



Work and Pensions Committee

Oral evidence: Progress with automatic enrolment and pension reforms, HC 669

Monday 1 December 2014

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Written evidence from witnesses:

- [Association of British Insurers](#)
- [National Association of Pension Funds](#)
- [NEST Corporation](#)
- [People's Pension](#)
- [Standard Life Plc](#)

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Members present: Dame Anne Begg (Chair), Graham Evans, Sheila Gilmore, Kwasi Kwarteng, Paul Maynard, Nigel Mills, Anne Marie Morris, Teresa Pearce

Questions 67- 145

Witnesses **Otto Thoresen**, Director General, Association of British Insurers, **Jonathan Lipkin**, Director of Public Policy, Investment Management Association, and **Graham Vidler**, Director of External Affairs, National Association of Pension Funds, gave evidence.

Q67 Chair: Can I welcome you this afternoon? Thanks for coming along. This is our second evidence session in our inquiry into the progress with auto-enrolment and all the other pension reforms that have been introduced or are to be introduced in the coming months. Can I begin with you, Otto, and ask you to introduce yourself for the record, please?

Otto Thoresen: Certainly. Thank you, Chairman. I am Otto Thoresen, Director General of the Association of British Insurers.

Jonathan Lipkin: I am Jonathan Lipkin. I am Director of Public Policy at the Investment Management Association.

Graham Vidler: I am Graham Vidler. I am Director of External Affairs at the National Association of Pension Funds.

Q68 Chair: You are welcome. Can I start at the end and ask you some questions about the future development of pension policy? Both the NAPF and the ABI say in your evidence that the key lesson from auto-enrolment was the need for long-term pension policy to be based on consensus and on evidence of what works. Both of you suggest that that has been absent from the current pension reforms. Maybe that is a bit of an understatement; I think it came as a surprise to everyone. The original intention was that there would be a review of auto-enrolment, particularly the NEST restrictions, in 2017. Is that review of the impact of auto-enrolment on retirement still necessary? If it is necessary, when should it take place?

Otto Thoresen: A review can cover many aspects of the policy. The position from where I sit is that the consensus that has held the pension reform agenda together for many years has clearly got us over the start line in terms of moving ahead with auto-enrolment and with the pension reform agenda more broadly, but we still have big challenges ahead over the next two or three years as we move into the smaller employers. The experience so far has probably been unusual in that respect, because it has been a particular group of employers who have been brought into the system. There are still many aspects—of levels of saving, of what you save into and of how the developments over the last year or so affect the original concept and the original structure of the pension reform agenda. A review is still important, if we can take advantage of it, to think about all aspects of how we can move and build on what we have already achieved. There has been significant progress, but there is still an awful lot to be done.

Graham Vidler: I would agree with that, for three reasons. First, an independent review of the policy and its impact can help to maintain the consensus that has been so important hitherto. Secondly, there are a number of outstanding questions surrounding the long-term implementation of automatic enrolment, particularly around adequacy and contribution levels. Thirdly, we would all benefit if the review were part of a broader review of the entire retirement savings landscape, because it is very difficult to review policies such as automatic enrolment in isolation from the massive changes that are under way elsewhere in the pension system through, for example, the introduction of freedom and choice.

Q69 Chair: One of the things the NAPF is suggesting is the setting-up of an independent retirement savings commission. I presume you would see that being set up now rather than waiting until 2017, which is when the auto-enrolment review is due to take place.

Graham Vidler: That is right. We have said in our recommendations to the next Government that that should be the first thing that the next Pensions Minister does: creates an independent retirement savings commission to, firstly, help define what it is we are trying to achieve with our pensions policy and, secondly, measure progress towards that aim once we have agreed it.

Q70 Chair: Would this be a “Turner 2” or “Turner: the Sequel”?

Graham Vidler: “Turner: the Sequel”, but with a standing remit. One of the lessons we might take from the implementation of automatic enrolment and everything that has happened since is it took a remarkably long time to build consensus and to deliver automatic enrolment through that consensus. We believe one of the advantages of a standing commission would be to maintain a degree of consensus, at least, around the direction we are trying to head in with our pensions policy.

Q71 Chair: I suppose I should ask the others: is there a consensus around setting up an independent body, as proposed by NAPF?

Jonathan Lipkin: I would agree very strongly about the need for a stock-take. The difference between what you described as a Pensions Commission 1 and a Pensions Commission 2 is that Pensions Commission 1 set in train a very significant set of reforms that we are now implementing, and additional reforms have been added—particularly, as Graham and Otto have mentioned, in the Budget. Rather than establishing a new paradigm for moving forward, what a commission could do is really take stock of what is happening—what has worked and what has not worked—and from there assess the need for fundamental, radical reform. You need to get a good balance between stability and change. We have an awful lot of change at the moment. Much of it is very positive, but there is that need to look at the success and draw conclusions as to where you go from there.

Q72 Sheila Gilmore: I am going to turn to the next stage of auto-enrolment for smaller employers. There are issues about capacity for smaller employers. Some of the issues that they face would include their inadequate payroll and IT systems. Have you got any specific concerns in this area? What steps should be taken to address them?

Otto Thoresen: The starting point is what level of awareness there is amongst that group of employers on what the requirements are and what their obligations are. That is the first question. There will be a certain amount of work to be done in making sure that they are as aware as they can be of what the steps are that they need to go through to achieve success in this. Around the technology, I know there are discussions going on about how we can make it simpler for people to plug into the available capacity. One of the issues about the number of providers of service who may want to participate in that market being smaller is that you want to make it as easy as possible to make the systems work, and there are things that could be done there ahead of the bulge coming through.

The other issue you are going to be up against, undoubtedly, is that while most of the organisations that have gone through this process up to now will have had some form and some level of internal resource dedicated to the types of things that are involved in pensions and related benefits, for this next group, that will not be the case. The need to do it yourself, I suspect, will be higher for those individuals. I am not close enough to that activity day to day to be able to give you direct experience of what is currently being

done—potentially others who are going to come later could do that better for the insurance industry—but for me, that is part of the process we are in at the moment.

Graham Vidler: Just to complement what Otto said, there is plenty of capacity available at the pension scheme end of the process, among both Otto's members and the NAPF's members. The challenges that small employers are likely to face are pretty much around getting ready early enough. What we find from our experience of working with our members and their customers is that where a small employer starts their automatic enrolment process in good time—that is, six months before their staging date at least—when they engage with both their pension scheme and their payroll provider as part of that plan, automatic enrolment can be relatively straightforward, because they tend not to have all of the complexity that many large employers have. But it is very much dependent on that early engagement, and that is a consistent message that the regulator and the Government need to continue conveying to SMEs.

Q73 Sheila Gilmore: Is there not some evidence from the stages that we have already gone through that even some of the medium-sized employers have not necessarily thought about this particularly early?

Graham Vidler: Absolutely, yes.

Q74 Sheila Gilmore: Is there anything Government should be doing now to assist with this, do you think?

Graham Vidler: I think you are seeing The Pensions Regulator later in the inquiry. Their communication approach has been very much to nudge people towards progress 12 months from their staging date, and then again six months from that staging date. That needs to be complemented by messaging from schemes, as it is, and by messaging from Government around the “We’re all in” campaign.

Jonathan Lipkin: I would add something from an investment management perspective. We are probably going to talk about transparency and disclosure later. The challenges facing medium-sized and particularly small employers in understanding what a pension is, what default arrangements are, and making selections for their employees underline the need for the industry collectively to ensure that the language is clearer, that there is full confidence in the disclosure, and that we move to a better place in all of the areas that are being discussed more broadly in public policy, so that employers can be well supported in what are sometimes difficult choices.

Q75 Sheila Gilmore: There is a staffing issue for a lot of small employers. Maybe they will only have one person who knows anything about it, and that person could be on leave or off sick. Is there any additional resource or assistance that you think should be made available?

Otto Thoresen: From the providers' point of view, it is about making sure that the learning that all the providers who have been active in this market will have had is brought to bear. You have to step towards the customer in this respect and be able to make the

process as straightforward and simple as possible. I am sure that those customers about whom we are talking are challenged for resources and cannot afford to be diverting extra resource to this area, or they will try to do it as efficiently as they possibly can. Apart from the process of trying to get people early enough, to make the steps as straightforward as possible, and to make the technology as usable and friendly and straightforward as possible, I cannot think that there is an awful lot more that can be done.

Graham Vidler: Again, I would reiterate the point that one of the advantages SMEs will have is that they will be engaging with pension providers and pension schemes who have already done this—who have built and refined their processes with medium employers—and those processes will be somewhat simpler and smoother than they were at the start of the staging process.

Q76 Sheila Gilmore: Do you think that the providers are going to be interested in taking on the business of small employers?

Otto Thoresen: I cannot talk for all of them—some of them will speak for themselves later this evening—but if you look across the market in its broadest sense, there are going to be sufficient alternatives available for employers of this type. Every provider has their own strategy that they follow, in terms of the market they want to be involved with and where they believe they can service that market well, and I do believe that across that group there will be enough, in terms of capacity and choice.

Q77 Sheila Gilmore: Is this a role for NEST to be better advertised to employers?

Graham Vidler: Yes. NEST clearly has a public service obligation, which means that it will take on any employer that meets its terms and conditions. You will be speaking to some of the other master trusts after this session, but I understand that more than one of the other master trusts also want to make a similar commitment that they will be available to any employer who wants to use them. Between those master trusts and some of the insurers, there will be adequate capacity available in the market.

Q78 Sheila Gilmore: If I could go on to opt-out rates, everybody has said so far that opt-out rates are “encouragingly low”. Do you expect that to be maintained as we move forward to smaller employers?

Otto Thoresen: There are a number of areas in the whole pension reform piece where I am less confident that we will see the early start maintained, and this is one of them. That is not to be suggesting that we are going to have massive increases in opt-out rates. What we have seen up to now has been a population of employers who largely have been providing benefits already—clearly that is not the case in all examples—but as we move through into the smaller employers and as we move up in terms of increasing contribution levels, there has to be a risk that you have less engagement, and as a result you have higher levels of opt-out. There is some experience in some schemes that there is a slight increase in opt-out rates in the population of new entrants who come in later, after the initial phase of staging, where all the communication energy was being applied around setting the scheme up in the first place. The signals are there that we need to be cautious

about that and focus on what we can do to maintain the low rates that have been experienced up to now.

Q79 Sheila Gilmore: The figures we have been given and we have seen are for immediate opt-outs, are they not? Is anybody tracking what is happening after three or four months, or a year down the track?

Graham Vidler: It is a very good question. What is being tracked by the DWP at the moment is both opt-out rates in that immediate one-month period, which continue to run at around 10%, and people ceasing contributions in a three-month window immediately after. Those figures were published for the first time this year and run at about 2%. There does not appear to be a wave of people who are opting out, as it were, once they have realised what happens, even if that is a bit too late for the opt-out window. That is good news and encouraging for the future. Moving on, though, what we really need to be measuring is ongoing participation in pensions. We will very quickly get to the point where automatic enrolment and opt-out rates are interesting metrics, but the thing we really need to focus on is how many people are saving how much into workplace pension schemes.

Q80 Sheila Gilmore: Is that something providers should be collecting or DWP should be collecting? Who do you think has responsibility for this?

Otto Thoresen: I expect providers will be collecting data on their experience as a matter of course. Understanding how the membership of your scheme is developing and understanding the persistency of saving into the scheme is something that you would expect to do. It is still very early days, so I doubt if much of the data that is available now tells us very much, and as we go through the phases over the next years we are going to have to be regularly monitoring what the experience is, but also trying to be a bit more sophisticated about thinking about engagement more generally. We will no doubt talk about contribution levels at some point during our time. People remaining engaged and aware of what the value is of what they have got and the importance of it is going to be a big part of the journey they are going to be on through their life, as they go through their working lives towards retirement.

Q81 Sheila Gilmore: Otto, you touched on the whole issue of the move to higher contributions. The contributions at the moment are fairly low, and that may be influencing people's choices. I noticed that relatively recently Policy Exchange suggested that they thought that it would have to become compulsory. They obviously have a concern. Is there any appetite for that among any of our panel?

Graham Vidler: Personally, I am not sure what problem compulsion would be trying to solve. With opt-out rates running at 10% and while I agree with Otto that we need to keep a close eye on those, I do not believe they are set to rise significantly from that. It is not clear that we need to compel people into saving. Whether we need to apply more compulsion in terms of the amount that people save once they are in a pension scheme—whether the individual, their employer or both—is a separate and more interesting question, and precisely the sort of issue where we think an independent

retirement savings commission should be taking a view in the round, because it is a very complex question.

