ABI Response to Value for Money: A framework on metrics, standards, and disclosures

March 2023

The UK insurance and long-term savings market and the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 357,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

The UK insurance and long-term savings industry manages investments of over £1.6 trillion, pay over £17.2bn in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

Executive summary

We welcome the opportunity to feed into the DWP, FCA and TPR consultation on a future Value for Money (VfM) framework. The proposals in the consultation build on the already considerable regulatory action to improve VfM in pension schemes. A contract-based workplace pension scheme is currently assessed on its VfM by Independent Government Committees (IGCs) or Governance Advisory Arrangements (GAAs) following the FCA's PS21/12[1]. Firms carried out significant work post-FG16/8[2] on the treatment of long-standing customers to improve VfM for their customers. Trustees of defined contribution schemes also have a legal duty to assess value for members, with Master Trusts subject to more stringent requirements on authorisation and through ongoing supervision[3]. Occupational schemes with assets of £100m or less must now demonstrate their VfM or wind up[4]. And the new Consumer Duty will require FCA-regulated providers to ensure their customers are getting good outcomes.

The methods schemes use to assess their VfM do vary, and we support efforts to improve their comparability. However, a new VfM Framework must work in tandem with other regulatory initiatives and avoid duplication. It should be rigorously tested with providers and schemes before going live in both phase one and phase two to ensure it is delivering genuine comparability for the relevant target audiences. While we welcome the regulators consulting on this framework together, a comparable regulatory supervision and enforcement approach will also be necessary to support schemes in determining and reporting their VfM.

We agree with the long-term objective of developing a VfM framework that covers all DC arrangements. However, there is a lack of clarity about important aspects of the VfM framework which needs to be addressed urgently:

- The main objective of the framework remains undefined;

[1] https://www.fca.org.uk/publications/policy-statements/ps21-12-assessing-value-money-workplace-pension-schemes-pathway-investments
[2] https://www.fca.org.uk/publication/finalised-guidance/fg16-8.pdf
[3] https://www.thepensionsregulator.gov.uk/en/trustees/governing-the-scheme/value-for-members
[4] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2021-press-releases/smaller-schemes-should-prove-their-value-to-savers-or-wind-up

- It is unclear whether making VfM information available to the intended audience will achieve the stated objectives;
- And the timelines of implementation have not yet been made public.

One of the intended objectives of the framework is to increase transparency and comparability, and for those who are proven not to provide VfM to improve or wind up. We support this objective, but it must not discourage diversity in how schemes are delivering VfM; moving to a system where all schemes offer identical products is not good for competition and therefore customers.

We support the objective to move away from a focus just on cost. But the consultation specifically references the Australian experience of introducing an annual performance test in 2021, which it credits with over a third of MySuper members paying lower fees than they were the previous year. However, in Australia, the median charge for members with a pot of $25,000 AUD is 1.13%[5]. This is more than double the average charge of 0.48% in UK automatic enrolment qualifying schemes[6], which is also well below the 0.75% charge cap. Our starting position is very different from that in Australia.

The intended audience in phase one is not the end saver in the scheme but a professional audience and decision makers, including trustees, IGCs and providers. The consultation hints that this audience may be subject to change in phase two but does not confirm it. The information individual customers need and the way it is communicated would be very different to that of a professional audience. More clarity is therefore needed on the target audience of phase one and two. Changing the audience between the phases would cause unnecessary burden on those schemes and businesses in scope of phase one and be confusing for consumers, so should be avoided.

It is not apparent when phase two will be implemented. As pension money is fluid and people can move their pension savings from their current arrangements into those not covered by the VfM framework in phase one, it is necessary that the phasing of the framework have a clearly defined timeline.

On the framework's focus and metrics, we support it building on existing concepts (such as PS21/12) that considers VfM through three lenses: investment performance, costs and charges and quality of services. These elements reflect the key factors that will determine a scheme's VfM.

We do not support investment performance being presented as net of charges, as it does not allow for transparent analysis of these two distinct elements that are crucial in determining VfM. Instead, performance should be disclosed separate to related costs. Good member communication should be part of the assessment of quality of services, as it is crucial to an effective customer journey that supports good decision making. Customer service should also include additional factors to those being proposed, such as the inclusion of ESG considerations and advice and guidance offerings, in line with PS21/12 and wider Government objectives.

The pensions ecosystem is complex, and we recognise that creating a single VfM framework which works for all arrangements is challenging. We have engaged with the questions in the consultation to help ensure the proposed metrics work best for savers and those who look after their pensions.

