



Work and Pensions Committee

Oral evidence: [Pension freedom guidance and advice](#), HC 371

Wednesday 16 September 2015

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Written evidence from witnesses:

- [Financial Conduct Authority](#)
- [HM Treasury](#)

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Members present: Frank Field (Chair); Debbie Abrahams; Heidi Allen; Mhairi Black; Ms Karen Buck; John Glen; Richard Graham; Craig Mackinlay; Jeremy Quin; Craig Williams.

Questions 57-129

Witnesses: **David Geale**, Director of Policy, Financial Conduct Authority, **Chris Woolard**, Director of Strategy and Competition, Financial Conduct Authority, **Harriett Baldwin MP**, Economic Secretary to the Treasury, and **Gwyneth Nurse**, Director, Financial Services, HM Treasury gave evidence.

Examination of Witnesses

Witnesses: **David Geale**, Director of Policy, Financial Conduct Authority, and **Chris Woolard**, Director of Strategy and Competition, Financial Conduct Authority, gave evidence.

Q57 Chair: Welcome. Thank you for being here early, as we were. Might I ask you to begin by introducing yourselves and giving us your position, and then John will kick off with the questions?

Chris Woolard: Thank you, Mr Chairman. My name is Chris Woolard and I am Director of Strategy and Competition at the Financial Conduct Authority.

David Geale: I am David Geale. I am Director of Policy at the Financial Conduct Authority.

Q58 John Glen: Good morning. Could I just start by raising the issue of the data that the FCA is supposed to be collecting with respect to pension freedoms? One of the striking aspects of our evidence in the first session was that there was a sense that there was a lack of data.

Chris Woolard: Yes.

Q59 John Glen: I understand that you have been collecting this data. Could you tell us when we might expect it—I think there was an expectation that that data would be available by now—and what the headlines are, if you do have any instinct on where it is going?

Chris Woolard: Yes. I would be very happy to do that. Just to set a small piece of context, there was an exchange of letters in June, which I think you will be aware of, between the Economic Secretary to the Treasury and the then CEO of the FCA. We agreed to gather some evidence that we thought was important from our own point of view but also to support the consultation the Chancellor had announced around the pension freedoms and how they were being implemented and whether there were any barriers to access. We have now completed that exercise, and this week we provided our final findings to the Treasury. We believe that the Minister will want to say something about that when she is giving evidence to you later on today, but we fully expect the Treasury to publish those statistics.

We also have a number of other ongoing exercises that we will complete later in the year and run into next year as well, but I thought it might be helpful if I share the headlines with you from that evidence-gathering exercise, just to give us a bit of context.

We had a study over the summer based on 107 firms, and in particular we focused on the top 15, the largest providers of pension products. What we were concentrating on is what had happened in the three months following the introduction of the pension reforms. In that period, 204,581 pensions policies were accessed. To give you a sense of context, that compares with, on average, around 100,000 in the same time period in 2013, so it is roughly double the number. For 71,455 of those policies, some form of drawdown option was chosen. For 12,418 of those policies, an annuity was chosen, and that obviously compares pre-reform where most people compulsorily took an annuity, with 90,000 as a similar comparable number. In 120,688 cases, some form of full or partial cash withdrawal was made, and the average transfer time for those who transferred their pension to a different provider was 16 days.

Q60 John Glen: Can I just clarify in terms of the responsibility for producing these figures? You say that you expect the Treasury to publish them, or you are going to publish them. Can you just clarify who is doing what?

Chris Woolard: Yes. What we expect to happen is we and also, I should say, the Pensions Regulator, which conducted a very similar exercise, have both provided those sets of information to the Treasury. As I said, I expect when the Economic Secretary is here in a little while she will want to say something further about what she intends to do, but my understanding is we will have those published and available on our website but the Treasury will wish to make an announcement and the EST will talk to you about that later on this morning, I think.

John Glen: Thank you. Very good.

Q61 Craig Williams: Can I take us to Pension Wise? To put my question into context, the witnesses we have had so far have called for a more personalised service, certainly Citizens Advice. There has been some criticism about the website being static and also the different experience you get between face-to-face and the telephone service. Given the FCA set the standards, I just wondered at the outset what your experience is and what you think of the Pension Wise uptake and the standards thus far.

David Geale: Of course. As you say, we set the standards for Pension Wise. Those standards are consistent across the three different delivery channels: face-to-face, telephone and the website. The outcomes should be similar or the same, regardless of which channel people choose to use. Obviously, if you are choosing to use a website as opposed to an interactive conversation, the experience you will have will be different, but, as I say, I would expect the outcome to be the same. In the initial months, we have been monitoring Pension Wise quite closely. We have been talking to them, having weekly calls, for example, through our supervision teams, and we have found no particular reasons for concern. Also, I think the satisfaction figures are generally very high as well.

Q62 Chair: Which figures? Dissatisfaction or satisfaction?

David Geale: Satisfaction.

Chair: Sorry. Thanks.

Q63 Craig Williams: Could I ask you then about the face-to-face? The take-up of that has been lower than expected. What do you think is the driving force behind that? Are there any discussions going on about the low uptake?