Jonathan Lipkin: I would just add that if you look at the history of the Pensions Commission, the 8% was never intended to be the end of the story; it was intended to be the beginning. There had to be a consensus built around the 8%, both in terms of employer involvement but also in terms of getting savers used to a new process, millions of savers not having had any exposure to pensions. That has now started, and the question is not if contribution levels rise but when. Compare it to the experience internationally. For example, Australia started 20 years ago with a very low contribution rate. It started at 3%; it has moved up, and I think it is now coming to around 12%. You can see how over time you get people used to the pensions process and build confidence in it, and then you increase the contribution levels and build tools to help them understand what the connection is between contribution level and outcome. I would be optimistic that we are at the beginning of something here, rather than having to re-evaluate immediately.

Q82 Sheila Gilmore: But the Australian one is a compulsory scheme.

Jonathan Lipkin: It is, but it started from a low base in terms of contribution levels. I appreciate that in a compulsory scheme it is difficult to vote with your feet, but there still needs to be a degree of buy-in to the idea of saving popularity. What I would say here is that there is the opportunity to build on what has been quite a successful beginning in an environment where economic contributions have been quite difficult. If you had gone to 8% straight away, would we have seen greater levels of opt-out? As I say, it reinforces the discussion we had earlier about taking stock in 2017 and then evaluating where you go.

Otto Thoresen: Just a quick final comment. It also raises the question about the danger of thinking in compartments here. Clearly the changes in the Budget have changed significantly the retirement income part of this, but they also have the potential to raise questions about how we can build a financial resilience strategy in the UK—savings across the different types of vehicle into which people can save, and how that fits with the pattern of debt that they are going to develop through their lives. At the moment, I think because the numbers are quite small and the levels of contribution are quite modest, people are not really thinking about this as part of their overall income and outgoings; they are thinking about one piece that has started to happen, which they may or may not have noticed to any great extent. As you start to think about people building up reasonably sizeable assets within their retirement pot, you have to start thinking about where that fits with the debts that they are having to manage and how they are managing their financial affairs more generally. That is not to suggest that we are on the wrong track—far from it—but if we just stay on a track that is pensions, there is a risk that we miss the opportunity of thinking about this more holistically from the point of view of the individual citizen, who is not thinking about it in a compartment; they are thinking about their family and their financial affairs more generally.

Q83 Paul Maynard: Can I just test Mr Vidler a little further? My recollection of when we interviewed the consumer groups last time was that their expectation was that as

contribution amounts rose, the opt-out rates would also rise in tandem, yet you do not seem to share that view. Could you just explain why you seem to differ from the consumer groups? It does seem quite a key point to me as to whether people will choose to opt out or not as the amounts they have to save go up.

Graham Vidler: Yes. It is something we need to keep a very close eye on over the next three or four years as the minimum rate of contributions applied to individuals rises from 1% including tax relief to 5% including tax relief. That is quite a significant increase. What we need to do is build on the success of the initial automatic enrolment of people—all of the research evidence shows that people have broadly welcomed being automatically enrolled because they have been led to understand the benefits of it—and make sure that the increases in contributions that will come in during 2017 and 2018 are accompanied by similar explanations of the benefits, in particular the value of the contributions alongside your own from the employer and from tax relief. With that in place, there is reason to be confident that some of the very real concerns about people opting out in the face of higher contributions will not materialise.

Q84 Paul Maynard: Just to be clear, do you think that should be a role for yourselves as providers, or representatives of providers, or for the DWP?

Graham Vidler: It must be a role for both. Certainly the success of automatic enrolment from 2012 to this point has been founded on high-quality, consistent messaging from the Department, individual employers and pension schemes.

Q85 Nigel Mills: I just want to go back to some comments you made a few questions ago about how you thought that employers, no matter how big they are, will have a choice of which pension fund to enrol their employees in. Does that weaken the arguments we keep hearing that we need to lift the NEST restrictions because the market has not failed for large employees but it will fail for small ones? If the market is going to supply everybody, does that mean we should not be lifting NEST restrictions and they should stay in place?

Graham Vidler: There are a number of reasons why the Government has decided to look earlier at lifting the NEST restrictions and to confirm its intention to take those off in 2017. They are not just about capacity in the market; they are also about simplicity of use for employers. Employers who want to have all their pension provision in one place, for example, do not want to be fettered by restrictions on transfers or contribution limits. Why should they not be able to do that with NEST when they can do it with any other pension scheme? I think the Government has taken into account all of those considerations as well.

Nigel Mills: Mr Thoresen, do you have any comments? I think you may have a bit of an interest in this.

Otto Thoresen: Yes. I was going to declare my interest. I realise I should probably have declared my interest when I was asked who I was. I told you who I am, but not who I will be.

Chair: I did wonder about saying congratulations.

Otto Thoresen: Just in case people wonder what the devil I am talking about, next February I will take over as Chairman of NEST from Lawrence Churchill. Clearly I have an element of conflict there, but I will seek to answer it in my current job, rather than whatever I will think then, which I am sure will have some overlap. There was something about the way this market was established in the first place. At the outset what happened was new entrants appeared in the market. This was an environment where it was not created on a basis where there was one player who was essentially in a position where, because of their public obligation, they were going to be the one that took the massive market share; it was a market where there was an opportunity for new entrants to come in and establish themselves. Some of those will be represented in the session to come. The vibrancy of that market is really important and will develop further. There is also a case for people who have become established and built scale activities to bring that scale to bear to be able to reach deeper into perhaps the size of corporate customer than they might have been able to do otherwise. I do not think we should be over-confident about how vibrant this market will be, but I believe that there are going to be enough competitors playing there to give good choice to the smaller employer.

Q86 Anne Marie Morris: Charges have always been a bit of a running sore. On every committee I have sat on, when we have talked about pensions, this has been one of the major issues. The concern expressed by the consumer is, one, the amount and, two, the lack of clarity and transparency. The Government in the end decided that they would impose this 0.75% cap going forward. The ABI have expressed a concern that the cap should not be reduced any further. I wonder if you could just clarify why you say that, particularly given the push from NEST and others—with your other hat on you will be doing something different—to push it further down. You have an issue about competition, but on the other hand they are very significant chunks out of this pension pot.

Otto Thoresen: The charges issue is very important. The ABI's position was clear. We argued against a charge cap. We felt that a charge cap would have potentially unintended consequences in terms of competition and innovation in the market, and that there could be risks of levelling up in an environment where there was a charge cap. That decision has been taken and the ABI's members are working hard to make sure they meet their obligations within that new regime that has been created. The issue for us would be around maintaining a market where there were enough participants to address the issue that we have just been discussing, because as you move into the smaller employers, there is every likelihood that the unit cost of operating there will be higher than it would be in a larger employer with more employees and more support services present. We have talked a little bit about the issue around opt-out rates, we have talked a little bit about how things will develop as we move up the contribution levels, and we have talked about the desire to maintain levels of engagement and education in the workplace, supporting people to understand the value of what they have and to keep saving.

If we look further ahead, what you want to be able to do is to make sure that the service that you can deliver to all employers who are auto-enrolled and are using your service for their employees is developing, and that you can invest in the technology to make it work better. At that level of 75 basis points, there is a belief that the market will continue to be one with enough participants to be competitive and attractive, but the further you push it down, the more risk you have that people choose to step away, and we

have seen some changes in the way that services are delivered and charged for as a result of the 75-basis-points cap coming in.

Q87 Anne Marie Morris: What sort of changes have you seen?

Otto Thoresen: It is around the area of what is charged to the employer and what is charged to the employee.

Anne Marie Morris: So what you are saying is it is pushed to the employee.

Otto Thoresen: No. The fact is that because the 75-basis-points charge cap is the limit on charges in respect of savings, if there are other services delivered to the employer, some provider firms will charge the employer for those separately, whereas they might have been bundled before into the service that was delivered. I am not saying that is a bad thing—back to your point on transparency, it is far clearer what is being paid for and by whom. All I am saying is that if you push further down on the charge cap, the risk is that you begin to make certain parts of the market less economical for some providers.

Q88 Anne Marie Morris: Yes, it is NEST, who should be battling exactly in the area that you say is most complex, who are minded to try to push their charges further and further down. While I hear all you say, I suspect the average consumer will say, “Does it really need to be that complex?” I do not think they really understand the benefit they are getting from the 20 or 30 different charges. I will be honest; I think most ordinary people would say, “How can you possibly justify that sort of level?” What you are effectively saying to me is, “We need all these different bits and pieces; we cannot simplify it.” I am not sure that that is something that most consumers would find acceptable. The claim for the average consumer has been, “Surely it does not have to be that complicated”. Where is the balance in risk?

Otto Thoresen: The charging structures that are available in the market now are hugely simplified over what were in the market 20 years ago. Having been involved in the market then and now, they are far simpler. There is the question about transparency around transaction costs, which we will no doubt come on to. All I was saying was that as you push down on the charge cap further, there is the risk that certain providers may choose to step away from the market for smaller employers because they look at the economics of dealing with them and they feel that, for them, those economics do not make sense. It is a judgment for them. I would argue that over time you should see the use of new technologies and the improvements in the way you service the customer bringing charges down further through natural increased competition, increased efficiency and simpler, more straightforward servicing. One of the ways to do that is to try to maintain some stability around the legislative and regulatory framework within which all this happens. That is what should happen. 10 or 20 years from now, we should be looking at an environment that has lower charges in it, because those lower charges have been delivered through improvements in the quality of the processes that support them.

Q89 Anne Marie Morris: Juxtaposing what Otto said with what I suspect Graham might say, while saying you were, as an organisation, in favour, you also talked about “unintended consequences”. To this point about simplifying systems, etc, I think one of your concerns was that the Government was effectively deciding how to categorise exactly what these charges were, and that was going to increase work, which is a rather different proposal to what Otto has just put on the table.

Graham Vidler: Yes. A charge cap of 0.75% does not bite on very many NAPF members. Average charges across NAPF members’ schemes are around 0.35% this year. Only 25% of our members charge over 0.5%. A cap at that level is not having a direct bite on many of our members, but it does do a few things. It poses, as Otto says, a challenge to innovation and entry across the market. Secondly, it causes all schemes to add something else to their work list for the next year. They have to prove that they are compliant with the charge cap, even where their charges are patently below that level; that is the way the Department has chosen to introduce the policy. Thirdly, at the margin, there are schemes within the NAPF who do charge currently 0.75% or more. Those schemes are having to do things like review their investment strategy and, as a result of that, they are incurring things like transaction costs, which may not make the move overall in the best interests of their members. We try to be neutral on the issue of charge caps, but there are consequences of applying a charge cap even where they do not seem that obvious.

Q90 Anne Marie Morris: In a sense they are obvious, but it is all a question of who then absorbs the risk. The issue historically has been whether it is the employer, the employee or, frankly, the pension fund. In the history of pensions there has been this see-saw between employer and employee with the different types of schemes, and now the focus is very much on the risk taken by the pension providers. I think the average consumer would say, “We hear what you say, but is it not time for you to start, frankly, taking some of the risk and feeling some of the pain to get this right?” What the Government is trying to do is make this simple, fair, accessible and transparent, and much of what they are trying to do might cause you pain—which I hope you are not going to pass on to the consumer—but is there not an element of this being a good market, and one that will grow and is well worth your investment?

Graham Vidler: In a trust-based pension scheme there tends to be nowhere to pass the charges on to other than the member. Where our members are incurring costs to comply with the charge cap, those costs have to be recouped from somewhere in their charges to their members—the end savers. That was the point I was making about the difficulty of administration.

Jonathan Lipkin: Can I come in on the charge cap? I would echo much of what Otto and Graham have said about the need to see competition and efficiency improvements driving charges down, but we would go back to the Office of Fair Trading market study last year and, indeed, the comments of the Pensions Regulator, who expressed exactly the concern about unintended consequences and made the link between charges and the value for money debate. Just to be clear, we are not arguing that charges should be seen as unimportant; it is just that we would say that people throughout the chain, including investment managers and pension providers, have more to do to explain what value for money means, and to ensure that a discussion about charges connects to the quality of the service.

If you looked at most consumer markets in the world, other than the most commoditised, you would not walk in and simply say, “Can you give me the cheapest?” You would ask, “What am I getting for my money?” It might be that the cheapest is the best, and that would be a great outcome for the consumer, but it might not be. What we would like to take away from the charge cap debate is that on the one hand, yes, you can protect consumers against excessive changes, but we would like to see a quality debate that accompanies that to ensure that we are clear—and, as I say, clear as an industry—on what we are providing for a given cost, so that the different decision-makers in the chain have a good information set. That goes deeper as well; as I have already said, I am sure we are going to come on to transaction costs, but just on the cap itself, it is making that value for money link.