[5] https://www.superguide.com.au/comparing-super-funds/feeding-frenzy-super-fund-fees

[6] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes#:~:text=One%20of%20these%20measures%20caps,is%20significantly%20below%20the%20cap

Q1: Do you agree with the proposed phased approach?

1. There needs to be much greater certainty on the timeline for phasing in VfM beyond workplace pension defaults. People's pension savings are fluid. Customers may be incentivised to move out of their workplace pension into products which are not yet required to assess their VfM in the same way. This means it will not be as easy to compare the costs they are charged for the investment returns and services they receive. Understanding how long the gap will be between implementation of phase one and phase two will help the industry to mitigate this risk and help non-workplace, retail and providers of legacy products to plan for implementation. Furthermore, it would create certainty for the market, for employers and for customers about where the framework is applicable.

2. The workplace market is already highly regulated by the FCA in the contract space and TPR under the Master Trust authorisation regime. Furthermore, occupational schemes with assets of £100m or less are now subject to new requirements to demonstrate their value for members. Any further regulation in this market therefore should be additive and not duplicative.

3. In the consultation under phase one, there is a clear sense that the target audience of the VfM framework would be IGCs, trustees, employers and providers. This seems to fit with the approach of Consumer Duty. However, in phase two there is less clarity over the intended audience for the framework, with a suggestion in the consultation document of a significant change of approach pivoted towards the end saver or customer. This hints at a fundamental shift in the nature of the disclosure from phase one to phase two. As we stressed in our response to the FCA's DP22/6[7], there should be a single purpose of disclosure for customers, which is to improve their understanding.

4. One area of the phased approach that would benefit from further clarification is the issue of SIPPs. On the face of it, SIPPs look to be included in the second phase, but it is the case that some employers pay into SIPPs and therefore these SIPPs operate as workplace pension schemes. Further clarification on the issue of smaller workplace pension schemes being exempted from having to take part in the first phase of the VfM framework would also be beneficial. As noted above, as the framework moves from phase one to phase two, it could shift its focus from the industry and employers to the public under the wording in the consultation document.

5. To make sure that any VfM framework is ready to be used by either the industry or the public, it should go through a rigorous process of testing, before both stage one and stage two, including making sure that all metrics are truly comparable and easily understood by target audiences. This testing should be included within the timeline of implementation to ensure firms are ready to take part. Furthermore, to give the pensions industry time to adapt to the new VfM framework we suggest that the effective date should be at least 18 months after publication of the final requirements.

6. It is our view that firms with no active employers should also be exempt from being subject to the VfM framework, at least in the first phase. Additionally, legacy pensions should become subject to the framework in the second phase as their VfM must be assessed on an individual basis rather than at an employer level, because of the valuable guarantees they contain such as Guaranteed Annuity Rates (GARs). Contract based legacy schemes are already assessed for VfM by IGCs and GAAs as part of FCA guidance FG 16/8. Therefore, once they come under the proposed new VfM framework any duplicated requirements under pre-existing regulations should be reviewed and removed where appropriate.

7. There are further rules under COBS 19.5[8] which say how firms need to assess VfM. Clarity is needed on how a new VfM framework would interact with those existing rules, for instance whether they will supersede COBS 19.5 or operate alongside. If the latter, this risks unnecessary duplication of VfM assessment rules for different products.

8. For legacy schemes in contract-based schemes, there may be a better VfM option within the current provider, but firms cannot legally move customers who no longer have an existing employer to these arrangements due to

[7] https://www.fca.org.uk/publication/discussion/dp22-6.pdf
[8] https://www.handbook.fca.org.uk/handbook/COBS/19/5.html

existing rules, unless they use a Part VII insurance business transfer which is an incredibly onerous process involving courts. Fixing this specific issue would be much more effectively resolved by reforming non-consent transfer legislation rather than adding further VfM requirements. However, any change to the rules that would allow firms to use non-consent transfers to move members in legacy products to alternate ones with the same provider should not mandate that firms take this action unless there is strong evidence of harm for the customer remaining in that arrangement.

Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

9. **Backward looking investment performance metrics**
We agree with the intention and broad recommendations on developing backward-looking investment performance metrics. Particularly that factual, historic information showing the past value delivered to pension savers should be the primary focus. There are, however, a few areas where we think this could be refined.

10. **Investment performance net of all charges**
Firstly, we do not agree with the proposal to present investment performance net of all charges. Customers derive value from the services and communications that they get from their provider, however presenting all charges netted of the investment performance detracts from the sentiment that customers are paying for more than just investment performance. Crucially, presenting gross performance is key from a comparative basis, as there are difficulties with presenting a net performance figure in a way that is comparable across all pension types in the market.