David Geale: The Treasury are responsible for the access to the service and for encouraging people to join it. From our perspective, there could be a number of drivers here. First, people who have been saving up to access their money are at the point of being able to do so. You might expect that those people already know what their decision is. They have been working with the product providers, receiving the risk warnings, and in some cases that will be enough for them. Others will seek advice. We also know that quite a large number of people have accessed the website, and for many people, again, that may be enough. Again, from our perspective, what we have focused on are the bits that we can access, so we have looked at pension providers, looked at the signposting that they are doing to Pension Wise, and checked that that is adequate. Again, for the most part we have found that is working very well. Providers have taken that on and done a good job of that. There were one or two small issues just around clarity that we have picked up with the individual providers that have been fixed.

Q64 Craig Williams: You do not really think it is a cause for concern that witnesses have told us the different level of guidance you get, depending on what you use? You see that as the client's choice, whether they go to the website? We have had the comments that it is very static and it is not comparable to the face-to-face. You do not see that as a cause for concern at all?

David Geale: As I say, the standards are the same. We see no reason to suggest that the outcomes that are coming out of using the different channels are different. That is from the monitoring that we have done. Obviously, over time you might expect the website to develop, but it is reliant on people self-directing themselves through it with the guidance of the website. Again, I would expect a different experience. My concern would be if people were receiving a different outcome and, as I say, at the moment we have not seen that.

Q65 Craig Williams: Yes. If I could ask about the one-off Pension Wise advice, people getting consistent advice. We have heard a lot from witnesses that this is not really enough,

given the complexity of reaching retirement age, and whether ongoing advice over a longer period would be better, and in the run-up. Would you comment on that?

David Geale: Certainly. I think the key thing is that people have a range of options available to them. People who choose to take advice from a regulated financial adviser will have that option of carrying on that advice. Equally, Pension Wise, as you say, is an in-the-moment offer, but the Pensions Advisory Service offer other processes as well where people can go and talk about the pension options. While Pension Wise itself may be one-off, there are other options available to people for achieving that sort of guidance. Longer term, as the Pension Wise process gets reviewed, I think that is something that will be up for consideration as to whether it should be available more frequently.

Q66 Craig Mackinlay: You said you have weekly contact with Pension Wise, obviously a regular review. Do you get from time to time an IFA to do a cold review on some of the outcomes that Pension Wise has gone through, and do you think that might be a sensible thing to do on a limited, audited basis?

David Geale: Our staff are ex-advisers, myself included. We have reviewed them against the standards that we would look at through our own supervisory processes. In some cases we have used IFAs to do a blind test. In other cases we use consultants. In other cases we can do it ourselves, based on the frameworks that we build and the experience that we have. We have been looking at Pension Wise. We look at things like the customer satisfaction. There is an exit survey of the customers, the experiences they have had and so on, but we have not seen any cause for concern at the moment. I take your point; it may be something we could use in our future—

Q67 Craig Mackinlay: You are not doing it at the moment?

David Geale: We have not used IFAs to review what the outcomes are as yet. For our own supervisory processes, that is not something we would always do. We have a lot of experience in the building ourselves that we can bring to bear.

Q68 Jeremy Quin: This sounds a bit off the wall but do you do some mystery shopper exercises, just getting someone to cold-call?

David Geale: That is one of the options available to us. We have not done a mystery shopping exercise as yet, but it is one of the things that is in our toolkit and one of the things we said we may use in the future.

Jeremy Quin: It might help you.

Q69 Mhairi Black: I want to bring it on to scams for a second. We were told in our first evidence session—or it was implied—that scams were just simply part of life, that if you pushed down on that certain balloon, it will simply rise somewhere else. Is that not quite a complacent view, given that people are being conned out of their life savings?

Chris Woolard: I do not think we should regard scams as a fact of life. Clearly, there is a constant struggle that goes on with fraudsters. If we look at our predecessor bodies, just as they crack down on penny-share scams, then you get land banking come along, then you crack down on land banking and you get overseas tree plantation investments come along. No, we should not regard scams as a fact of life.

Q70 Mhairi Black: Under pension freedoms, more people are now independently making decisions about how to access and use their pensions, but we have also heard out of these sessions that scammers are taking advantage of the publicity around these reforms. Would you say that the balloon, so to speak, has got bigger in terms of scams?

Chris Woolard: I think the numbers of people who have access to pots of cash, substantial pots of cash, clearly have gone up. That is just as a matter of maths. I am not sure the balloon as you just described it there in terms of the total number of scams has necessarily gone up, although obviously it is very difficult to put numbers around what is essentially illegal activity. What I think you do see are flavours of the month and scammers moving to more popular scams, including pensions, which is an area that we have been concerned about.

Q71 Mhairi Black: Do you have any suggestions as to what Government or regulators could do to combat that more effectively?

Chris Woolard: Yes. We have a range of activities that we have under way at the moment. The centrepiece of that for us is a campaign we call ScamSmart, and we have targeted that very clearly at the segment of the population we would call “retired with resources”. You know the people we are talking about here. We have run that through media channels that we think will reach that particular target audience. We have worked with people like Classic FM, with LBC. I should say, just for the record, we have received an awful lot of co-operation from both *The Daily Mail* and *The Telegraph* in this as well.