Q91 Graham Evans: I just have a quick one on simplification for consumers. You find constituents come to MPs for all sorts of reasons, and investment and pensions is perhaps something they expect us to know a thing or two about. A couple of constituents came to see me. One of them was quite savvy. He felt that his ISA was his pension. From the little of what I do know about that, I did point out that it was not sufficient and I would not encourage him just to look at an ISA as a pension, but he said, “But it is so simple. I have instant access to it and I can understand the charges and the growth in it, and it is tax-free” and so on and so forth. He told me why he liked that product, and I understand what he means. It is very simple to understand an ISA. Another constituent came to me with his statement for his pension and he said, “Could you explain this to me?”

You mentioned the charges cap. It is a very complicated form; you get this big document from the FSA explaining reasons why things have gone wrong in the past—mis-selling and so on and so forth—and then you have this statement, which, again, is very complicated. It says “charges” and it had “0.5%”. It did not mention the investment churn charges; he asked me about that and I had no idea how to find that information out. It also mentioned the increase in his fund figure from the previous year and had a monetary amount but not a percentage. What he was saying to me was, “How can I compare the growth in my fund with what I have been charged?” You have a percentage figure for the charges—albeit not the investment churn figures—but they use a monetary figure for the growth in the fund and no percentage. I think it would be really interesting for most normal people to see what the figure is for the charges, including the investment churn figures, and the growth of the fund. Is it not possible for the industry to do that, to make it as simple as possible for ordinary people to understand the statements that are issued by your industry?

Jonathan Lipkin: There is an enormous amount of work going on to try to achieve exactly that at the moment. From our perspective, what we want to do is work both as investment managers and also with the pension product providers to ensure that information is meaningful, accurate, consistent and simple. We have taken a number of steps already to try to facilitate that. One of them we had begun when I was last in front of this Committee. We had suggested that you should have a single terminology—the “ongoing charges” figure—for investment funds and move away from the confusion that was apparent in the market between “annual management charge”, “total expense ratio” and “additional expenses”. What we were saying was, “Can we not have one terminology, backed with the appropriate methodology?” Funds are not the same as pensions—pensions are investment, administration, communication, governance—but when we are talking to

consumers, can we say, “This is the ongoing charges figure; this is what you can expect to pay on an ongoing basis,” and, alongside that, do more work on explaining what transaction costs are and the relationship between transaction costs and charges, and then a second stage, which is to turn that into a historic pounds and pence accountability?

I hear what you are saying about the muddle between percentages and pounds and pence, but one thing that we are being asked to produce is historic accountability based on pounds and pence, so that people are not looking and saying, “Well, this was 0.7% and this was 0.2%”. The next stage of the work, which is coming to completion this year—we already have the framework; we are just waiting for final FCA incorporation into its rulebook—is to provide pounds and pence level disclosure for investment funds that would allow those throughout the chain to say to consumers, “For the investment, you can see how much you have paid and the transaction costs incurred in that service”.

There is another piece, because people have rightly said, “Oh well, there are these market costs; there is the bid/offer spread; there are issues over portfolio turnover rate,” all observations that are correct. The final piece, which we hope to complete in the next few weeks and issue a paper on, is to produce a framework that could potentially be used regardless of the product—whether it is a fund or a pension—where there is investment involved. It will set out the components, and then those who are interfacing directly with consumers can take a view on how to present those in a way that they will understand.

Q92 Graham Evans: I think we are getting somewhere, Chairman. Could we make it as simple as possible, so the statement does not change from year to year, so that there is a comparison? If it is online, you can use a spreadsheet, for example. The statements seem to change—they are nuanced, but they are changes—so you cannot compare year to year. What you are saying does sound encouraging. When you say “consumers”, they are actually clients. They are customers. It is their money at the end of the day. We need to make as clear as possible the charges are that you are taking out and the growth in the funds, so that they can clearly see.

Jonathan Lipkin: We agree with respect to the importance of end consumers having the confidence. There are others as well. We talked about small employers, who also ought to have the confidence that when they are being told, “This is the charge,” that is the charge, because it helps to build confidence in the system. What we are trying to do is develop a framework that will also work for the new IGCs and the trustees. They are rightly saying, “We are going to have a legal obligation to ask investment managers for transaction cost information and assess that in the context of the investment performance”. I am sure you will be talking to some of the schemes. They will tell you how sophisticated some of the conversations are with fund managers. What we are simultaneously trying to do is to provide that information, so that the trustees, the IGCs and the insurance companies who are defining default strategies can make the right decisions on behalf of consumers at the same time as providing the underlying building blocks, so that those who are providing the statements to consumers can also do as you suggested, which is to provide something that is as simple as possible. In other words, all of the building blocks to be available and then used in different ways to ensure that the right people have the right information at the right time.

Q93 Anne Marie Morris: One of the proposed solutions to this lack of transparency that the Financial Services Consumer Panel (FSCP) came up with was the concept of a single investment management charge. Is that a runner? Would it work?

Otto Thoresen: It is a runner. Jonathan has just described the process that the IMA has been taking forward. We have been working very closely with them. We do not think it is sensible to invent two or three different versions of this; the right thing to do is to do it once and to do it well. Our plan would be to bring the work that they are doing within the investment management industry through into the pensions industry once we have got the loose ends on it sorted out.

Anne Marie Morris: I do not think that Jonathan was suggesting a single charge.

Jonathan Lipkin: What I was suggesting is that whatever you do should pass certain tests, which are: meaningful, accurate, consistent and simple. What we have at the moment are different views of the world. If you go back to the OFT, the OFT recommendation was specifically something slightly different with respect to how charges and transaction costs are presented. They were concerned about the incentive structures for investment managers because they recognised that charges and transaction costs behaved in different ways. The consumer panel has taken a different view on that. From our perspective, we are going to have a debate with the Consumer Panel and with others to try to ensure that whatever the final outcome, it meets those tests of meaningful, accurate, consistent and simple. The fact that your question is saying, “Why can we not have these single numbers? Why are people coming with these statements that they do not understand?” demonstrates that things are not where they need to be. What will happen over the next six months, working with the ABI and the NAPF, is an accelerated dialogue. The FCA and DWP are under a legal obligation to make rules on transaction-cost disclosure by pretty much next summer, and we want to be part of that debate, leading from the front, making sure that that information can provide people with exactly what they need.

Q94 Anne Marie Morris: That all sounds wonderful, but it still does not answer the question. Could there be a single management charge, and what are the obstacles? You are talking about simplification. Great. Wonderful. Love it. What about a single one?

Jonathan Lipkin: There is a single figure at the moment, which is the ongoing charges figure for the agency service. The debate at the moment is whether you should combine what you are paying a manager to invest on your behalf with transaction costs that behave in different ways. What the OFT said is that there are reasons for thinking that you should still be able to be clear about what you are paying somebody to perform a service on your behalf. You have decided that you want to invest in a pension or hire a fund manager and there is a charge for that service; it is the professional service that they deliver to you. You could try to do it yourself, but you want to go to somebody to do it, like many things in life—hiring a decorator to paint your house or whatever it is. What we are saying is that on a historic basis, when you know exactly what you have charged and what you have spent in transaction costs, it is possible to get to a single number, because you know exactly the charges you have levied and the costs that you have incurred and it is possible to add it together. If you are saying, “Can there be a single number that tells a consumer historically what they have paid?” then it is possible. The debate that the FSCP

is having and the OFT is having is how you mix what are reasonably predictable charges for a service with what are inherently unpredictable transaction costs in a way that still gives the consumer something that meets those tests of meaningful and simple. That is where the debate is going to be.

Q95 Anne Marie Morris: Let me ask specifically about the management charge. You are right; the transaction costs are much harder, because the market is the market. Surely the management element of it should be capable of being articulated in one number so people can make comparisons across those offerings.

Jonathan Lipkin: It already is in European law. It is called the OCF plus if there is a performance fee or a—

Anne Marie Morris: Plus?

Otto Thoresen: It depends what product or service you are offering. At the moment, if you are in Pension Scheme X, which has, let us say, a fixed monthly fee plus an annual management charge, and over here is Pension Scheme Y, which does not have the fixed fee but has a higher annual management charge, equivalence is very difficult for the saver to evaluate.

Q96 Anne Marie Morris: Is there any way of trying to bring some equivalence, so that the consumer can make a sensible—

Otto Thoresen: We had started off on this some time ago—about the time that I think Jonathan was referring to. We had got to the point of standardising around the annual management charge of the pension arrangement, so turning that into something that would be equivalent across different schemes, and then we came up against the challenge of getting the transaction costs thing dealt with properly. Then the debate moved on somewhat, because the pressure came on about, “How can you disclose transaction costs more clearly?” Unless you do that as well, you are only telling half the story. That then fed onto the work that we have been hearing about. If you want to think about how the market will work well for savers, one component in that is going to be that you will know as a saver what your starting balance was and what your end balance was, and what the contribution was to that in terms of investment growth or loss and what the contribution was in terms of charges levied, and you will just know. You may not like it or you will like it, but at least you will know and then you will build year on year from there. At the moment we are trying to get there. We are trying to get there at a time when there are a lot of other things going on as well, but the intention is clear and it is a really important part of establishing confidence in the industry from people who are not experts and who do not want to spend ages reading long papers on portfolio turnover or anything else.

Q97 Anne Marie Morris: What is the timeline, Jonathan, on this?

Jonathan Lipkin: The timeline is that on the historic pounds and pence full accountability that I talked about in terms of being able to look back and say, “This is

what has been achieved in investment terms and charges and transaction costs”, that is now at a process where it is a part of the so-called statement of recommended practice, which is an accounting guideline for implementing fund annual reports and accounts. It is awaiting the final stage of FCA approval. It can then go into the FCA rulebook, which will require funds to complete their annual report and accounts in line with the SORP. That pounds and pence stage is almost there, and once we get that across the line all investment funds will produce annual reports and accounts that will provide the building blocks for that accountability so that other people can come and use those numbers and provide them to consumers. On the other piece, we are a few weeks away from publishing a paper that outlines for both charges and transaction costs how we think disclosure could work in a consistent way so that we do not have to come back and explain to you why we have not managed yet to crack what has been a challenging set of questions but one that we have to get right now.

Chair: We are going to move on. We have given that one a good run round the block. Automatic transfers, Kwasi.

Q98 Kwasi Kwarteng: Yes. I am interested in this particular issue because people have expressed concern about it. Do you think we are in a current state where we can move fully to a system where, with these automatic transfers, people can transfer their pensions? Is there anything more that the DWP can do to get us ready in this regard? More broadly, do you think this is the right thing? I just want to hear what you have to say about it.

Graham Vidler: The NAPF’s perspective on this has been that a means of bringing small pots together in some way is a very good idea from the consumer perspective. It improves their understanding and has the potential to improve their engagement. We are not convinced that the solution that is currently being pursued, whereby the pot automatically follows the member regardless of the member’s destination, is practicable in the short term. We did say at the start of the process that a better way to do it would be to have a small number of large-scale aggregator schemes that hosted small pots on behalf of people. That would be a system where it would be much easier to give consumers confidence about both the quality of the provision they were receiving and their ability to trace their pensions in future. The Government, as you know, have gone down a different path. While we are fully engaged with them in working on the automatic transfer system, our view is it is very difficult to get up and running.

Otto Thoresen: There is still a lot to be done. As far as I am aware, there are still some significant policy challenges around how you can ensure good governance and what sort of technology you should be adopting to support the system, and there are alternatives around that also have to be considered. From my own experience, it is one of the most critical aspects of making sure that pension reform turns out to be a big success for the savers who have participated in it. The fact that we do have job mobility and that people do change jobs so many times through their working career, means that people continuing to get value from the small pots that they have built up and bringing them together so that they can understand how their pensions assets are growing is going to be a really important element in this working in the medium term and long term. I do not get a sense that we have a totally thought-through policy on this that has addressed some of the big questions that are still outstanding.

Q99 Kwasi Kwarteng: What would you like to see the DWP do?

Otto Thoresen: We are actively—as Graham is and others are—working with the DWP. The questions are being brought to the table in the right way, but what I would be saying is that we have got to evaluate the alternatives that are open to us and not be too constrained in carrying on down one path if there are aspects of that that we think could be dealt with differently. Because we have got a change of Government coming up, we have to be confident that whatever direction—*[Interruption.]* I woke everybody up there, but I was speaking from a layman’s point of view. It will be different in some way, I believe.

Kwasi Kwarteng: It will be exactly the same.

Otto Thoresen: I was in no way attempting to make any prediction.