11. **Additional data requirements**
The requirement to show investment performance net of all charges significantly increases the amount of data required to be disclosed under the framework. This is outlined in point 63 of the consultation under section 4.3 *Reporting period, granularity and age cohorts*. If investment performance is presented gross of charges however, then none of the recommendations under points 63-67 are necessary. Given that providers will already be publishing a number of different metrics, for a number of investments, at a number of ages, over a number of time horizons, requiring this data to be segmented into multiple different customer cohorts will add hundreds of extra data points for no additional value. If the VfM framework requires a figure to be calculated for each employer, as is already required master trusts, then it will result in yet further data needing to be disclosed.

12. **Presenting risk metrics**
Related to this is the issue of presenting risk metrics alongside investment performance. Standard deviation is a measure of the volatility of investment returns, however, charges carry no risk as they are certain. Presenting a risk metric alongside net performance is therefore not comparing like for like but different metrics entirely. For these reasons, the ABI strongly advocates for investment performance to be presented gross of charges, other than those transaction costs that are explicit in the price, and charges then to be presented separately.

13. **Identifying investment and non-investment charges**
It is proposed that overall performance is measured by looking at investment returns net of all costs, however, to assess the investment strategy, returns net of investment charges are then assessed. This means that charges are being double counted. Furthermore, measuring returns net of investment charges makes it a much more complex metric to calculate as what counts as an investment cost can be hard to separate, making it harder to compare objectively across different pension providers and schemes. In some situations, it is not possible and could lead to the presentation of arbitrary metrics to customers. For example, where pension providers have in-house asset managers that provide investments as part of the pension provision, it is impossible to disentangle what should be classified specifically as investment costs. There is potential that splitting out investment charges from other charges could therefore lead to gaming, where firms engage in spurious optimisation of different fees.

14. **Averaging bands of cohorts**
Within point 66, under section 4.3 *Reporting period, granularity and age cohorts*, the consultation proposes that for

each band, net returns would be disclosed as the range for that cohort as well as the average. To exclude outliers, it suggests that firms could disclose the range of net returns for the employers representing the middle 80% within the cohort, excluding the top and bottom 10% of net returns. The problem here is that typically, the investment return would be consistent for all customers and the variation in net returns would therefore come from the effect of charges. Therefore, given the charge cap puts a maximum of 0.75% on charges, this exclusion of the bottom 10% of net returns would exclude all members on 0.75%, which is likely to be a material proportion of customers. This is another indication that it would be simpler to present investment returns (gross of all charges) separately from charges. Charges can then be easily understood as being between 0-0.75% with no need for a complicated process to exclude outliers.

15. **Reporting periods**
The reporting periods of up to 15 years should be reviewed as in many cases this is too long and does not reflect the reality of most people's work and life cycles. This is because the typical workplace employee has 10 or more jobs in their lifetime. This frequency of movement in the job market is visibly greater among people of younger ages[9]. This means that there could be relatively few people in a scheme for 15 years. As people get towards the latter part of their working lives, people do tend to move jobs less frequently, but they then often lifestyle through various investments as they near retirement. This means they too are unlikely to be in the same investment for the suggested lengths of time. While reporting periods of this length would be of limited use, they further add to the volume of data required by schemes and providers.

16. **Lifestyling**
Within point 72, under section 4.3 *Reporting period, granularity and age cohorts*, the consultation defines ages at which performance would be reported. However, lifestyling is typically relative to the selected retirement age, so these would be better defined as "selected retirement age – X years" rather than absolute ages. It is rare for the lifestyling journey to begin more than 15 years before retirement, so presenting both age 25 and 45 creates unnecessary duplication. If multiple points in time are required, it may be more sensible to focus these in the decade before retirement rather than spread them evenly over customers' working lives.

17. **Additional features**
Within point 60, under section 4.2 *Backward-looking returns, net of all costs*, the consultation suggests, that legacy schemes that have valuable guarantees which affect their overall VfM, should contain a short qualitative statement indicating the nature of the guarantee within the scheme's disclosure. While this is a sensible suggestion, there is a substantial risk this important information which can make a material different to a customer's retirement outcome gets lost and that risk is exacerbated if the volume of data displayed is large.

18. **Mutual companies**
Within point 56, under section 4.2 *Backward-looking returns, net of all costs*, the consultation proposes that mutual companies can net profit share off from charges. We agree that the significant value of profit share is being recognised and will be taken into account.

Q3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

19. Yes, the ABI is content that both metrics have a place in the VfM framework as long as they are easily calculable and used objectively by all pension providers and schemes.

20. Annualised Standard Deviation (ASD) is a reasonable metric and, alongside performance numbers, enables a comparison of the efficiency of a portfolio. However, there is a question about whether it is easily understood by

[9] Figure 6
https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2019/analysisofjobchangersandstayers

the intended audience, especially in phase two. This metric may also present more of a challenge when applied to with-profit funds.

