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Clive Maxwell  
Chief Executive  
Office of Fair Trading  
Fleetbank House  
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30 August 2013

Dear Clive

It is vital to the financial welfare of our ageing society that automatic enrolment is a success and that the millions of people who contribute to a workplace pension are able to save for their later life confident that they are receiving value for money. The industry recognises that the move from employees voluntarily joining their workplace scheme, to an environment where people are joined automatically, makes it all the more imperative that the industry continues to act responsibly on behalf of customers.

ABI members offering contract-based workplace pensions have already made major changes to improve outcomes for pension savers – charges are falling, transparency is increasing, significant innovations have taken place to ensure investment strategies are suitable, and savers are receiving much greater support as they approach retirement. We have always recognised that the process of reform needs to continue and have welcomed the OFT's market review as a timely means of identifying and highlighting the next issues that should receive attention.

We have been pleased to work with the OFT's project team to consider how these issues might best be addressed and are proposing solutions that will ensure that all members receive value for money from their workplace pension in the future, and that assess charges and benefits in older schemes.

More specifically, to ensure employees receive value for money from their workplace pension scheme in the future, all ABI members who provide workplace pensions are committing to establish Independent Governance Committees by the middle of 2014. The Committees will:

- Maintain an ongoing oversight of the value for money of workplace pension products in the context of the Pensions Regulator's principles and emerging DWP standards;
- Make recommendations to pension company boards, which the boards will respond to on a 'comply or explain' basis;
- Provide annual reports to pension company boards and a statement to the Pensions Regulator;
- Have a duty to escalate points of concern to pension company boards and if necessary to the Pensions Regulator;



- Not be constrained from communicating their concerns to employers or pension scheme members, or making them public, if they are not satisfied with the response to escalating their concerns;
- Have a majority of independent members, including an independent chair;
- Be adequately resourced and remunerated by the pension company; and
- Have skills and qualifications to reflect their remit, with expertise drawn from employees of the firm and actuarial, investment and legal skills.

Smaller companies may choose to employ an independent governing person or firm in place of the Independent Governance Committee.

All ABI members who provide workplace pensions are also committing to implementing an audit of the value for money in legacy workplace schemes, bringing clarity to the charges and benefits of older schemes. We propose that the audit:

- Is established under the governance of an over-arching Project Board with an independent chair and representatives from DWP, regulators, OFT and industry; and
- As part of its work, develops value for money principles to be used to assess the charges and benefits in pre-2001 products (i.e. prior to the introduction of Stakeholder pensions), and those established subsequently which have charges greater than an equivalent of 1% AMC.

On completion of the audit, we propose that:

- The chair of the Project Board submits a report of the audit to the Pensions Regulator, pension company boards and to Independent Governance Committees which sets out value for money principles and industry-level actions, with timescales to address any concerns that take into account the practicalities of implementation;
- An industry-level report of the audit is published;
- The Independent Governance Committees determine the actions that their pension company should take in light of the Project Board's Report and recommend these to their boards;
- Boards should respond to their Independent Governance Committees on a 'comply or explain' basis; and
- The Project Board will regularly review the process followed by the Independent Governance Committees to satisfy itself that the audit results are acted upon in a timely manner or explained to the Independent Governance Committees' satisfaction.

These commitments will be subject to more detailed consideration in collaboration with DWP. However, we hope to progress their implementation quickly so that the Project Board and terms of reference for the audit and Independent Governance Committees could be established before the end of the year. We would anticipate that the Independent Governance Committees could be put in place by the middle of 2014 and the audit completed by December 2014.

More broadly, we would like to work with the OFT positively on all the concerns identified in its interim report. We believe that the ABI's agreement on pension charges published in



January will bring comparability to how providers present their charges, addressing the OFT's concerns about different presentation of charges between providers. Similarly, the recently launched pension charges calculator, developed by the ABI and hosted by the Pensions Advisory Service, will help employers understand the impact of different pension charges on their employees' pension pots, supporting them in selecting a scheme.

We also know that the OFT have a number of other questions on specifics relating to commission bearing schemes and differential pricing structures. Whilst we expect that the value for money audit and the Independent Governance Committees will provide good vehicles through which such arrangements can be assessed objectively and independently from the perspective of value for money for employees, we would be keen to continue to engage with you in discussing any broader issues you may have from a competition perspective.

The ABI has been very pleased to work closely with the OFT and is confident that these commitments will prove to be important foundations for a market that is evolving to be fully effective in the new context of automatic enrolment.

We look forward to continuing our work with the OFT as the Project Board is established and begins its work to develop the terms of reference of the value for money audit. We would also welcome the DWP putting in place the legislative framework to underpin these commitments and to ensure all parts of the workplace DC market make similar changes.

In the meantime, ABI members will take steps to ensure that employees will only be automatically enrolled into schemes that we anticipate will meet emerging industry-wide value for money standards.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'O. Thoresen', is written over a light blue circular background.

**Otto Thoresen**  
**Director General**