Chair: Stop digging now.

Otto Thoresen: Chairman, I am quite happy to be digging over here. I will just keep going. Consensus is important, and it is the policy direction we need to keep behind.

Q100 Kwasi Kwarteng: Have you got a time frame in mind for when you expect the DWP to have a fuller schedule, if you like, of the issues that need to be addressed and how they will address them?

Otto Thoresen: I must admit I do not. I do not know whether either of my colleagues is closer to the process than I am.

Graham Vidler: All I know is there is a lot of activity at the moment and a lot of working groups, but we do not seem to have fundamentally a model that works across the industry for every pot to move with every job move.

Q101 Graham Evans: There has been some excitement about the new pension flexibilities in some quarters, but the National Association of Pension Funds have expressed “deep anxiety” about certain risks to savers, in particular about the short-term lack of regulatory certainty and some of the “sub-optimal decisions” that may or may not be made. What sorts of decisions are savers likely to make, and what are the likely consequences from them, in your view?

Graham Vidler: Our concern is around the availability of choices for savers in the short term—in the next year in particular—where there is likely to be a lump of people wanting to access their money, because we know that some people have been waiting during the course of this year. Given the late emergence of regulatory certainty, as we pointed out in evidence to the Committee looking at the Pension Schemes Bill, it is not clear that either our member schemes or the market more widely have had time to develop all of the solutions that people might need to access their money in the full spirit of freedom and choice, as it were. That means it is very important, firstly, that the Government continues to press on with providing legislative and regulatory certainty as we move into the new year and, secondly, that the FCA continues its work looking at how the retirement income market is working for consumers, having identified considerable

consumer detriment earlier in the year, because that annuities market will still be a very important source of income for people next year and beyond. Thirdly, we think some of the rhetoric that has developed around freedom and choice—being able to use your pension like a bank account, for example—is, frankly, setting unrealistic expectations that mean that people are more likely to be disappointed with what they can do with their pension when it comes to it.

Otto Thoresen: Trying to keep it simple and trying not to make any more obvious glaring errors about the future in this place, there are two phases to this for me. There is getting this landed in the next six to nine months, because it is coming quickly towards us, but then there is looking through that to how a system like this works well for savers in a pension reform context and what are the things we could spend time thinking about developing to make it work more effectively—what the products look like, etc.

In the interests of time, let us focus on the short term first. Understanding the scope of the pensions guidance—how far it goes and where it stops—for me is really important. Until we are clear on what that is, there is a risk that people build in too much expectation about what it can do. It is clearly not advice; it is guidance, and it will be limited in its ability to answer questions for people. It will help people raise the questions in their minds that they should be thinking about, but it is not going to answer them. We have to make sure that the system around that, which is the signposting to it and the receiving of the saver back from it, is well regulated too. What is clear is that some of that stuff will still be under development as we move into April and May next year. The FCA published this week an update that said they were going to do more work on this area next year. What the industry wants is as much certainty as soon as possible so that certain things can be made to happen as well as we can, the signposting being one of the obvious ones, but then clarity around how providers should work with their clients well before and after some of these decisions are being made.

I would also echo what Graham says. In the short term at least, some of the language around access being akin to a bank account is unrealistic given that we are building on technologies and systems that have been developed to deal with a very different kind of process. I would like to think that we do not lose sight of the fact that this is about retirement income as well. I know, sadly, that most of the pots that people are going to be retiring with next spring are going to be quite small ones, and so the option of cash may well be the right option for them, but it is about income options and income solutions that we need to be thinking, and the longer-term work needs to be focused on what good income solutions look like for the generations to come.

Jonathan Lipkin: Let me just add something very quickly on that. The guidance guarantee we believe is something that has relevance well beyond a single point in time. We are looking now at decisions that may not be one-off decisions as you choose to retire but that may be informed by decisions that you have to start making in your 50s. If you do not make a one-off decision to, for example, buy an annuity at 66 or 68 then you might have to make another decision about what to do in your mid-70s. For us, the guidance framework is something that both extends into retirement and has a relevance as you come up to retirement, which then in turn raises the question of what default strategies look like. We know that 90%—perhaps 95% in some cases—of scheme members are going into default strategies. Trustees and insurance companies—those designing those strategies—

have now got to decide what the limits of their responsibilities are. Do those responsibilities stop at the moment you say, “I am going to retire” or do they extend into retirement? Does there need to be a default into retirement? As I say, all of that constitutes guidance in some form, and so we would like to broaden that debate beyond the guarantee to something that is much wider about how you support savers across the lifetime.

Chair: Graham, most of it has probably been covered, so I am going to move on, because time is moving on, to Nigel’s questions on default.

Q102 Nigel Mills: We were drifting into my questions about what the regulator or the Government should be doing about this default situation. Presumably de-risking people at 55 to wind down to an annuity at 65 is not going to be a particularly clever strategy for those who do not want an annuity. What should be done to try to produce perhaps a better default for people in light of these new rules?

Graham Vidler: The challenge we have is connecting what we traditionally call accumulation defaults with at-retirement or decumulation defaults. There are defaults in any system, and we do not yet know what defaults will emerge from freedom and choice as to how people take their money. We can speculate that, without further intervention, they are likely to involve people taking big chunks of cash out of their pension scheme and putting it somewhere that is probably sub-optimal value for them. We need to be thinking rather harder now about the opportunity that comes from setting better defaults, whether those defaults are set by trustees or by independent governance committees in the case of insured schemes. Those defaults would look at what trustees think might be a good solution for people at the point of retirement—perhaps a combination of flexible access to cash for a period of time followed by an annuity purchase later in retirement, but I do not know; it will vary from scheme to scheme. Setting those defaults will also help you set a better default for your investment strategy, because if you know the default at retirement age, you know what you are aiming for in the way that you currently know you are aiming for annuity purchase. In the absence of that clarity, there is a risk that anybody shifting their investment strategy will shift from targeting annuities, because that is the wrong thing to target, to targeting something else, which may also be the wrong thing to target.

Jonathan Lipkin: I would just add that there is an opportunity here to go back to the quality debate. On the one hand we have the charge cap, which will help to protect consumers. At the other end of the spectrum, we have the new IGCs, so independent oversight. There is a great opportunity to define better, consistently across both the contract-based and the trust-based environment, what is meant by quality in this new landscape, and to come up with a framework that potentially could help decision-makers, in a very consistent, relatively simple and demonstrable way, to show how they are designing default strategies on behalf of their consumers, so that we can have a tangible discussion about what you should be doing in terms of the processes. There is never a single right answer in investment terms; different employers, consultants and trustees will take different views across different schemes about what they think they should be delivering. However, in process terms, there are some things that are consistent, such as being clear about the objective for the members, how you implement your investment strategy and how you review that strategy, that would be applicable both to the

accumulation phase and to the decumulation phase, and would help you to join up, so that you could then demonstrate to Government, regulators and scheme members how you made the decisions.

Q103 Nigel Mills: I suppose the issue I am thinking of is when I signed up to a DC pension scheme 10 years ago I probably told them a retirement age—say, the state pension age—and I assumed and they assumed that I would take an annuity when I reached that age, so they have told me, “This is what the flight path will be”. If they write to me in six months’ time and say, “It has all changed. It is very complicated. What would you like us to do now? Would you like us to keep you on that same assumption or would you like us to change, to take a lump sum and do a bit of draw-down?” and if I go, “Oh God, that is a bit difficult” and file it in the usual place to think about next time I find it, at some point they are going to have to do something, are they not? If I really just do not reply and do not think about it, they either leave me on what I was always on and just say, “That is no risk to us because we have left you where you thought you were going to be” or they say, “Our default path for people who are not telling us anything is to now to assume they will do a flexible draw-down kind of thing and take a lump sum, so we will not start de-risking”. Presumably at some point somebody has to say, “Dear pension schemes, this is what you should do for non-responsive customers.” Is that right or not?

Graham Vidler: Yes. We think that is very important—pension schemes being able to have that type of conversation with their customers and say, “In the absence of any action from you, we are going to take this action on your behalf. The consequences of it will be A, B and C.” In a landscape where the regulation of freedom and choice and the new things that are available through freedom and choice is not yet clear—the FCA have promised to do further work on it next year; so will TPR, the regulator of trust-based schemes—we need to urgently move on and understand how schemes can have that kind of conversation with their members, because, like you, we think it is imperative.

Otto Thoresen: We are going to have to get to a place where there are a number of alternatives that are recognisable. The annuity was recognisable as a mechanism for turning capital into income. It has variants, but the core proposition was reasonably clear. At the moment, everybody has a sense of almost there being an infinite number of alternatives out there, and that cannot be the right shape of this conversation that you are describing. It has to be a conversation where there are some sort of categories defined that have certain characteristics that you will be able to choose between—you will have some basis on which to engage in that discussion. For me, it is a different kind of defaulting. If you are starting to save, the power of the default is that inertia will take you into something that will work for the vast majority of people in that early stage of their savings life. As you move to this point, the fact that you are an individual, and your family position, debt position and intention to go on working are whatever they are, means that you cannot be defaulted quite the same way; you have to have some engagement with the process, but not to the point that you will have to choose from this infinite number of different alternatives, each of which has a different set of outcomes potentially in it for you. I do not get a sense that we have the time at the moment to put the energy into that discussion because of the more immediate and challenging requirement to be able to deal with the immediate changes that are coming, but that is the kind of discussion that we need to understand—and what the role of the trustees will be in that process where it is an

occupational scheme, what the role of the IGCs will be if it is a contract-based scheme, and the extent to which we can build advice capacity in an accessible form for people to help them with some of these decisions as against where we are now. For me, that is the interesting part of this longer-term discussion.

Q104 Nigel Mills: We are almost saying at age 55, “Do you think you will want to do an annuity in 10 years’ time, or do you think you will want to do flexible draw-down or something different?” You are gambling at that point.

Jonathan Lipkin: It is back to the point about the guidance guarantee. Our thinking about how to support people cannot be focused just at that later point in time. We need to develop something that looks both back to that period in your 50s when you are faced potentially with some difficult decisions, and later in life in your 70s, when you may also have to re-engage with the market at a stage in your life where you might require a different set of supports.

Q105 Nigel Mills: I think we have cantered round that one enough. The second line of defence has been an often-floated idea. Having done two Bill Committees on this topic recently, we have been round that track. Would you all agree that there should be some second line of defence, so that before people start selling irreversible products to people, there really is a mechanism to check that what they are selling is in the interests of the people who are buying it?

Graham Vidler: Yes, though the second line of defence is possibly the wrong way round at the moment. The way we are looking at it, as I have tried to describe, is that over time we expect trustees, in the case of trust-based schemes, to set out a small number of default pathways open to their members that will give them good but not necessarily optimal outcomes. That, in our thinking, will become the first line of defence. The guidance service we then conceptualise as the second line of defence, giving people an opportunity to look at various pathways and compare them to their own circumstances and make sure that they are right for them. Rather than thinking that we have a guidance service that starts from nothing, we think the guidance should be an important way for people to check that the defaults being offered to them are the right thing for them, and to change them if necessary.

Otto Thoresen: I would agree with you that we need to make sure—and I think providers would agree with this, too—that the saver is in the best possible position in the sense of being aware of the alternatives and is thinking about the consequences of the decisions they are making rather than stepping into a decision that ultimately might not be the right one for them. Where we are looking for clarity is how you construct that in a way that the provider community—the one who has the relationship with the customer—is clear how far they can go and how far they should go. One man’s good customer service can be interpreted as a sales line to try to get an outcome that suits the provider rather than the customer. That is why we are pressing the FCA to give us some clarity around that—how does that work? What does good look like? What does that process look like?—to maximise the chance that the customer has got those ideas in their head when they are making their decision. We were trying to make that work around the annuity market before and the introduction of the code of conduct was about consistency of engagement

on the options that were open to you, but, despite the fact that the code was there, shopping around was not happening. Now we are going to have more alternatives, as we were discussing earlier, so it is even more important that you have some kind of basis on which that conversation can take place.

Jonathan Lipkin: Also, at the level of product manufacture as well, the responsibilities need to be clear such that, whatever the product—whether it is an investment-management product or an insurance product—those products are fit for purpose, well designed and transparent in delivery. We talked earlier about the need to sort out the communication of charges and costs, but it is also other parts of communication, to ensure, as products move through what is sometimes a very complex distribution chain towards the end consumer, that the end consumer's interests are put first through the value chain so that people can have confidence in an environment where they are going to benefit from greater choice but there are significant challenges in making the right choices.

Q106 Graham Evans: Why do you need the FCA to tell you that? Can you not work that out for yourself, broadly speaking?