21. Maximum drawdown is, as the consultation points out, easily understood. However, it is a metric that is more relevant to capacity for loss than to attitude to risk. Most workplace customers should be seeking to maximise long-term returns over their savings life. Capacity for loss is more relevant as customers get closer to retirement, by which time sustainability of income is likely to be their primary concern. Maximum drawdown, therefore, in isolation, may not speak to this. For example, in 2022 markets fell, but annuity rates rose, meaning the purchasing power of sustainable income wasn't as badly impacted as maximum drawdown might suggest. The concern is that a metric like this incentivises the wrong behaviours in risk-adverse customers. One potential solution would be to use maximum drawdown alongside the maximum gain figure to show a balanced perspective.

Q4: Do you agree with our proposals on "chain-linking" data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

22. Yes, the ABI is supportive of the idea of chain-linking to capture historic performance, however significant challenges remain. One problem is that many default funds will be or will have moved from a traditional default to a sustainable one. Showing the past performance of the traditional fund would be accurate relative to the customer's investment history but it is not going to be representative of the current fund that customers are invested in. This raises the question of whether chain-linking helps to assess current VfM. If current VfM was the stated goal it would potentially be more beneficial to chain-link to historic performance of funds that more closely resemble the current asset allocation.

23. Some of these challenges could potentially be resolved by publishing forward looking performance metrics, based on the strategy customers are invested in now. A forecast based on current asset allocations could help to balance out chain-linking based on historic performance achieved with very different asset allocations. However, if the point of publishing this data is to make clear the actual experience achieved by customers in these schemes, then we are not convinced of the benefits of the exemption proposed within point 82, under section 4.5 *Chain-linking*. Similar to the circumstances with legacy charging structures referenced in question 2 above, this is another area that highlights the value that might come from a short qualitative statement being presented alongside VfM metrics.

24. Attention should be paid to the potential for gaming if rules are not suitably written, allowing schemes or providers to have the flexibility to chain-link to completely different past funds to offset poor performance on other metrics.

Q5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

25. As stated above, the ABI is not supportive of looking at netted off returns due to the complexity it creates. We would welcome an assessment based on total investment returns with a separate stage looking at charges more generally.

26. Furthermore, we question the benefit of segmenting charges into investment and administration. Typically, customers in the workplace market do not buy administration and investment separately. Schemes are priced on a single charge for all services including investment, administration and communications. Any segmentation could result in arbitrary figures and could be open to gaming.

Q6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

27. The ABI agrees with requiring disclosure of asset allocations, but the eight existing categories are potentially not

the most appropriate when assessing pension funds. Given workplace pension defaults are mainly invested in listed equities (the average growth portfolio holds two thirds or more of the total assets in equities), having this as a single category is potentially unhelpful for customer understanding. One solution could be to split listed equities into subcategories, for example, by region, sector, active/passive management and ESG rating.

28. Furthermore, some kinds of asset allocation could skew the forward-looking risk metrics and benefit some types of schemes. For example, the volatility of private equity might be presented/calculated as lower given these assets are priced once a month, whereas listed equities can often change price by 1-2% a day. Therefore, it is necessary to create the right risk and return calculations and ratings for these different asset classes.

29. Beyond what is included in the consultation, we would recommend a greater focus on ESG as part of the VfM framework. ESG will likely affect the risk and return of a default fund for example, by excluding certain companies or sectors. A more concentrated portfolio will be created which could either increase risk or reduce returns. A focus on ESG could also deliver real utility value for customers who seek to align their investments with their own ethical stance.

Q7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

30. Yes, we think it is important to ensure any changes undertaken by providers and schemes to improve VfM are reflected in forward-looking performance and risk metrics. Potentially this could help to give balance to the backward-looking investment performance metrics. However, unlike past performance, future performance is unpredictable so any metric must be carefully designed so as not to distort choices, such as pushing savers into choosing equity heavy defaults that look like they will have better future performance. Furthermore, as future performance is yet to be determined, it should not carry as much weight as past performance but could offer a narrative of where the pension is likely to go in future. This could be accompanied by strong warnings that future projections are just estimates and that values may go down as well as up.

31. A forward-looking performance metric would be helpful in terms of addressing concerns around market timing risk as there is a potential danger that people look at the short term performance of investments and move out of positions when they are likely to recover. There is however a concern about stochastic modelling and whether it will be available for savers to look at in the second phase of implementation. It is important that if firms are required to disclose this information that it is comparable across all product types covered by the VfM framework.