To give you a sense of it and what it has actually done in practice, we have had 100,000 visits to our ScamSmart website, specifically to that part of the website that deals with pension scams and other scams as well. 20,000 of those people who visited us looked at the register, which is where you can find out whether the firm that is approaching you is registered with us, but also whether someone is using their details in a bogus manner, if we are aware of that as well. 10,000 of those out of that 100,000 then went on to fill out a web form that we have where you can tell us about the people who have approached you, whether you were suspicious of them and that kind of information. Not every single person—in fact, probably the minority of people who fill out that form—has been approached by someone who is bogus, but nevertheless that has given us a really quite rich seam of intelligence.

To then give you a sense of what happens to the pipeline beyond that, we have around 160 potential cases that go into Enforcement to be assessed, and at the moment we have five ongoing operations that involve multiple consumers, four of which are directly linked to the pension reforms at the moment.

We also work very closely with the police, as you can imagine, particularly the City of London Police and the National Crime Agency, as well as colleagues in the Pensions Regulator. I think there is quite a lot of activity that is going on at the moment. So far, the indications we have are that that is quite effective. The average scam here is between £18,000 and £20,000. For the investment we are making, it is reaching an awful lot of people who are potentially in the target zone.

In terms of going further, in terms of what more we can do, clearly the Government does, as part of Pension Wise, contain some information about scams and how to avoid them. I

think there is more we can do directly with firms and work in partnership with firms, and that is one thing we have been exploring. Not just the obvious pension firms and insurers, but also people's banks; most of these transactions are going to route through there at some point, potentially.

Q72 Mhairi Black: All right, but we have heard about the difficulties of pursuing the unregulated market companies and scams that originate outwith your jurisdiction. Did you have any suggestions as to what specifically can be done to address those kinds of scams?

Chris Woolard: Here, as well as any other similar scam for any other kind of financial product, we are running into a bigger issue, which is people based overseas, out of our jurisdiction, quite often using the internet as their main means of contacting consumers, and all sorts of law enforcement agencies struggle with how to cope with that and how to cope with those kinds of extraterritorial issues. On the whole, our tactics tend to be around disruption—for example, as soon as we are aware of fake websites or disreputable scam websites, working with internet providers to take those sites down. But clearly that is a game of cat and mouse. Our main tool here beyond that is really around education and trying to run these things like the ScamSmart campaign so that, when people get these approaches, they are on alert before they are even approached by a scammer.

Q73 Mhairi Black: Do you know how effective awareness-raising measures have been so far?

Chris Woolard: We have a number of measures. Probably the best one we have is the number of people who are in this retired-with-resources category who visit us or have some sort of contact with us. Since we have begun to run the ScamSmart campaign, that has gone up by 67%, so we know that we are reaching our target audience.

Q74 Chair: Can I ask you, Chris? From what you seem to be saying, the scammers have become workshy all of a sudden. I would have thought that given this is a new market, with people who would have previously been put automatically into annuities, who now have, for them, considerable sums of money, if I was a scammer, I would have thought, “God, this is a wonderful market for me to get into”. Are you suggesting that the level of activity is not above what it might be in other areas?

Chris Woolard: I do not think I am quite suggesting that. What I am suggesting is, if we look at our overall waterfront in terms of all the financial scams that we may deal with, so far we have not seen any evidence of a spike overall in the total pool of scam-type activity. What we are seeing, and what we are very careful to try to get in front of as far as we can, is that—I think this is where your question was going—this is clearly a very attractive target to scammers. People who might otherwise be spending their time trying to do some sort of phishing of your bank account or whatever it might be will then perhaps switch to try to say, “Can I pose now as a fake pension provider?” or whatever it might be. I think we are seeing activity in this area. I do not think overall though that is causing more people to come in as potential fraudsters.

Q75 Chair: Is the first piece of advice that anybody gets, coming into contact with any of the channels of advice that are there, that you are likely to be subjected to scams? Is that clearly into people's heads before you even get on to the next part of the conversation?

Chris Woolard: If individuals go through Pension Wise, and particularly if they start with the website, on the front page of the website there are three things that are drawn to a consumer's attention. One is: "What are my choices?" "How do I take this further?" I think that is the middle one. The third is absolutely scams and how to avoid them, so that is front and centre in the messaging. Where individuals go through their pension provider, we have quite a reasonable amount of anecdotal evidence of pension providers acting quite responsibly here and where they believe someone is being drawn towards a scam trying to point that out to the consumer, but overall I think the numbers are still relatively small that have got that advanced where someone is going through their individual provider.

Q76 Jeremy Quin: You have answered the statistics, Chris. You mentioned you had 160 investigations ongoing and there are five approaching proper action, prosecution, where you are working with the police. The difference between those two: is that purely timing or is it a resource issue?