Otto Thoresen: Again, you will be talking to providers who have got experience of dealing with this stuff day by day, but you have to look at the environment we have been operating in for the last two or three years. What we are keen to see is some definition of where those boundaries are—the boundaries between moving over into effectively giving people advice on a decision without them realising they have been given it. It is about consistency in the way that discussion is dealt with. The provider community will provide service to their customers; they will help their customers. That is what they do. That is part of the service they deliver. The accusation has been in the past that that can go too far and you can try to influence the outcome in a way that is not necessarily the best for the customer. What we are trying to do is say, “Let us get some clarity around where that framework sits”.

Chair: Teresa has a quick question. We will make this the last.

Q107 Teresa Pearce: Mr Vidler, you seemed to be saying that you thought the second line of defence was the guidance guarantee. Is that what you were saying?

Graham Vidler: In the long term we would think about the guidance guarantee.

Teresa Pearce: The guidance guarantee is not compulsory, so if people do not take it up they have no second line of defence.

Graham Vidler: No, it is not compulsory, but we expect take-up of it to be very high. When we researched with people aged 55 and over earlier in the year, less than 15% of people said they would not use the guidance service.

Q108 Teresa Pearce: But we have just listened to how it is complicated, people do not understand it, there are too many choices, it is completely new and no one knows what is

going to happen. For those people who do not take the guidance guarantee, would you not accept there should be at least three questions they are asked? “Do you understand that you might pay tax on this?” “What would happen to your spouse if you died?” “Do you understand that you may get a different return if you have health conditions?” Just three or four simple questions. Do you not think for people who do not take the guidance guarantee there needs to be another second line of defence?

Graham Vidler: I am not necessarily arguing against there being a third line of defence.

Teresa Pearce: Alright. We will settle on three lines of defence.

Graham Vidler: Questions like those are important for people to understand, as Jonathan was saying, not just at the point—

Teresa Pearce: If they have not considered anything else, just to consider those.

Graham Vidler: Yes. You do not start considering those when you come to take your money out; you think about them earlier, as Jonathan was saying.

Teresa Pearce: Well, some people do.

Graham Vidler: Yes. If possible.

Chair: I suspect this is going to run and run, but at the moment can I thank you very much for coming along this evening and giving us your thoughts? It is going to be very useful for us. Can I ask you very quickly to move out, because we have a second panel to come in? Thank you.

Witnesses: **Adrian Boulding**, Pensions Strategy Director, Legal & General, and Chairman, Pension Quality Mark, **Tim Jones**, Chief Executive Officer, NEST, **Morten Nilsson**, Chief Executive, NOW: Pensions, **Patrick Heath-Lay**, Chief Executive Officer, People’s Pension, and **Jamie Jenkins**, Head of Pensions Strategy, Standard Life, gave evidence.

Q109 Chair: Thank you very much for being patient and waiting. We have overrun in our first session; I hope you do not have an early dinner planned for tonight, but it depends on how long your answers are. Perhaps that is a slight indication. If I can begin on my left—your right—and you can introduce yourselves for the record, please.

Jamie Jenkins: Jamie Jenkins, Head of Pensions Strategy at Standard Life.

Patrick Heath-Lay: Patrick Heath-Lay. I am Chief Executive Officer for B&CE, provider of the People’s Pension.

Morten Nilsson: I am Morten Nilsson. I am the Chief Executive of NOW: Pensions.

Tim Jones: I am Tim Jones. I am the Chief Executive of NEST.

Adrian Boulding: I am Adrian Boulding. I am the Pensions Strategy Director of Legal & General.

Q110 Chair: You are welcome. Thanks very much for coming. Really it is the afternoon, but it is probably evening now, is it not? I am going to ask the same question I asked the first panel. There was due to be a review of the NEST restrictions in 2017, but as the announcement has already been made and the decisions taken, is there a need for a review of what is happening to NEST? Is it still necessary? Perhaps, Tim, I could maybe start with you, as it is probably more relevant to you.

Tim Jones: There may well be sense in having a review of the way that the policy has settled. Whether it is 2017, when there will be over half a million small and micro-businesses being drawn into the duties, or whether it is 2018, when the bulk of the onboarding of small and micros is complete, is a matter for some debate. It would be for the Government at the time to determine the scope of that review, but this is a very big policy implementation, so I would have thought there would be some merit—perhaps not just looking at the role of NEST but certainly looking at the role of NEST—in taking stock as we get through to the end of the staging.

Adrian Boulding: I would endorse that. There is an open question: “What next?” So far automatic enrolment has been very successful; I am sure in 2017 we will still feel it has been successful. It is not the end of the policy; the policy needs to be taken further. Any review will take time. Implementing the results of any review will take further time. I would encourage the incoming Government to say, “No later than 2017. Get on and do that review.”

Q111 Chair: What about your views on having some kind of independent commission or body that would look at pension policy in a more coherent way than perhaps an announcement by the Chancellor in the middle of a Budget?

Jamie Jenkins: I would agree there is merit in looking at that. Clearly, we have a lot of success in the consensus around automatic enrolment. One might argue similarly in the case of the new single-tier state pension, in terms of moving that through. It is a case of looking at that. I do not think it is about taking the politics out of pensions, as some people would put it, but it might be about trying to get consensus amongst parties within the politics of pensions. Yes, there is merit in looking at that as a possibility.

Morten Nilsson: The pace of change has been so high for the past few years that it would be a very good idea. A commission could take a step away and just look at the whole landscape, because it is changing quite dramatically and many of those changes are not obvious to anyone and they will have long-term effects. Therefore, I would propose that that is done.

Q112 Chair: If that is desirable, who would constitute such a body? Would it be the responsibility of the DWP or would it be something that the industry would lead?

Patrick Heath-Lay: It would be preferable that it was not the DWP. It should be something of a collaboration between the industry and perhaps Government Departments. It is important that we get a good helicopter view of all the different policy aspects that are running, because some of them do not really fit in the current time scales. For example, pot-follows-member as a concept is a good idea, but given the timing of that when there is still a huge amount of the automatic enrolment market to see through, and the implications it has on pretty much any provider that is willing to serve that market in the remaining time available, it is important that that is evaluated and has good cross-party support before we are committing resources as providers to try to deliver that, and delivering it in a sensible timeframe that does not impact on the automatic enrolment timetable.

Q113 Paul Maynard: We have had two slightly conflicting pieces of evidence from People's Pension and NOW: Pensions that I just want to explore. On the part of People's Pension, the narrative on auto-enrolment is: so far so good; a few hiccups, but the challenge is now really beginning. On the other hand, we have Mr Nilsson from NOW: Pensions suggesting that they have been quite surprised at how unprepared the larger employers have been; there has been a very much last-minute mentality and a surprising lack of knowledge about pensions generally. Those appear to me to conflict. Maybe Mr Heath-Lay could set out what he thinks the challenges will be for smaller employers and the panel can then decide whether they agree or disagree with that interpretation and Mr Nilsson can justify whether he thinks I am wrong and misinterpreting or confusing the two pieces of evidence.

Patrick Heath-Lay: Of course. Our comments are really based on the market evolution today. The market has been well served. There has been a good amount of support from providers and advisers across the industry to see the organisations through so far. We ourselves have had 1.2 million members and 4,200 employers coming through in that period to date. Yes, we have seen some of the things that you have alluded to and Mr Nilsson has alluded to in his evidence. We have seen employers coming late in that process, partly because of their own planning and partly because perhaps they have been let down by the providers in the market, but competition is sufficient and capacity was sufficient to absorb that. We stage an employer within four days, for example; that is the degree of reaction time that you have. Our view very much is that will continue to be. As providers, we will have learnt lessons from this last 12 months. Next year will be a very similar market—reasonably well provided again—but 2016 onwards is where the real challenge comes. That is when the volume really takes off. That is when we are dealing with the under-30 market. There are some seriously big challenges in that market to come. I do not disagree with perhaps the summary you have got. We will have seen evidence of that, but, broadly speaking, that market has been well served, competition has been good throughout that phase and provision has been good, certainly from our perspective.

Morten Nilsson: I largely agree with that. Our observation is 20% of the clients we have signed up this year have come in after their staging date, so there is quite a large proportion of our clients that come in late. We can communicate, and the Pensions Regulator is communicating, that “you should prepare early”. It is just a fact that many of the smaller employers will not prepare early and will come in late. We need to make sure that as much communication is given to them as possible, that they understand the implications of being late, but also that we are geared up to deal with it when they come in late. It would be fantastic if we had them in six months before, but that is just not going to

happen. As was mentioned, there has been good, vibrant competition in the market this year. We expect it to continue next year. Next year, as you say, is very similar to this year—there is a slightly higher volume—but 2016 is completely different. What we have seen this year is that some insurance companies have been unclear of whether they would service their clients in the market or not, so they have been dipping in and out, and that has been complicating matters for both advisers and the employers. In 2016 the companies are just getting so small; they are very few. We are in this and intend to offer our services and have a voluntary public service obligation, if you like—we have put ourselves where many providers have not—and that is where it may be very different.

Q114 Paul Maynard: Do any of the other panellists disagree?

Jamie Jenkins: Let me just add something different. Hopefully I will not just repeat what has been said. Interestingly, we are only about 3% of the way through the employers; we have 30,000 or 40,000 of over 1 million employers. We are about 30%-odd through the schedule in terms of time. Arguably, we are about halfway through the number of people—5 million people of 10 million, roughly. There is a lot to be said in building on what has happened so far. If we are to reach a tipping point—a social norm—we should build on the success of what has gone before. Arguably, one out of two people in the 10 million population we are trying to enrol are now enrolled and have stayed in. There is something that says if we spend the next few years in an environment where people themselves as employees expect to be part of a pension scheme and employers therefore believe they have an obligation to do that, we will be a lot more successful than if employers continue to look at it potentially as a burden. To answer the point, our position is that we are in the automatic enrolment market. We have dramatically up-scaled our capability to take volumes—more than 10 times the number of members that we can enrol in a day. We have allowed a process that gives an employer the chance to set up a scheme in six minutes, which we famously demo on YouTube. You can set up a scheme very quickly. We have set up over 1,000 smaller schemes in auto-enrolment. We have 10,000 existing clients—employers—who have schemes they set up many years ago but have yet to stage. We are very much involved going forward.

Q115 Paul Maynard: Clearly you are going to have more employers coming on line. You cited the figures. Their needs are going to be slightly more complex and they will need more support. Are you all confident that you have the resources within your organisations to deliver on, as you pointed out, the remaining 97% of employers who are out there?

Tim Jones: We have a legal obligation to act for any employer that wishes to use us for whatever part of their response to the duty they wish NEST for, and we take that very seriously. We believe that different sorts of advisers are going to be critically important as we go down the size bands of employers. It started with employee benefit consultants with the major corporates; we have had a period where independent financial advisers have come to the fore; and we are going to go to a place where a broad range of accountants, bookkeepers, administrators—a rich mixture of service providers—are going to do a lot of the work. Research after research says that the majority of employers are going to look for some support in doing this. What we are trying to do is to build relationships with those different advisers, often through their trade bodies. Another

important factor here is payroll. As we get down to the small and the micro employers, it seems to be emerging that integration with payroll, however it happens, is a core part of making the every-pay-period administration of this work well. In a sense, the real-time information obligations from HMRC have helped, because payroll now has to send the RTI file as a regular part. My view of this is that people will begin to see payroll as sending the RTI file and sending the pension file and that is how the new normal will emerge.

Q116 Paul Maynard: I did read the Committee's note on the visit last week we had to NEST, which sadly I could not go on. There seemed to be some degree of doubt as to whether you could scale up to the 100,000 or 120,000 you would have to cope with in a worst-case scenario. Is that a fair assessment of your position? Can you work with Tata Consultancy to really deliver that, or are they too costly for you?

Tim Jones: There are a number of questions in there. Let me go to the root—the question of whether we can scale up. I will do it in layers, if I may. The software that Tata are using is scalable beyond anything that we might seek. I have no qualms about the software scaling. We then buy computers and bandwidth capacity in line with growth in our projected need. We do the same with call centre and back office people capacity. The challenge therefore is that while it is relatively simple and relatively short-term to upscale your hardware and your bandwidth, because of training it just takes longer to upscale the numbers of competent people to man your call centres and run your back office operations. We will continue, as we do, to forecast what we are going to get. We have coped with everything that has been asked of us so far. If a number of providers exit the market in 2016 or 2017 and we are left to do nearly all of it, which is one scenario I have to look at given the legal obligation, then there might be a bit of a lag, depending on how unforeseen those withdrawals from the market were. If I have got six to eight months to see that withdrawal of the other providers happening, we will be fine, because the underpinnings of the software and the hardware will be readily scalable.