32. The ABI does not have a specific view on which model should be proposed, but some members have expressed support for the inflation plus metric given the role of the provider is to take savers money, grow it and then pass it back to the consumer. Other members favour stochastic modelling albeit recognising there are some blockers. While most providers will have stochastic modelling capability which they will use to select model portfolios, calibrating these models with a different set of inputs can be time-consuming and costly. The other risk is that, where a single set of assumptions used for this projection is not consistent with a provider's internal assumptions, their portfolios will look inefficient on the reported assumptions. This could cause providers to herd towards using these central assumptions to set investment strategies, which in turn would be detrimental to innovation and offering customers choice across the market. Deterministic modelling is simpler but may be a more appropriate place to start. Further suggestions include using deterministic modelling along with explanatory text.

33. Beyond ensuring that forward looking performance in the VfM framework is comparable and easy to understand, it is important to carry over this approach to benefit statements to ensure that members can compare their pension provision across schemes and providers.

34. Irrespective of the metrics chosen it is important that forward-looking investment performance is presented as gross of charges for it to be consistent with past performance which should also be presented gross of charges. In terms of

growth rates and projections, it would be helpful to consider how any new metrics align with existing ASTM1 regulations and those which will be used as part of pensions dashboards.

Q8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

35. There are practical difficulties associated with separating out charges. For example, workplace pensions typically have the charges bundled together, and it is not currently clear which methodology should be used by firms in order to separate out the charges. Some members have noted that they do not currently have any method to separate out charges, so if the government and regulators proceed with this proposal, additional guidance and clarity would be required to aid this process. This would require a specific and comparable method for separating out costs.

36. When it comes to legacy products, it is less clear how the VfM framework will take into account issues specific to these products and the implications of back books where it is important to consider the investment that has been sunk into providing advice in the past.

37. It is important that the audience understands the overall costs of the products in question, which they are able to do under current disclosure requirements. There is also a risk this proposal could put increased focus on costs and charges, something the consultation claims to want to move away from via this framework. If focus is placed on the costs of services over, or as an equal to, the quality of services, employers may choose to switch schemes based solely on the cost and ultimately receive less VfM for scheme members by doing so.

Q9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

38. Members have suggested different options that could be appropriate for converting combination charges into an annual percentage, Examples include:
    - calculating an annual percentage based on the total charges paid divided by the average funds under management.
    - calculating a snapshot with any charges expressed simply as a percentage of the fund value on the date of calculation.
    - Including a range of model members e.g. median, ½ median and 2x median earners to aid comparability of percentages.

39. It will be important for the Government and regulators to provide clear guidance on the precise methodology it determines to be appropriate. Consideration of the circumstances and intended audience when determining whether employer charges should be included will be important to the overall success of the framework bedding in.

40. There are additional complexities for legacy schemes, but the considerations are likely to be similar. Some members have indicated that it will be important to aggregate percentages that apply to individual members to ensure that an overall picture of the scheme is available.

Q10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

41. For increased transparency to add value, the information needs to be comparable and simple. A detailed set of disclosures based on cohorts of employers could risk revealing commercial arrangements and may not be based on cohorts that are comparable and/or useful for trustees and IGCs.

42. It will be important for the Government and regulators to ensure that any requirement does not reveal commercial

arrangements and is sufficiently simple.

43. As set out in our response to Q9 above, consideration of the circumstances and intended audience will be important when considering whether it is appropriate to include employer charges. This is in part due to risks of causing confusion around the overall charges to be met by individual customers.

Q11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

44. Quality of service metrics must be central to any VfM framework. Not only is good service central to the customer's experience of pension saving but it also factors into the cost of provision. Customers who are not provided with good service levels are more likely to encounter problems and complain which entails higher costs for providers, pension schemes and ultimately customers.

45. The proposed metrics assessing effective communications are basic and so will not adequately reward providers and schemes that have invested in delivering beyond a minimum standard with a suitable score. Further metrics which can adequately show the value customers get from effective communications would need to be developed. However, it is vital that metrics are comparable as all pension providers and schemes have unique internal measures. In particular, right first-time measures are assessed differently across pension providers and schemes, so a centralised methodology would be necessary to make results comparable. However, it is important that metrics are able to evolve so IGCs are not prevented from developing how they assess businesses in the future.

46. An approach centred around measuring quality of service against customer outcomes makes sense given the direction of travel for regulation like Consumer Duty. However, here too there are challenges as engagement levels in workplace pensions will differ depending on the demographics of an employer. Furthermore, in the second phase it will be difficult to compare communications between retail or self-selected products and workplace default provision as those who make active pension choices will typically be more engaged. Sometimes the most appropriate action for engaged savers is to have their existing choices positively affirmed so they know they do not need to take further steps. This process of thinking or knowing for future can be very valuable but is hard to capture as an active engagement. It demonstrates the potential for encouraging the wrong type of behaviour if measuring member engagements is restricted to updating their retirement age or coming out of a default fund.