Chris Woolard: There are 160 that have gone into what we call our assessment process, where our Enforcement guys will look at the case and assess the merits of it. Is it really something in our jurisdiction? Is it for another authority, like the police? We then have five where we have ongoing operations, and, as you will understand, I cannot say an awful lot about those on public record. There is a mixture of timing and resources in there. In any of our Enforcement work there is a trade-off between some of those things. I think at the moment we are in a position where we have sufficient resources in terms of the work that we do, and I think we also have a good level of co-operation from particularly the City of London Police, who specialise in this sort of thing, but other forces as well.

Jeremy Quin: Thank you.

Q77 Heidi Allen: It may be covered. You mentioned that a couple of newspapers and radio stations have been very helpful in publicising ScamSmart. I was conscious, listening to you, a lot of the reporting mechanism for consumers to give feedback on whether they have been scammed or think they have been scammed is through the website, yet the most vulnerable people and those that are probably the most prone to being scammed probably do not own a computer, let alone know how to use a website. How are we looking after that section of the population?

Chris Woolard: There is a whole range of ways in which people can contact us. In particular we have the dedicated consumer call centre as well, so you can just phone us up.

Q78 Heidi Allen: They would know about that because they have heard it on the radio or the—

Chris Woolard: Yes. We publicise the phone number as well as the website. On average, we get around 1,200 calls a year regarding some form of scam-type activity into that line from consumers.

Q79 Heidi Allen: We all live in a digital age and we assume everybody else is, and yet the people that are likely to be scammed perhaps do not have access to that information.

Chris Woolard: Yes. I think around 20% of our target audience for this are not regularly online, so we have to have those channels.

Q80 Richard Graham: Thank you. Chris, on the whole business of scams, whom do you regard as the most vulnerable of our constituents? A lot of us might imagine that our poorest constituents with the smallest pots might be those who have had least access to good financial advice and education and so on, but they may not be so attractive to the scammers. What sections of the community do you think are most vulnerable? That would be my first question.

The second one is, in terms of the worries that the FCA might have, is it really the numbers of potential scams that pop up that is the worry, or a small number of scams that seem to be attracting quite large numbers of people that is more worrying?

Chris Woolard: On the first question, we do quite a lot of research on who is most vulnerable within any segment. Perhaps slightly counterintuitively, although I think your question was heading there, in this particular kind of fraud the person who is most vulnerable is often the most confident person. We tend to find that people who have had some former experience of investing in the stock market, who think they know what they are doing, who think they know what a good deal looks like when they see it, who have a more significant range of resources available to them, which might be a mixture of pension pot and other investments, are far more likely to have the confidence to invest in something that sounds a bit exotic, whereas generally if you have not very much money that represents your life savings, you are far more cautious with it than those individuals. Part of what we do and part of our targeting is to try to get to the radio stations and the newspapers that that rather better-off segment reads as part of what we are trying to do. We also do a range of work with some of the more specialist sort of investor magazines and those kinds of things that again are likely to be read by that sort of people.

In terms of what we are principally worried about, at the moment I think we are trying to cover the waterfront, to be honest, in what we are doing. We know that this is potentially attractive, even though we have not seen a real spike in the numbers of fraudsters trying to get—overall, we think that there will be an attraction towards going towards pensions. We are trying to have a broad appeal, so we certainly do not want people who have those small pots somehow falling victim, but certainly in terms of where the activity has been concentrated historically in this area and where I think we are seeing the activity at the moment, it is in that better-off segment of the population.

Chair: Can we move on to your next question, Richard? We are a bit behind, although we have enjoyed it.

Q81 Richard Graham: My question leads on in a way from question 4 earlier. This is about data. The FCA is on record as supporting the introduction of a pensions dashboard—you might want to explain exactly what that will mean. What are the barriers, do you think, to the introduction of this, and how is it really going to help?

Chris Woolard: We conducted a market review earlier this year, where one of the recommendations from that was we should have a pensions dashboard. What that would do is give individuals the ability to bring together in one place all of their pension and retirement savings. They can bring their employer, they can bring whatever they might have privately, and they can bring their state pensions entitlements as well. We think that will do a couple of things. First, it gets you to a position where people are far better informed about what their retirement pot is looking like, and hopefully they can look at

that much earlier in life when they are thinking about how much they might want to save towards their overall retirement. Secondly, it will give both those advising them and indeed those who have to try to set policy in this space a much better sense of what the individual position is. We have very good data by pot. What we have much less good data about is by individual. If you have three or four pots, that is quite hard to see. Overall, we think this is something that improves both the consumer's position in the market and also potentially for those who are advising them and those who are trying to provide products to them.

Q82 Richard Graham: This is really a savings dashboard rather than a pensions dashboard, isn't it?

Chris Woolard: Potentially, yes. The examples we have seen that work—in the Netherlands, for example, they have something very similar to this—tend to focus just on pensions, but there is no reason why it could not work wider. You were asking about problems. Clearly, the more things you load into it, the more complex the IT challenge becomes.

Q83 Richard Graham: Yes, and we have a greater variety of all these different savings and pensions products than the Netherlands does.

Chris Woolard: Yes.