Morten Nilsson: The Pensions Regulator has been considering publishing a list of providers who are willing to take everyone. That is an initiative we really support, because it would be really helpful if the employers knew who was in the market, and it also is a way of getting providers to commit to whether they are in the market or not. For that to be meaningful, you have to be a quality scheme, and currently that quality mark would be the Pensions Regulator's assurance framework, which we think is fine. You have to have quality providers on that list. Perhaps the other point I would just like to make in regard to one of the observations we have had this year is that a number of employers, especially small employers, expect to get compliance support. They really need some of the things that are outside what you offer also—things that handle the auto-enrolment communication for them and things like that. That is a trend we probably expect to see more of with the smaller employers.

Patrick Heath-Lay: Just to add to that, the secret to success is to try to maintain that competitive landscape as far down the automatic enrolment timetable as can be achieved, and preferably to the end. There are inevitably operational challenges, because it is an operational challenge by the time you get to the volumes in 2016 onwards, to maintain that as long as possible. There is a certain amount the regulator can do here to

assist. More specifically, as Mr Nilsson said, employers need assistance in understanding this requirement and the terminology. It is inevitable. The terminology that is used is very complicated at first pass and often a conversation is needed. I do wonder whether a website is simply enough—a simple piece of electronic information. We find often a 10-minute or 15-minute face-to-face conversation will help clarify things and help smooth the process, but that is difficult to achieve with the sheer volumes that are coming on. The regulator can probably help with some sort of central assistance there.

There are a couple of more practical ways—they are more cost-related—for providers that are prepared to serve that market, because there is a disproportionate effort in terms of a provider trying to help a customer come on board and help them with some of these problems. There is a lot of up-front effort that is required. In terms of the ongoing regulatory landscape, the fee structure that is currently in operation was devised before automatic enrolment. We are paying a fee on very small policies where perhaps that fee should not be triggered until the policy pot got to a de minimis level of, say, £500. There potentially needs to be better definition of where the provider's responsibilities finish and the regulator's pick up in terms of insolvencies or companies that get themselves into trouble, because that is a more likely scenario at the small end of the market, regrettably. There is an issue here where the providers become policemen and it would blur into the resource effort we have to provide to try to tidy that up. I know the trustees take their obligations very seriously and they will always work in the best interests of the members, but there is an undue amount of resource effort that is needed for some of the small end of the market that we have certainly seen historically in some of our other schemes. There is a lot that can be done with the regulatory landscape here that could help providers stay in that market as long as possible, and preferably to the end.

Q117 Paul Maynard: You did start out talking about the competitive landscape. The NAPF seem to be very pessimistic that you commercial providers are going to want to play a part in taking business from the smaller employers. Do you think you are going to be proving them wrong?

Adrian Boulding: I would like to comment on that, because we have built systems and processes that are scalable. We have taken on 850,000 from large employers and we expect to take on the next 850,000 from small employers. So, yes. We have not turned anybody away yet. We are in the market, we want to stay in the market, and we think we will remain competitive. We remain fixed to our 50-basis-points pledge that nobody has to pay more than 0.5% for automatic enrolment. Where I slightly disagree with something you said earlier is I do not think the small employers are more complicated. Our experience is that it was the large employers that were complicated because each large employer wanted a pension scheme that was particularly tailored to them, whereas we believe that the smaller employers will be much happier to say, "Here is one we prepared earlier. Here is a model. We know it works. We have delivered it to many schemes already. If you like Legal & General, this is the Legal & General model."

Q118 Paul Maynard: But they will surely need more support, will they not, because they will be less familiar with the pensions landscape?

Adrian Boulding: Both small and large employers need support. They need support to help them understand the rules—to work out which of their employees to bring in—and we help both small and large employers with that.

Jamie Jenkins: You talk about “commercial providers”, and I understand that. The implication, I suspect, is around shareholders and—

Paul Maynard: Not NEST, I meant.

Jamie Jenkins: Yes. But no provider has no commercial considerations. Every provider sitting here on the panel will have different commercial considerations in terms of the economics of running their business. For our part, our view is that we will continue to operate in automatic enrolment, but we want to do so on a sustainable basis and be in it for the long term. Our view is that that is quite an important aspect of the small number of providers we suspect will be in the market.

Q119 Paul Maynard: Mr Heath-Lay, in People’s Pension’s evidence you expressed some concern over firms “cherry picking” smaller employers, with the risk that this left NEST as the only default provider. Can you expand on that a bit more, perhaps, just so I can understand that a bit better? I thought NEST was set up to be the default in these circumstances.

Patrick Heath-Lay: Yes, they are. Our concern perhaps comes out of the first phase, where we have seen some degree of cherry picking and customers coming to us very late in the day, but we have been resourced and our approach was fine to be able to deal with that. Our main fear towards the small end of the market is the consequence of large numbers of people arriving at the provider in a very short space of time and us being able to react to that demand. You can resource-plan for a market share that you anticipate you may receive but it is quite difficult if, for example, other providers pull out of the market or are overly cautious in terms of the business they will write in terms of the knock-on consequences to ourselves and to others that may be on the panel. Clearly, the view is NEST needs to be there and NEST has that public obligation, but, even as Tim said earlier, there is a requirement to resource-plan six or seven months in advance. It will only take one fairly large provider pulling out who has a decent-sized market share to have the knock-on consequences to the rest of us in the market. To give you some examples, in January we brought in 120 employers; in May we brought in 2,000—a fairly big step in operational terms. If we maintain the share of the market that we are currently receiving, that is likely to move to something like 500 to 600 a day that we have to deal with during that phase. That is without any escalation of business coming through.

Q120 Paul Maynard: Would you agree with Mr Boulding’s explanation that these smaller employers might be wishing for a less bespoke service—a more off-the-shelf model—that might mean they need less support than the larger employers?

Patrick Heath-Lay: I completely agree with the fact that it will be a less bespoke service. It will be a more structured approach—a vanilla offering, if you like—but it will meet the requirements. They will still need a fair degree of hand-holding. Even TPR’s own stats in terms of their research recently indicated something like 290,000 employers

that will not seek advice; they will come direct to the provider community. Again, there will be a fair degree of explanation that is required, and it is the degree to which our systems and our information approach can support that. Inevitably, we have found over the years that nothing beats a 10-minute conversation on certain basics that then helps someone set up their system in the right way. If they are able to get advice and they are able to come to an adviser, again, generally, that will work best, but we will have to be prepared for employers coming direct at us, and I completely agree with the sentiment that Adrian had.

Tim Jones: There will clearly be employers coming direct to NEST and there will clearly be many employers coming via a range of third parties. We have just announced and launched something called NEST Connect, which is effectively a dashboard where an adviser logs on as themselves to the NEST system and then can look after hundreds, if not thousands, of employer clients of that intermediary. We think that is going to be a very important part of sharing the burden of where this maybe 10-minute or 15-minute conversation happens. Yes, sometimes it will happen directly with NEST or one of the other providers; a number of other times it will happen with that administrator. We think many small businesses will turn to their accountant or their bookkeeper, and there are various specialists. There is one firm, Nannytax, that provides specialist PAYE administrative support for parents who employ nannies. An obvious business development opportunity for a firm like that, not traditionally in the pensions space at all, is to go out to their client base and say, “Look, we can now provide you with some support for automatic enrolment, because you are employers and therefore this is going to apply to you”. I really see a rich mixture of, if you like, traditional pension sector support and then new support coming in and building. This is a very big business opportunity and we see a number of businesses now building to play to what they see—I think rightly—as a significant opportunity to provide help.

Jamie Jenkins: I would concur that the big employers are all about wider benefit packages; they in the main want to lead in what they do. They have teams of people who are tasked with that and whose job it is to have a good benefits package in place, with pensions part of it. If we offer blue literature they will want it in green, if it is A4 they will want it A5, and so on and so forth. The new world, with smaller employers, unquestionably—and we have a lot of experience of it—is more about just having the pension scheme and it is more commoditised. It will have to be, for all the reasons that some of my fellow panellists have set out, because the volumes will not allow for those sorts of conversations and interactions perhaps with the provider who is dealing with all the volume. However, as was rightly pointed out, we have accountants and independent financial advisers and others who we think will fill that gap of the conversations and the help that employers need. Many advisers will also say the setting up of the scheme is the easy bit; the hard bit is integrating payroll and making sure that pay links to the pension scheme. That is not a function for the provider; we do not have access to that, in the main. That is the function of the payroll company and perhaps the accountant.

Q121 Paul Maynard: My final question is a quick one for Mr Jenkins on a slightly techy issue, it may first appear; I am merely a hopeless befuddled MP. You refer in your evidence to the 2008 Act’s regulations in some way impeding your communications with

both the potential savers and the employees. Can you just walk us through what that means in practice?

Jamie Jenkins: Without going into the detail and sending everybody to sleep with the 2008 regulations, the point there is that the need to provide people with information—for example, certain types of illustrations that we might give people—has got to a point where that information I suspect is too great to serve much of a purpose. It comes back to the point that was made earlier. I would not singularly blame those who wrote the regulations; it has been iterative over many years. We have piled regulation upon regulation and are starting to build up too much information. Equally, I would suggest that the risk aversion of providers in dealing with that, coupled with the regulations themselves, has ended up with a lot of stuff that people do not read, frankly. It is quite a good time to take a step back and say, “What would really be useful and a lot shorter, and save, perhaps the odd rainforest?”

Q122 Graham Evans: The opt-out rates have been lower than expected. Do you expect this to continue once you start auto-enrolling smaller employers?

Adrian Boulding: One of the reasons we have had very low opt-out rates is that there has been a lot of support from employers for automatic enrolment. I have met pension scheme managers who have gone out, done presentations, phoned up staff and encouraged them to join. Interestingly, as we move towards the smaller employers, my contacts at the Institute of Directors tell me that the small employers are also swinging in the same way and are also now firmly of the belief that automatic enrolment is the right thing for the nation and the right thing for their employees to be doing. So, by and large, we will also find the small employers supportive of the process when they have that conversation with their employees, and that will keep the participation rates high and the opt-out rates low.

Patrick Heath-Lay: The opt-out rate we have experienced, again, is below the average. We are around about 5.8%. We looked at persistency as well—whether people continue, having started, through a 90-day process. That only takes it up to just 6.3%. Good participation rates. When we get to small employers, I tend to agree; some of our experience historically has been that there is a sense within a small employer that they will be quite supportive of the workforce, with quite a paternalistic view, so it would not surprise me if we start to see that emerge. Inevitably they will creep up over time, but there will be, certainly from some small employers—and a fair group of them—a more paternalistic view and they will be encouraging of their own staff to participate in the scheme.

Morten Nilsson: What we are seeing is that only half of the employees we are serving are eligible for a pension scheme. Our opt-out rates are very similar to yours. We see the same trend. We have 7% in total. We have three-quarters that opt out within the opt-out window. But the real problem is that too many people are not eligible for a pension, and when they are saving in, because of the band earnings, they are never going to contribute 8% or, for many people, even close to 8%. That is where the real problem is. The opt-out rates are low. What may change a bit is right now it is so easy to communicate, “You put in 1%, your employer puts in 1% and on top of that you have tax relief”. When it starts to be that the employee is contributing more than the employer, that

message is not as good anymore. That would be my worry on the communication side, but, as I say, the main worry is that too many people are outside auto-enrolment.

Jamie Jenkins: It is by definition speculation because it is a future that we still have an influence over. It is two factors, put simply: the attitude of employers and whether they are the sponsors and champions of auto-enrolment, as has gone before; but also employees. If they are reading stories saying, “Nine out of 10 people who have gone before me have stayed in; it is a no-brainer,” they will stay in. If they are reading “rip-off pensions” I suspect many will not.

Q123 Graham Evans: Absolutely. The young people I come across who have left university just think joining the company pension scheme is a no-brainer. When they take years out for work experience or whatever, they always opt in because when they leave the company to go elsewhere they have a few hundred pounds in the bank. It is regarded as a no-brainer. As time goes on, though, rip-off pensions is a serious issue for people doing it in the first instance. In terms of the opt-out rates being meaningful, the current measure is after a month or so. Do you think that is still appropriate for calculating the amount of opt-outs?

Tim Jones: I will come in here, if I may. “Cessation” is our jargon for people who did not opt out during the technical opt-out window but who voluntarily stopped contributing pretty soon afterwards. We see it as a relatively small effect, as some other colleagues were saying. There is a lot of employment churn in the members that we have brought into NEST, but the principal reason that we see people’s contributions ceasing is because they have left that employment, not opt-out or what we call cessation. We see cessation as a really pretty small effect. It was an obvious challenge that they never wanted to be in but they just missed the opt-out window and therefore you would get a large lump of people stopping contributing in month two or month three, but it has not happened.