47. Rather than having IGCs and trustees supply data on the proposed metrics, an alternative solution would be to have a standardised member survey in order to measure customer service. This could be done in a comparable way across industry or by a centralised service if required.

48. ESG is one area that seems to be missing from the assessment of quality of services. We are seeing more frameworks such as TCFD and TNFD come into force and more providers offering funds aimed at sustainability and social investment. The choice of ESG options customers have could form part of the quality of services metric. For some customers, VfM would not be met if they are unable to invest their money in line with their values.

49. We have included a list of potential ways to assess effective communications below, but it should be noted that these are not always recorded in the same way by providers and schemes, so would need to be standardised before being used in the VfM framework.

- Average call waiting time
- Call pick up rate (the inverse of call abandonment rate)
- Average email reply time
- Average live chat waiting time
- Average live chat pick up rate

Q12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

50. The included metrics assessing the effectiveness of administration are fairly basic and so do not adequately reward providers and schemes that have invested in delivering beyond a minimum standard with a suitable score. Therefore, we would like to see higher standards for administration measured as part of the assessment. We do however recognise the challenge of finding consistent metrics that fairly assess the effectiveness of administration across all types of pension products.

51. We have included a list of potential ways to assess effectiveness of administration below, but it should be noted that these are not always recorded in the same way by providers and schemes, so would need to be standardised before being used in the VfM framework. Furthermore, there remains challenges to fairly assessing the time taken to complete transfers due to ongoing issues with transfer regulations brought in to prevent pension scams. Therefore, any metrics would need to be cognisant of delays out of provider and scheme control.

Transactions:

- Average days to invest pension contributions
- Average days to switch funds
- Average days to transfer out
- Average days to process a withdrawal
- Average days to transfer in

Complaints:

- Complaints received per 1,000 members
- Average complaint resolution time
- Proportion of complaints referred to FOS / POS
- Proportion of complaints upheld by FOS / POS

Q13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

52. The ABI supports a decentralised approach for the publication of framework data. At this time, it would not be proportionate to go to the expense of designing and implementing a centralised system when providers can publish data directly and other commercial organisations may provide digital comparison tools.

53. It will be important to work with stakeholders in advance of any publication. It will also be necessary for comparability that a prescribed format / mandatory template be used when data is published to ensure meaningful comparisons can be made.

54. An additional note of concern around the publication of data is the risk of the data being used in a misleading way that may encourage customers to move their savings to another scheme or product which is not delivering better VfM. This could be via press coverage or via the data being used as a marketing ploy by competitors. Consideration should be given to whether use of the data can be appropriately restricted to protect consumers and how potential harms like the above example could be sufficiently mitigated.

Q14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

55. It will be important for the regulators and Government to consider whether the data produced will be sufficiently up to date at the time of publication. There is concern in relation to the fairness of the RAG rating system if older data is used. If the data is outdated by the time the scheme is first assessed as not VfM, this could effectively set

improving schemes up to fail their next assessment. The reliance on old data for decisions to force schemes to wind-up/consolidate could mean that potentially good value schemes are prematurely forced out of the market before they have a chance to implement and bed in changes that improve their value.

56. If scheme year ends are forced to align with publication deadlines, this could lead to resource bottlenecks within the industry to meet the demand (which would all arise at the same time). An example of this would be auditors of trustee reports/accounts.

57. Further to the question about the proposed deadline, there is a wider question about how regularly the VfM framework should be used to assess schemes and providers. Although many disclosure requirements are published annually, given the undertaking involved there is a strong case for VfM to be assessed less frequently such as every two, three or five years. This would also help to address the point outlined above about the use of outdated data and setting improving schemes up to fail the following year.

Q15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

58. Benchmarks will only be worthwhile if genuine comparisons can be made. A key challenge in developing regulator-defined benchmarks will be the fact that different schemes are not structured in the same ways.

59. Given the challenges involved in regulator-defined benchmarks, we consider that comparisons against other schemes is likely to be more appropriate and achievable in that it will enable trustees and IGCs to choose appropriate comparators. Most of our members who have fed into this response prefer market comparisons due to the concern that regulator-defined benchmarks will hinder competition, risk stagnation, and make meaningful comparison between similar schemes more difficult. Some have noted preference for regulator-defined benchmarks due to risks that comparison with other schemes could produce inconsistent or skewed results, especially with smaller schemes. Additional guidance and clarification from the Government and regulators in regard to mitigating the above risks to ensure that consistent and fair comparisons can be made no matter the size of the scheme will be important. This could include guidance focused on how other schemes should be selected for comparison (for example, based upon size or workforce demographics).