Q84 Richard Graham: Yes. Just on the new rules that you are proposing to publish I think in the second quarter of 2016, could those not come forward a little bit faster? Is there any particular reason why we have to wait?

David Geale: We will be consulting on those in the next couple of weeks, and there is a range of issues that we are looking at. Some of that will be taking on some of the commitments that we made, either in the market study or, for example, consulting on whether we need to adjust the risk warnings, for example. The risk warnings are in place. I think it makes sense now to take a step back to consult on them and look at whether they need to be refined. People are already getting some protection; it is just whether it could be better. I think that makes sense to do over a sensible period of time.

Where we have seen the need to do things a little bit quicker—for example, around giving the industry guidance on existing clients and how to deal with existing clients, and in terms of the retirement risk warnings—we have done that, and we did those either on a very shortened consultation period or without consultation. Now what we are doing is taking a step back, looking at how the reforms are bedded in, and looking at what needs to be done. There will be a combination of things in the consultation, first around some of the changes that we think we need to make: for example, the retirement-risk warnings, whether we make any adjustments to those; and some things we have seen in terms of the use of projection rates and how firms have done things a little bit differently to standardise that. Other things will be things that we will start to discuss over the longer period of time—we have seen some issues around commission sales on annuities, for example—and whether we need to change that arrangement.

Q85 Richard Graham: Last question if I might. Just on longevity and annuities, although these are technical words, they are incredibly important, particularly in the valuation of

annuities. Annuity replacement products: we hope there are going to be lots of different ones. It should be good for the marketplace, for our constituents, but a lot of it will depend on longevity calculations and so on. What sort of better or increased advice do you think can be given on those issues?

David Geale: We set some of the assumptions that firms can use in the projections of what you might get back and the things like the mortality assumptions, which are drawn from actuarial advice. Actually, what we have seen are firms using slightly different approaches, and that is what we are seeking to standardise so that people will get the same information. People like the FRC will produce things like mortality assumptions.

Q86 Richard Graham: Things like the longevity calculations based on geography— where you live has a huge impact on the value of your annuity—do you think some of the work on that needs to be updated?

David Geale: I think there is a potential minefield in there. For example, we need to think about the fair treatment of customers. Obviously we want firms to manage risk appropriately and price fairly, but equally it opens a can of worms in terms of if a customer in London achieves a different annuity rate because of different longevity assumptions from someone in Bournemouth, for example. When you think about what is the fair treatment of customers overall—

Richard Graham: It is worth noting that if you live in Glasgow or Gloucester, you get a much better value annuity than if you live in many other places in the country.

Chair: Do you have a preference, Richard?

Richard Graham: I would strongly recommend Gloucester.

Q87 Ms Karen Buck: Could I just ask you why you consider it was necessary to set up the Financial Advice Market Review?

David Geale: Yes. The Retail Distribution Review was carried out a number of years ago. That has now been in place for a couple of years. We carried out the first-stage post-implementation review, which has shown that broadly the changes we wanted to see have taken place. We are seeing a rise in the quality of advice, better qualified advisers and more clarity around charging for advice. The pension reforms were a bit of a game-changer though, so we have seen a large number of people come into the market with very small pots. The Financial Advice Market Review is about taking a step back and thinking about the different types of advice that people might want and need and potential ways to facilitate that. One example might be robo-advice, automated advice via a website. We have seen different variations of that starting in the market, and through our innovation work, through the innovation hub, we have been working with a number of firms to see what it is that they can do and what they might want to do and whether there are ways we can facilitate that. The Financial Advice Market Review takes a step back from that and looks at what people want as advice and whether there are different ways to provide it.

Q88 Ms Karen Buck: There are, in your view, grounds for concern about the way— following on from the questions you have just been asked—advice is particularly available to people with small pots?

David Geale: Again, the post-implementation review showed that advice is available to people with smaller pots. Around a third of advisers are prepared to deal with people who have less than £20,000 in savings, and around two-thirds of advisers will deal with people with less than £75,000 in savings, with an average pot size in pensions of about £38,000. The advice is available; there is the question of what people want and people are prepared to pay for. I think it makes sense at this point to take a step back, look at the different forms of advice that are starting to emerge, and think about what they should look like going forward, and whether there are things we can do to help with that.

Q89 Ms Karen Buck: Some of the witness suggestions in terms of response to small advisers—you will be aware of waiting for regulated online advice services to develop, limiting the liability of advisers, and allowing Pension Wise to provide personalised advice. Do you have initial thoughts—obviously some of that will have to wait for the full review—on how that might pan out in response to those kinds of ideas?

David Geale: In terms of automated advice, we are running what we are calling robo-advice week in a couple of weeks' time, where we have a number of firms coming in. We, the regulators, will speak, give some ideas. We have people coming over from the States, where robo-advice is taking off more quickly than it is here, so just looking at what we can do there, and we will run a series of speed-dating so that firms that are thinking about getting into this market can talk to people from Authorisations, from Policy, from Supervision, and think about that.