Q124 Graham Evans: “Cease active membership.” Is that what you are talking about?

Tim Jones: Yes.

Graham Evans: Is that like the active membership discount, or is that something different?

Tim Jones: That is something different.

Q125 Graham Evans: A discount that is not a discount. Should the DWP be doing more to collect this type of data?

Tim Jones: I am the only member of the programme board here, so maybe I ought to put the one-quarter DWP hat that I have as a member of the programme board. The DWP is collecting a very large amount of information. I am not privy to all of it, because I am a provider, and I am definitely not privy to the information that is provided by colleagues on this panel and elsewhere, but I get the sense that the officials are doing a good job of collecting data on what is going on. The officials, as far as I can see,

understand what is going on in terms of participation. I also think that their role in the various forms of communication they have been doing, including what I think is a fantastically successful campaign, the “I’m in” campaign, should not be underestimated in terms of its contribution to making this policy a success so far. It is a relatively subtle piece of communication; it is not meant to have you able to recite what it going on, but it is meant to give you a context for you as the worker that, “Actually, this thing is real, because I remember seeing something on the telly or a piece of print, and therefore I am going to stay in”. I think they are on top of what is going on.

Q126 Graham Evans: That sounds like good news all round. Opt-out rates are low—in other words, opt-in rates are higher than expected. The Committee is looking for some bad news. Do you want to give us some bad news?

Adrian Boulding: Can I pick you up on that? Opt-out rates are low and that is fabulous. The lapse rate, as Tim said, is also low. We are seeing a 3% per year lapse rate on people after the opt-out period. Opt-in, which is a technical term for people that were not automatically enrolled but have a statutory right to opt in, is very, very low, and is really a completely unnecessary burden on employers. For example, when an employer starts the pension scheme and goes for the three-month waiting period—which most employers like to do—the employee has a statutory right to opt in during that period. Similarly, the workers that are earning between the £5,500 and £10,000 thresholds, who are not automatically enrolled, have a statutory right to opt in. Those opt-ins, in our experience, are very, very low. They are almost infinitesimal. It is a burden in employer communications; it is a burden in terms of what the scheme has to offer; and, frankly, it is not being taken up by the employees. If you wanted to lighten the burden, that is something that could be done away with.

Q127 Chair: Can I just ask, in terms of the data that you are collecting, is anybody collecting data on the reasons why people have opted out and whether they come from particular groups, such as those nearing retirement?

Tim Jones: We do. We collect reason codes for opt-out. In terms of the NEST membership, with the rate being so low, my sense of the reasons is that they are reasons that are quite hard to argue against.

Chair: They are going to retire in six months.

Tim Jones: They are kind of emotional reasons; for whatever reason, they do not want to be part of this. As anybody in marketing will tell you, an emotional objection is a very hard objection to overcome. We have a relatively small number of people who are opting out. That is great. They are opting out for a range of reasons. Often, as you will again understand, I am sure, the expressed reason for the opt-out may not be the real underlying reason; there is a reflection onto a reason that you think sounds good rather than the real reason you are doing it. My view is that there would be a very difficult business case to build to try to go further at this stage to try to get those folks to stay in. The Budget changes made the economics of staying in even more attractive, but that may not play to some of these folks if their objection is an emotional disposition to not have this—

Chair: We know all about emotional responses when we are trying to get people's votes. I am going to move on. Anne Marie has got questions on costs and charges.

Graham Evans: Jamie just wanted to butt in, Chairman. I do not know if you saw him.

Chair: Three hands went up. I am going to move on.

Q128 Anne Marie Morris: The charges cap: 0.75%. There are different views from the ABI and the NAPF. The ABI is concerned and has said to the Government, "For goodness' sake, do not lower it any further", which I would be interested in your comments on, because many of you have said your rates are below that, and it seems to me that would be something we should aspire to. The NAPF talked about it being too tight a timeline, and that there might be unintended consequences in terms of implementation. Again, I suspect, because you are for the most part below that 0.75%, it is not going to be an issue for you, but I wonder if you have any thoughts about any challenges about this. The NAPF also said that they were concerned that the Government was de facto imposing a definition of what charges were, which was then going to impose a burden on providers in terms of new databases, etc. From a consumer's perspective, it seems to me there does need to be some comparable information and therefore that is just the price of doing business, but I would be quite interested in your thoughts on the cap and the comments from those two organisations.

Jamie Jenkins: First of all, from Standard Life's perspective, we had the majority of our pensions contracts, including many of our individual pensions contracts, set over many years, already below the charge cap. Not all, but many. We are adjusting the rest to ensure they are below the charge cap where they are in a workplace pension come April next year. Our concern is that we seem to be in a debate about changing the charge cap when we have not even introduced the charge cap that has been agreed. We need to see how that plays out in terms of what it does to the market, what impact it has on propositions, and, indeed, how it now plays into the provision of the new flexibilities in retirement. Our concern is not whether it is 75 basis points or 50 basis points per se; our concern is that we are having the debate perhaps prematurely, and I would rather see us implement what we have agreed, which we will do come April next year, and then move from there.

Patrick Heath-Lay: Generally speaking, from the automatic enrolment policy rolling out, some of this stuff is coming after the event and we are playing a bit of catch-up to make sure we have got good quality marks in place, which I think we have and will be there for the small employers, because that is incredibly important. They are the same as normal members in respect of their knowledge and understanding, by and large. Our view on the charge cap—and we are well below that, at 0.5%—is that we understand why it is there as a backstop but we think there should be a standardised approach for charging by providers. We should move to one place where everyone is charging principally in the same way so the full disclosure of charges at point of sale is easily understood and comparable. The problem at the moment with the differing charge approaches that are in play is it is incredibly hard for anyone to understand what is the difference between the panel that is here if you look at each provider in turn and "what does that mean for me?" In terms of the disclosure mechanisms, there has been a lot of work done by NAPF and ABI here in terms of trying to make good disclosure models available to everyone, but

they do depend on circumstances; they are very much circumstance-specific—how long you stay in the scheme, how old you are, how much you are saving; all of these things. If the industry can move and providers move to a single approach for charging, we would support that whatever it did and we would move towards it, because that is the only way that you can bring full transparency to this issue.

Q129 Anne Marie Morris: That is music to my ears. You are the first person I have heard say that. That is brilliant. What you have also said is it must be possible, because otherwise you would not have said it.

Patrick Heath-Lay: There has to be a will.

Anne Marie Morris: That is very interesting. Many others will say it is not possible. Thank you; that is really helpful.

Morten Nilsson: Our charging structure is based on a flat pounds and pence charge per month and a percentage on the funds. One of the things we have tried to achieve is to get as far as we can towards having a pounds and pence amount in our charges, because no one understands percentages. 0.5% sounds really cheap, but is it very cheap? That is one of the things we have been highlighting. In our response here, we said even though we would be comfortable with a 0.5% charge cap, we are not sure that is the right thing for the market. We think innovation is good. We think some of the providers have just lowered the cost by introducing pretty poor investment solutions and very cheap fund structures. I am not sure that is right for members. We are a little concerned about that.

We did propose to the DWP—and I am happy to send it to the Committee—a way of creating an index so you have one index that works for all different charging models where you have a formula to calculate that index, which could be one way of coming up with that one number. I am really not a strong believer in one number—an AMC or something else—that covers the whole market because I do not think that is the right thing and I do not think people understand the percentages to begin with. The other thing on the charge cap, which we have been quite clear on, is that the financial industry has been quite innovative, every time there has been a cap, in finding a way to have charges that are just outside the things that are within the cap. It is quite important that those fees that are inside the cap are very clearly defined but also thought through quite cleverly and that someone comes up with a formula that providers input to. There are quite a lot of clever brains that will find a way to make the charge cap work without doing what it is intended to do.

Q130 Anne Marie Morris: How do you think the Government is doing at the moment? You have got the NAPF saying they are being too prescriptive, and you are saying we do need some standardisation in terms of these categories—what is in this bucket. Is what the Government is doing helpful, or does it need to go a bit further?

Morten Nilsson: It needs to be quite careful. Some things are being done on the transaction charges, in which the FCA, the DWP and the Pensions Regulator are involved. This is something where it is so easy to take a cost from within the charge cap and put it as a transaction cost, but that does not mean necessarily that all of the charges within the

transaction cost should be capped. It would be quite unfortunate if people are not making the right investment decisions because there is a transaction cost. What we have been trying to consider is whether we can come up with a definition of value for money on the investment side where we are clear about what are acceptable cost levels, what are acceptable risk levels, and what is acceptable expected performance you would get from that. What I am trying to raise is that there is a lot of complexity, and if the rules are not carefully drawn up they will be played.

Tim Jones: We are a public entrant into a private market, so it is really for the Government to determine what it feels it needs to do in terms of charging policy. As far as we are concerned, low charges are very important to create value for money, but I completely understand and agree with Morten's point that there also needs to be a lot of quality in the product that you are delivering. NEST is comfortably below the 75-basis-points charge cap, as the Government document in its little annex lays out, so naturally we are content with it.

Adrian Boulding: My view is that this is a scale marketplace and that the providers that are successful in delivering good-quality products that deliver value for money will be the ones that write large volumes of business. Our view is well-known. We said to the Government when they were consulting we thought they should go for a 50-basis-point charge cap. They settled instead on 75 basis points. To quote the Pensions Minister's words, he is going to "put charges in a vice" and tighten it up. The speed at which he tightens up the vice will determine the speed at which the weak, unsuccessful players exit the marketplace. That is the way it will go.

Q131 Anne Marie Morris: Thank you. That is really helpful. If we move to the management charge, there was a suggestion that you could just have a single figure and that would be it, and that would simplify everything. I am not sure everybody agrees with that, and I would be interested to know whether you agree or do not agree with this concept of a single investment management charge. If you think it is a good idea, what obstacles would you see in implementing it? To what extent do you think that really is addressing the transparency issue?

Adrian Boulding: We have a single charge for everything that we provide. We have one single charge that covers all our administration services and all our investment services. What it does not include is the fabled transaction costs. I think the Minister is being quite clever in this, in that what he has done is thrown the focus of those transaction costs back onto the trustees and the independent governance committees and told them to go away, to dig into them, to really find out what they are, and to form their own views about whether they are good or not. As they go through that process, our understanding of what is in there within these charges will become much greater. That is a stronger way of going about it than the DWP going to the IMA and asking the IMA to come up with a disclosure framework when it is the other way round; the IMA are the ones that have a vested interest in maintaining charges. Putting the independent trustees and the independent governance committees right in the fire and saying, "You go and sort this" is very powerful, and you will be surprised as to what comes out of their investigations.

Tim Jones: We have two components to our charges: the 1.8% contribution charge levied once when money arrives at NEST and then 0.3% levied on the funds under

management annually. Point one is you would have to find a little piece of maths that allows you to agree that there is a way to represent those two things together. The Government already did that in the annex to the charge proposal. Something along those lines would be required to create a single fee equivalence for NEST. I would not stand in the way of that at all. Beyond that, we at NEST are very happy the more light is shone on this, because our strategy is designed firstly to minimise the number of transactions, and one good way of minimising transaction cost is to minimise transactions. We have both a preference for passive, which tends to minimise transactions, and an internal market within the body of NEST members, where if we wish to switch volatility, because we will be prospectively growing in funds under management, we will never sell for the first 20 or 30 years; we will just re-allocate. If you want to go down in volatility, there is almost certainly somebody else who wants to take that higher volatility component from you, because we are adding new members and they are adding new contributions. By having a design that enables that internal market, where those underlying assets do not need to be transacted, and a commitment to passive, we have designed in very low transaction volumes. The way we have designed our competitions for the folks that run our money has also been designed to minimise the charges and express them as a TER—total expense ratio. The further this debate goes, the happier we will be to tell the story of what we do.

Morten Nilsson: As I mentioned before, having clear rules is quite important so everyone knows, and quite a lot of consideration is given to, what is deemed to be what. Transparency is great because it drives a lot of behaviour, and that is quite important, but also having that transparency so you have trustees who understand why certain decisions were made. I would still encourage that investment decisions are made because they are right and not because they come with a transaction cost. That does not mean you cannot be very transparent about it; you can outline all your costs and you can explain why you did what you did. That seems to be the way forward as I see it.