60. Should regulator-defined benchmarks be developed, this should be in consultation with firms to ensure proposed benchmarks adequately reflect the marketplace. Benchmarks would need to cover the breadth of different charges and expectations across the market. We would urge the regulators to consider working with the industry through consultation and working groups to develop benchmarks that reflect the realities of the market. If the regulators and Government proceed with regulator-defined benchmarks, it will be important to consider how to mitigate the risk of unintended consequences, such as the risk of limiting competition.

Q16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

As outlined above, the ABI disagrees with assessing investment returns net of all costs (step one), as well as net of investment charges (step two). Investment performance already has, for many arrangements, the costs of investment built into the returns. The appropriate process would therefore be to consider:

A. Investment performance
B. Investment strategy
C. Service provided (including communications)
D. Compare this to what is charged for providing the above

Q17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

61. In order to ascertain whether these are the right three categories, it's first necessary to establish a consistent definition for VfM. For example, whether it is seen in absolute or relative terms. In the introduction of the consultation there is reference to optimum VfM. While this is a legitimate aim for all pension providers and schemes, it is not consistent with the three categories presented in the RAG matrix. Having an "optimum" definition would mean identical products and schemes, which is not reflective of a competitive market.

62. In order to apply the three categories (RAG rating) to measure if firms are providing VfM, it will be necessary to look at cohorts within books of business, however this gets very difficult even within firms, let alone when comparing externally. Furthermore, workplace pensions are a product bought by an employer on behalf of the employees, so naturally there will be an element of cross subsidy as it is unavoidable that some individuals will pay more in charges but cost less to administer relative to others. Therefore, some individuals in a scheme may benefit from moving to one offering them better VfM but if all those who could find better value elsewhere left then the scheme would have to increase prices to reflect the higher cost of administrating the more expensive customers left behind.

63. Instead of looking at optimum VfM, regulators should be assessing where there is inappropriate VfM, for example, pension providers or schemes where customers are not receiving returns or service which is proportionate to the level of charges that they are paying, in comparison to competitors.

64. Rather than the three categories of 'not value for money', 'not value for money – but actions to achieve it' and 'value for money', the VfM framework needs to have a more in-depth grading scale. This grading scale should better reflect the realities of assessing VfM across all types of pensions, including contract-based providers, Master Trusts and single employer trusts. These different pension arrangements have different needs so a simple RAG matrix will be too restrictive.

Q18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

65. We recognise and agree with the challenges as set out in the consultation. Firms, IGCs and trustees are all seeking to ensure that customers receive appropriate VfM from the arrangements they are in. The nature of long term contracts, different regulatory regimes, valuable features which are difficult to replicate exactly and often the lack of an extant employer can make finding a more appropriate and better VfM solution difficult. We would welcome further discussions on how regulators, industry and governance bodies can work together to make it easier to move members to a better place where appropriate. This could often be to transfer customers to a more modern solution within the same firm.

Q19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

66. The timeline of data reporting within the VfM framework means that there is not sufficient time for providers and schemes to improve their performance against the included metrics. This means that providers or schemes that fail the VfM test in the first year will also fail in the second year as the performance they are being judged on in the second year is already set in stone. Therefore, firms should either be given a longer timetable to improve VfM, or the data reporting timetable needs to be reformed to reflect changes that have been made over the past year.

67. Communications around the VfM framework and the scores that come from it will need to come with sufficient context and background so that end users understand what the assessment means for them. In the first phase it will be important to make sure that employers understand the importance of making long term decisions for their employees. In the second phase, where it looks like the public is the target audience, great care will have to be taken to avoid any potential damaging action by scammers trying to target members of schemes or providers that have been assessed as not VfM. There is a risk that implementing the VfM framework could have an unintended consequence of creating more small inactive pots, so the timeline should be aligned with the work being done by

government and industry to solve the problem of small pots.

68. Looking to mandate communication to employers following the outcome of a VfM assessment would be costly, disruptive and lead to a number of difficulties. In any communication, it is important to be clear what the recipient should do. As an example, what is the call to action to an employer where their scheme is assessed as not currently VfM but with identified actions to improve in certain areas? Should they do nothing because there is a plan in place, contact an adviser to review the market, consider the market and potentially move to another provider? What if the communication creates action within the employer which turned out to be to the detriment of customers?