In terms of Pension Wise, as Pension Wise goes forward, there may be more that Pension Wise can do, but Pension Wise was set up to be a guidance service that tells people what their options are and the implications of those options. It does not give them advice. Where advice is given, then the adviser should stand behind that advice. There are some very tricky questions around liability. My personal view is that if an adviser gives advice, then you should have the same rights as a consumer, whoever has given that advice. If you have given a personal recommendation to do something, the adviser or the firm should stand behind that. We will look at all these issues. We will look at whether there is more that can be done in terms of clarity, but I think on robo-advice we are already making progress. On the other things, we will see how good these plans are.

Q90 Ms Karen Buck: At the beginning, you gave us figures on the drawdown figures, and I think they have been higher than people expected. Are they higher than you would have expected? If so, why do you think people were taken by surprise by the scale of drawdown?

David Geale: I do not think they are higher. First, there are a number of people who have been saving up their decision and taking their money out. It is generally people with the smaller pots that have taken the money out. I do not think that was a particular surprise. In terms of drawdown, there are different forms of drawdown. Some form of drawdown is a way of postponing a final decision. I think we always expected the sale of annuities to fall when people had more freedom. No, I do not think it has been a particular surprise.

Q91 Ms Karen Buck: Just the last question then, again on the small pots. The *FT* report on Friday, which I am sure you have seen, was comparing the experiences of some of the holders of small pension pots to dealing with budget airlines and finding, as you navigate your way through, that the charges are frequently not what are advertised and there are add-

ons and surprises. Is that a fair assessment? If so, what should be the way forward in dealing with that?

David Geale: Our rules require firms to set out clearly the charges and the total charges, so there should not be any surprises for consumers, and clearly some do that better than others.

Q92 Ms Karen Buck: Was the *FT* wrong in saying that that is the experience of people with small pots?

David Geale: That is our expectation. As I say, some do that well. Others do that not so well. In terms of what we are doing about that, we have launched a discussion paper on smarter communication, which is about encouraging firms to find different ways to communicate with customers and help them to understand charges, for example. Firms tend to give people 50 pages of information to basically cover the risks that they have. If people can engage via iPads or computers or phones or whatever it may be now, rather than 50 pages, why not look at those opportunities? That is the first thing.

The second thing, we are working very closely with the Department for Work and Pensions on improving disclosure of transaction charges. The ABI have received and accepted a challenge from us in terms of finding some standardised language so that people will see the same thing each time they look at charges. They will not see the same charge called something different. We will be doing a further survey of charges in this market going forward and we will take action on the back of that as necessary.

Q93 Craig Mackinlay: Yes. This is all down to the quality of advice people are given. I know there are some providers that will offer a limited amount of advice quite cheaply. I think we have created our own complex environment, where advisers are very fearful of advising because of future liability. I think you are looking at if there was a safety net for advisers to give limited advice without a huge amount of liability. Have you done any work on that, and is that likely to come forward at all?

Chris Woolard: As part of the FAMR review—

Craig Mackinlay: Particularly for small pots. I used to be a chartered accountant in practice and worked with IFAs, and the small pots, they think it is just not worth the effort, sadly, or the value. These people could do with advice. Is there a means of getting them in front of somebody efficient without the whole liability of the FCA landing on their shoulders that perhaps could come back to haunt them in 10 years' time?

Chris Woolard: Within our existing rules there are various options whereby you can give limited or restricted advice. You can say, "I am only telling you about this particular aspect of your financial decision-making. I am not looking at your circumstances completely as a whole" and those kinds of questions. Those I think are not always well understood as options by advisers, and indeed I think it is fair to say there is a degree of fear around, "Even if I thought it was limited, will there be some kind of liability that follows on from that that goes wider?" We understand those sentiments.

One of the issues that we will need to think about within the FAMR review, particularly around pensions, is whether there is something that is clearer and simpler both from the consumer's point of view but also the adviser's point of view. As David was suggesting, I

think there is a further jump behind that to somehow create a safe harbour, where you can give someone advice and charge for giving that advice in some way and yet not take some responsibility for the advice you have given, and personally that feels like a step too far if it is described like that, but I think there is a lot we can do to listen to some of those concerns and come up with things that work for both consumers and the advisory community.

Q94 Craig Mackinlay: It is very good you are looking at it. I think a lot of these pots are crystallising now. I think this needs looking at quite quickly. It might be a level, a pot of less than £50,000, there is a safe harbour option. Over £50,000, then perhaps you are into the full gambit of FCA and liability for IFAs, but I think this wants looking at now, frankly, because a lot of people are crystallising their smaller pension pots with, from what I can see, not really sufficient advice. In my practice in the old days, I would have said to many people, “Get out of your pension as soon as you can, minimising your tax liability. Get it drawn down as soon as you can”. You need somebody to give that advice without huge liability, particularly in smaller pots, and I will say that now that is needed.

Chris Woolard: We would absolutely recognise that particularly for individuals with smaller pots at this moment in time there is a range of guidance available. I think that is being taken up both through Pension Wise and indeed people using the risk warnings that they get from their own providers as a means of framing those choices. For the very small pots, tax questions do not come in that much, but you can be at £30,000, which is an average pot, and be running into those tax questions if you are still working and those kinds of issues. We recognise the issue is there. The experience that we are seeing at the moment is people are finding ways of navigating the system and getting to the outcomes that they feel they want to get to at this moment in time. One of the things we have to do as part of FAMR, though, is to ask ourselves, is there a better way of doing that.