Patrick Heath-Lay: I have already placed on record that we fully support the single pricing approach. Bringing account transaction costs into that is very sensible. The approach that has been taken by the Minister to get the IGCs and trustees to look at this as the first line is sensible. It is proportionate. The investment community have got to be encouraged to be able to provide that information in good formats that the trustees and IGCs can understand and can really cast their eyes over. It is a sensible starting point, and ultimately we should be in a place where we can fully disclose all costs to lenders. It is incredibly important that we get to that position.

Jamie Jenkins: I would agree with that. I am very much behind the sentiment. To be clear, we sometimes confuse the terminology. There is an annual management charge and perhaps additional expenses; we call that the TER for the product. That is the way I would describe it. That is capped at 0.75% from April next year. We have then got the transaction costs, which are more variable. That is the brokerage and stamp duty that goes on within the trading of the fund. Similar to Tim's point, we run what we call boxes whereby rather than buying and selling units every time somebody does something we can exchange those to reduce the cost and not have to incur those costs, which is a much more efficient way of doing it and comes with scale. I have two things to say. On the product charge—the capped charge, if you like—we followed through on a commitment we have started to build in the last few months around showing those in pounds and pence. We now do that on annual summaries for the product charge, and we are closely working with

all the bodies that have been represented on the transaction cost piece. We want to start doing something from next April for independent governance committees.

Q132 Chair: I am really conscious that we are probably going to have a vote at seven o'clock and I would like to try to get this session finished by then, but before we leave this particular bit, I wonder, Patrick, whether you can comment on an article in *Money Marketing* at the end of last week that said that your board "have discussed the possibility of a fee paid by smaller employers, in addition to the 0.5% annual management charge".

Patrick Heath-Lay: Yes, that very convenient article. My general point here is that we as an organisation have got a history of serving small employers and our desire is to stay in the automatic enrolment market, open to all employers of any size. As I have alluded to in the earlier evidence, there is a strong argument that some of the business that would be written in that phase of the market is not going to be attractive to a lot of providers, and if we want to stay in that market we have to find economic ways of sustaining that. There are no decisions on this at the moment, because we are quite keen to work with the regulator to see, as I alluded to earlier, how the regulator can remove cost from the process or make the process of serving certainly smaller employers a lot easier and a lot more transparent for us. One of the things we will consider is whether there should be an employer-levied charge or not. As I say, there is no decision on that at the moment. We have not decided. We are still going through the process of that. It is a rather unfortunate article and a leak, I guess, in terms of discussions.

Q133 Chair: Does that not mean the charge is falling on the very group of employers who can least afford to pay that charge?

Patrick Heath-Lay: I suppose it depends whether that charge is necessary. If they come down an advised route, I would argue that proportionately it is probably not. If we are providing a service to the employers that is different, then a reasonable charge that is proportionate to the amount of assistance that we have got to give—and we would be talking reasonable here; we are not talking some of the employer on-boarding charges that already exist in the market, but we could provide assistance, as I say, in the form of those conversations and that more person-led help that can help an employer out—that might be a differentiator. There are lots of people in the market who will be doing this in any case. There will be a lot of provision out there that will be charging employers to help them through this process. It is one of the options on the table, but, as I say, there are no decisions at the moment in terms of how we do that.

Q134 Chair: When Government says there are no decisions taken, that usually means, "We have made up our mind but we are not telling you".

Patrick Heath-Lay: I can assure you we have not decided anything in this. As I say, I am very keen to work with the regulator, and we are as an organisation, to see how they can smooth that process. As I say, we have got a history of serving small employers; we intend to continue to do that, but we do know from experience that this will be a big challenge for the industry and there are quite a few providers out there that are underestimating that.

Q135 Graham Evans: Automatic transfers will mean that pension pots follow individuals when they change employers. What are the outstanding issues for providers that need to be resolved before the system is introduced? When do you expect DWP to provide the necessary details on these issues?

Chair: Maybe not all of you answer, but Adrian, if you start, and then Jamie.

Adrian Boulding: It is a problem that the Government have got to grips with. People change jobs 11 times on average; there will be many partial pension pots that need to be sorted. We are well down the road of development with DWP. They now have a framework that they call “federated databases” that they are busy trying to work out further. In terms of specifically what it is that we need, we need an automated process, untouched by human hands, on the back of the leaving process that we execute when we are told by an employer that somebody has left service and we send out their pension leaving documents. On the back of that, we need an automated process that will then lead to that pension pot arriving at the individual’s next destination. Potentially that is what the DWP solution can provide. A keystone they have not yet solved within that is the member identification: whether we get member identification down to being 100% correct so that the right pot goes to the right member when they change jobs. That is very important. We have got to get that 100% correct. That automation and that member identification is still being worked through, and that is what we still need to see.

Q136 Chair: People’s Pension, you are saying it is £105 per transfer.

Patrick Heath-Lay: Potentially, yes.

Chair: Do the rest of you recognise that figure?

Patrick Heath-Lay: Again, some of the detail of the solution and the degree of automation that can be delivered from it is still being discussed, but our concern broadly stems from the fact that we predominantly serve low-to-moderate earners across the general public. We have average salaries of about £20,000-odd in terms of individuals within the scheme. On top of that, we are also serving very high-labour-turnover businesses. We will not be the only organisation on this panel that will be sitting with that; it is not uncommon to see very high turnover rates. There will be a lot of small pots being transferred round the system by organisations such as ourselves, NOW: and NEST, indeed, and we are often just going to be passing very small pots between each other. There has to be an economic argument to some extent as to whether a pot-follows-member system is the right approach, just broadly.

Q137 Chair: Is it too late to change that? In the industry not everybody is happy with pot-follows-member, but it was the brainchild of the Minister. It is his baby. He is determined to do that.

Patrick Heath-Lay: I would say it is not too late at all. The general point here is if that is the solution that is going to go forward, bearing in mind we do have a General

Election coming up, we would need cross-party support, which I do not believe is there at the moment. A different Government may have a different view as to whether that is the right solution.

Q138 Graham Evans: On that point, there are a couple of things. I appreciate new technology can make lots of changes for relatively small pots. What the Secretary of State is thinking of is people who start their working lives at the age of 18 or 21 now who, throughout their 40-year working career, will change jobs, so that pot can shift round without the complexity that we have currently for people who have done something similar. Is it possible to have a line where pot-follows-member is not economic—where it is so small it is just not cost-effective? Could you come up with a figure?

Patrick Heath-Lay: I probably could not on the spot now.

Q139 Graham Evans: I am not saying you should now, but is it something that could be, from your point of view, reasonable for you to argue?

Patrick Heath-Lay: Yes, there could be a de minimis limit. We operate a single pot, so when people come and go from the scheme, that comes back into the same pot; they are not building multiple policies with us. Our view is more that the starting point for this—it is a slight change of approach—is a centralised pensions register. That is the first step to any automatic transfer system, which, indeed, has to be part of whatever the proposal is. It quite nicely links to the guidance guarantee and individuals arriving at the point where they need that piece of advice. If they are going to be asked the question, “Tell me what you have got. Where are your pension pots? How much are they?” at the moment they are all over the place, and I am not sure members and individuals will be inclined, particularly if they want money in a reasonable hurry, to do that investigation themselves. Our view on the transfer system is that we should start with a centralised pensions register, with all the providers putting in the information to that. That helps with the guidance guarantee and then ultimately, off the back of that, you can have a transfer system that will work much more effectively than if we just started with a transfer system in itself. Coming back to your question, it is possible to come up with a number, but until we understand the solutions, the cost burden and the degree of responsibility on providers to pay for that, it would be difficult for us to support that approach. But it is reality; we are in that position where pot-follows-member is the chosen vehicle, and we will try to make it work if we can.

Chair: I am going to move on to Nigel and his questions. If the bell starts ringing we will vote, but hopefully it might not at seven. We will just carry on.

Q140 Nigel Mills: Pension flexibilities. Presumably, for the three of you in the middle, you thought you were a pension fund; now you are a lifetime savings account for us, or something. How will you handle that change?

Tim Jones: Shall I have a go at that because we are so young? We honestly do not know. We will be allowing people to take their full NEST pot as cash if they are over the age of 55 from next April. I hope many do not. I hope they stay in, because many of them

will work a lot longer than that and their lives beyond work will be enhanced if they have built up some wealth. We have just launched a consultation where we are encouraging everybody to come and help understand how NEST should respond to this. It is hard, because, as I heard Otto Thoresen say in the previous session, while it is relatively easy in the accumulation phase to say that their needs tend to be more similar as people are saving their wealth, when you come to the decumulation phase, individual circumstances do make a huge difference. But when you have a policy driven by inertia, as automatic enrolment is, we have to look at the prospect of a significant number of our members not coming forward to engage and make choices, and so the construction of defaults and what defaults look like in the decumulation phase in this new world is an important topic.

Q141 Nigel Mills: Who should decide, then? Should NEST have a policy? Should the regulator have a policy? Should we set one out in law: “Here is what you do with a non-responsive saver”?

Tim Jones: From our point of view, schemes are so different I struggle to see how you would put a default into law. It might be possible. There is some distance to travel before we see, with the difference in the types of schemes one has and the different membership characteristics within those different schemes, how a single legally-designed default would work. The core approach is to ask trustees and the IGCs for the insurance sector to work this issue in the context of each of their schemes, and that is what we are all trying hard to do.

Q142 Nigel Mills: Has anyone got a different answer? We are running out of time.

Jamie Jenkins: In my view, it is much more a question of investment rather than product. It would seem quite a leap to default somebody potentially into an irreversible annuity or taking the cash or some kind of draw-down product or to transfer them somewhere else, but it does seem right and proper that you would ensure that their investment is at least in some way allowing them some growth and protecting them against volatility. That is where our focus is most likely to lie. On the pensions freedoms slightly more generally, a much bigger risk for people is the threat of what were once pensions liberators. We have a very active fraternity of criminals emerging who are seeing a much bigger opportunity in this than any of us are, frankly, insofar as they will be looking at it and saying, “We do not need to worry about setting up a pension scheme and registering and all the hassle that that once took as liberators before. We will just get people to take their money out and deal with the people individually and get them to invest in something abroad.”

Q143 Nigel Mills: Before the bell goes, how prominent will you all make the guidance guarantee in your retirement warm-up pack? Should I be expecting this to be on

page 1, or will it be on page 47 in a small paragraph in the bottom right saying, “You might want to do this”?

Patrick Heath-Lay: We have not seen all of the detail yet, but it will be as prominent as we can make it. It has to be very clear for anyone approaching that mechanism the reality of what they are doing, and we need to provide additional prompts as well as just simply referring; that will not be enough. Our communication generally in a generic format should be starting a lot earlier to try to warm people up to the fact they are going to have to make a decision at some point. It is certainly, having heard the earlier discussions, more advantageous for us to know what someone intends to do to land them in the right outcome, but that is difficult.

Q144 Nigel Mills: Does anyone disagree? You are all going to be on the first couple of pages.

Jamie Jenkins: We as an industry are trialling different approaches. I suspect none of us know exactly what the right answer is, but we will find it.

Morten Nilsson: We will continue to engage very closely with members on this. However, there will be many who will not take up the guidance guarantee, and that is a problem. If you look at the annuity market, it did not work partly because people had the wrong products but also because the fastest way to get an income was to buy an annuity and people bought the wrong products. We need to do a lot more to make sure people end up in the right place. Some of the retirement products and draw-down products are just way too expensive, and that is an area you should probably also look into, if I may suggest.

Adrian Boulding: We are also firm believers in the guidance guarantee. We think that the customer will make better decisions if they have gone through the guidance guarantee, and we are in a much more comfortable place if the customer has made a better decision.

Q145 Nigel Mills: Will there be a NOW: draw-down fund or a People’s draw-down fund or a NEST draw-down fund, if you are allowed to?

Patrick Heath-Lay: Certainly from April we will allow members to access the new flexibilities and part draw-down the fund if they wish to, and we will continue to evolve that approach. It is a young scheme, so the pots are not necessarily big enough at the moment to warrant the full draw-down facility, but certainly we will allow the new flexibilities from April. It is a challenge to implement them, I have to say, but they will be there.

Morten Nilsson: The vast majority of our members will have one option, which is to take cash. They are such small funds. If I may say, if I was retiring in April, I would really want to keep my flexibility if I could afford to, because the products are not there yet. If you have enough money to buy something else, if you buy a draw-down product it is probably too expensive. If you want longevity protection you cannot get it in an efficient way. I think what we will see is that in the next couple years the products will simply not be good enough, and then it will hopefully stabilise. *[Interruption.]*

Chair: I am afraid the bells have beaten us. Thank you very much for coming along this afternoon. We really appreciate your time. I realise it was quite a big panel so not everybody maybe got to say what they wanted to, but please write to us if there was something you were desperate to say and you did not get the chance to. Again, thank you very much.