance for firms and/or IGCs on how value for money should be assessed?

Yes. As stated in our answer to Question 4, we believe that more prescription is needed if IGCs are to improve the demand-side of the marketplace. We welcome the consultation paper's consideration of the issues where this might be appropriate.

We are pleased there seems to be some collaboration across IGCs for determining what are the optimal measures of value-for-money. We hope the FCA will take a front seat in designing these solutions.

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[i] Share Action (2018), Who Watches the Watchers? Transparency and Accountability in Workplace Personal Pensions

[ii] Age UK response to CP19-5 available at https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/money-matters/age_uk_response_investment_pathways_financial_conduct_authority_april2019.pdf

[iii] Office of Fair Trading (2013), Defined contribution workplace pension market study