Q95 Heidi Allen: I think we have probably touched on a lot of what my question is, but it is just: any further thoughts on this issue of is it guidance or is it advice? If I am the consumer—providers have just been talking about a little lender—as the consumer, how do I know what I need, and any suggestions as to how we make that clearer?

Chris Woolard: Yes. There are clearly some very formal distinctions laid down in law in terms of the Pensions Act about when advice and guidance has to be sought. There are some very clear rules about what constitutes regulated advice that we set. However, I think you very quickly get into a conversation with the ordinary non-expert consumer—

Heidi Allen: Normal person.

Chris Woolard: Normal person, yes. Normal people, where the words “advice” and “guidance” get used pretty much interchangeably. I think there is a situation where a consumer may have had guidance, yet in their words it is, small A, advice.

Heidi Allen: Treated as advice.

Chris Woolard: There is quite a lot here that we would want to examine within the FAMR review to say, “Look, can we just make this a lot clearer?” In particular, the question we were just discussing around liability really is at the core of this. It is when you are having a helpful conversation that lets you frame what your choices might be versus when someone

is saying to you, “You absolutely should do this” and the responsibility that comes with saying to someone, “This is what I would do”.

Q96 Heidi Allen: Do you have any feeling as to how we might help consumers have that clarity?

Chris Woolard: It is complex. We have looked at this several times before, this particular review. There is also an underpinning in terms of European legislation about the boundaries by which we would say when something is advice or not in a regulated sense. This is going to require some careful thought, but I do think there is something we can do in this space, largely through the auspices of the FAMR review, to try to just say, “Look, there is clearly a group of people, a much bigger group of people than we have historically had, now in this position where they have resources and they are looking at things like Pension Wise in significant numbers. They are looking to their providers to give them the basic level of information they need to get. Can we improve that in some way?”

Q97 John Glen: Can I just probe a bit more on this? It is not like you do not have any data as an organisation going back several years in terms of financial literacy at different age groups.

Chris Woolard: Yes.

Q98 John Glen: I think you did a report in 2008 about understanding of annuities that showed very, very poor understanding of annuities and how they worked. I get slightly the sense that this is an innovation, the Government made a decision for freedoms and then we will look at how it pans out, but there is a lot of data there about financial illiteracy that must be applied. You have said earlier in one of your answers that 20% of people do not use the internet, for example. If you take those two facts together, you have a very vulnerable group of people there, notwithstanding the fact that there might be middle-class people who are more vulnerable, who do not report from embarrassment. Do you think that there are any lessons from the data you already hold about financial literacy that can be applied here and to give you a head start in terms of the early warning on this?

Chris Woolard: Yes, absolutely. If we look even at the practice that we are seeing emerge in the market at the moment, we know that the wakeup pack that you get, that initial, “You are going to have to start thinking about making your pension choices”, how things are framed within that can have really quite significant effects on the degree to which people choose to shop around and the degree to which people choose to engage with certain options or not. One of the things that we have done as a result of our earlier market review is to now be working on a whole series of behavioural tests to say, “Fine, we all know what the economic theory says, but how do ordinary people actually react when they are given this information, and how do we make that work best of all?”

Secondly, we know from talking to the firms in the market at the moment, depending on the tactics they might take to implement our requirements and our rules, you can get quite different outcomes. To give you an example, if I was to say to a customer that they had a GAR guarantee, that this was a valuable guarantee for them, and that these were the sums of money they could take depending on whether they decided to cash in or not, and that you had a marginal tax rate issue that you should consider, fine, that tends to lead to one outcome, which is often people will say, “Well, I will just take the cash, thank you very

much”. If, on the other hand, you give people an illustration where it is in pounds and pence, where you say, “This is what you have. This is what you would have to spend in the open market to get the same level of guarantee, and if you cash it in now, this is the amount of money you would have to pay over to the HMRC that you will not see”, an awful lot of people then tend to go towards an annuity or some other, more tax-efficient way of taking that money. It is picking up on those kinds of very early experiences, and, as we go through the policy review that we are now going to have, how do we tighten up or how do we modify our requirements to make sure that that best practice is the best practice that everyone gets?

Q99 Jeremy Quin: Two minutes on this, Chris, apologies. Through auto-enrolment, the vast majority will end up, I suspect, going through the standard default contribution rate into a default fund. They then get to decumulation and they have to take real decisions at that point. Is that sustainable, or do we need to have some kind of a default option for those individuals who have not previously had to take any active decisions regarding their pension pots?