69. In a large contract-based provider or Master Trusts with thousands of employers, such communication would be costly and potentially counterproductive both to employers and the consultancy and advice market. Communication to employers should be very carefully considered and reserved for when the VfM is no longer appropriate or there are specific issues and action should either be taken by the employer or action is to be taken by the scheme trustees or firm.

Q20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

70. It is our view that the single purpose for customer facing disclosure should be to further their understanding. To achieve this, a future customer-facing document should be limited to minimal technical information and be delivered in a narrative format showing what major changes had been made in the year and why they are relevant to the saver. Any legal or technical definitions should be strictly limited to being shown in supplementary documents, available through layering (for example, by clicking through links or via concertinaed sections).

Q21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

71. Yes. We welcomed DWP's review of the Chair's Statement which identified that the policy objectives are not being achieved within the current approach and that the purpose of the disclosure was unclear. Generally, we are supportive of any further regulation being additive and not duplicative. Therefore, we would recommend simplifying the Chair's Statement to make it into an effective consumer-facing document and easy to understand. Industry should be further consulted on how to reform the Chair's Statement, to ensure it remains fit for purpose.

Q22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

72. Individual customers who choose to invest in SIPPs will typically be more engaged/sophisticated customers with access to advice. Given this, it will be important to consider whether it is proportionate to include all SIPPS in the requirements for IGCs/GAAs and public disclosures.

73. Some SIPPs do have a significant number of members. Rather than excluding SIPPs entirely, the regulators and Government should consider whether exclusions would be better targeted at all schemes below a specified number of members. This could include SIPPs and Executive Pension plans with less than 5 members linked to the same sponsoring employer.

Q23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?

74. Given the number of metrics that are currently used and which appear in IGC Chair's reports, it is challenging for firms to know what should be included in a pension saver-focused summary without evidence from significant testing. The range of metrics used in IGC Chair's reports can make them hard to understand even for the sophisticated audience the reports are intended for. A mandatory pension saver-focused summary would need

clear guidance, based on extensive user testing, as to what information/metrics should be included and how they should be presented. The experience from the Chair's Statement demonstrates the risk of customer facing documents morphing into compliance ones and being of no use to the end saver.

Q24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

75. We are comfortable with the provider or IGC being responsible for the publication of framework data. We consider it would be appropriate for providers and IGCs to engage with one another as the relevant information is being prepared for publication.

76. Some members have noted that IGCs are likely to be seen as more objective by customers and so responsibility should fall to them, while others have explained that, functionally, the content is often prepared by firms and so they would prefer the responsibility to rest with the provider.

77. The FCA may wish to consider whether it would be possible to enable firms to decide who responsibility lies with. Although, in such circumstances, it will be necessary for the FCA to provide guidance on how providers/IGCs would need to communicate their preference.

Q25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

78. The proposals for metrics represent a significant shift from the metrics currently produced by firms. There will be significant costs in implementing the proposals and producing the required metrics. Some non-exhaustive examples of metrics not currently produced by all firms include costs and charges split between admin and investments, chain-linked data, performance net of investment charges, and forward looking metrics.

Q26: Do you agree with our assumptions regarding who will be affected by the framework?

79. We agree the consultation identifies the range of stakeholders likely to be directly affected in implementing the framework. However, it will also be important to consider whether the proposals will positively impact customers, or whether the proposals risk providing customers with information that will be difficult for them to engage with in some circumstances, which will discourage them from engaging in future.

Q27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

80. The costs of complying with the volume of regulatory interventions are significant and we anticipate providers will disclose these estimates in their own responses to this consultation.

Q28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

81. The ABI is supportive of a common framework that encourages consistency in assessing VfM across all DC arrangements. A joined up regulatory approach to determining VfM is crucial to enabling more thorough comparisons between schemes which should encourage further competition between providers. However, assessments of value do not require the level of data envisaged in the consultation. The regulators and Government should consider whether the costs associated with providing the additional data are justified.

82. The regulators and Government should assess whether the benefits will be realised for all schemes. Consideration should be given to whether exemptions are appropriate in certain circumstances, such as, for example, closed book schemes (such as schemes where FG16/8 already expects firms to consider VfM for their customers) or

schemes with very limited numbers of members.

Q29: Are there additional benefits we have not identified?

83. We consider that the consultation outlines all the key benefits associated with the proposed framework. As the framework is ultimately not only for the benefit of industry professionals, it is important that proper consideration is given to how the proposals will work in the long-term as the scope is widened.

Q30: Do you have any comments on the positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

84. In implementing their proposals, the regulators and Government should seek to ensure that there is sufficient flexibility to enable providers and IGCs to both drive and provide the best value to protected groups and vulnerable customers in ways that are not constrained by overly prescriptive regulation.