Chris Woolard: Yes. I think there are a couple of things at play here that make this quite a complex question. The first is: in a world where you do have those freedoms available, potentially, and in a world where we are seeing changing retirement patterns—so a lot of people do not stop working simply at 65 but they want to keep going in some way—there is a real question around what a fair default would be in those circumstances other than simply to keep the pot running and not do anything with it. The second question, and certainly what we are seeing happening in the market of course, is if you have been in one of those default situations and let us say you have some money but not an enormous amount of money, you probably do want to access it at that point. You want to draw an income from it or you want to in some other way engage with that money. So the level of engagement at that point in life is much higher than it might have been when you had all sorts of other concerns in the accumulation stage. I am not sure a default is necessarily the right answer there, but it is a really big question for the future, you are absolutely right.

David Geale: The other default option is of course that a number of people approaching retirement will be defaulting to some form of lifestyling, where their pension fund will be moved towards more cash and fixed-interest-type arrangements rather than equities, to reduce the volatility in the run-up to retirement. With the changes in retirement people’s choices change at the time and date and there is some work to be done around that, so that will be in our consultation paper.

Richard Graham: Can I—

Chair: We are keeping the Minister waiting, Richard, so can I thank you both very much for your contribution? If there are any further points we may wish to come back to you, particularly on John’s point about literacy and that most vulnerable group. Thank you very much indeed.

Examination of Witnesses

Witnesses: **Harriett Baldwin MP**, Economic Secretary to the Treasury, and **Gwyneth Nurse**, Director, Financial Services, HM Treasury, gave evidence.

Q100 **Chair:** Minister, welcome. Might I ask you and your colleague to identify yourself, and then we will begin the session? It is not that we do not know you.

Harriett Baldwin: Thank you. I am Harriett Baldwin, the Economic Secretary to the Treasury.

Gwyneth Nurse: I am Gwyneth Nurse, Director of Financial Services in the Treasury.

Q101 **Chair:** I think you were not here, Minister, when we were talking about the lack of data and what you might be publishing. Is there any information that you can provide us on that? Then maybe when you have made that opening statement Jeremy may wish to come in and start the questioning.

Harriett Baldwin: Yes, with your permission I would like to make a bit of an opening statement, if I may. It is great to be back in front of the Committee I was a Member of in the last Parliament, and we thought it would be appropriate, given that you are looking at this topic and we are now six months into the new pension freedoms to share with you some of the data involved.

You will also have heard just now from the FCA about the fact that 200,000 people, according to their data, have taken advantage of the new flexibilities and the vast majority of providers, they have found, about 90% of them, are offering flexible options to members. I am proposing that we place the FCA pension freedom's data, the Pensions Regulator's data, in the House library shortly after this hearing. There will be extensive background detailed data, and that will also be made available on the relevant organisations' websites.

I also have a little bit more information for you on Pension Wise data, if that is of interest to the Committee. Obviously the Pension Wise guidance service has now been available since the launch of the reforms, and the satisfaction levels continue to remain above 90% for people who have used that service. We extended the service in the summer budget to people who are 50 years or older, and in terms of the marketing campaign there was a new marketing campaign that I am sure many of the Committee have seen and heard over the last few weeks, which was launched at the end of August. Since that launch we have now received cumulatively since the beginning of the freedoms 1.5 million hits, all unique users, on the Pension Wise website and we have had over 20,000 people now who have had a Pension Wise guidance appointment.

Shall I stop there and let you tease out some points?

Q102 **Chair:** That is very helpful to us, Minister. Thank you. When you have read the data, what are your worries nevertheless about ensuring this reform will be a success and people are not ripped off?

Harriett Baldwin: In terms of the guidance service, I think one of the key metrics for me to be very aware of is the usage. What we have seen since the advertising campaign relaunched at the end of August is a big increase now in terms of traffic to the website. Initially when the service was launched back in April I think it is fair to say, and Gwyneth may want to elaborate on this, that one of the big worries was that we know that there is a 4 million population of people who could potentially access pension freedoms, and we

wanted to make sure that there was the capacity in the Pension Wise guidance service and the face-to-face appointments to allow for that level of demand if necessary.

One of the biggest worries I have heard from the team where they worked very effectively to get this up and running in time for 6 April was just to make sure that there was going to be sufficient capacity. I think now that we are in a more steady state it will settle into a period where we can look at capacity.

If I may just mention one of the other topics that may come up later but has also been, I know, on the Committee's mind, I wanted to say that in terms of the operational oversight of Pension Wise we have decided to make a machinery of Government change, and we will be moving oversight of Pension Wise, in line with your recommendation, over to the DWP during the course of this financial year.

Q103 Jeremy Quin: Thank you, Minister, for saying those details will be deposited in the House library.

On an ongoing basis, are there plans to have a wider publication of those statistics? There are three types of statistics. You allude to the uptake of pension freedoms, access to Pension Wise. Also clearly what would be useful is to know what different types of people are doing with the advice that they are receiving and doing with those pension freedoms, in order to judge the success of the policy on an ongoing basis. So in all those three categories, is that something that you can commit to publishing on a regular basis?

Harriett Baldwin: To the extent that we collect data in terms of Pension Wise it will be on the number of hits on the website, it will be on the number of appointments booked, it will be on the satisfaction rate, and things like that. So on that I can commit that we will be publishing that regularly. We are in discussion at the moment with the Government Digital Service about how exactly that will happen and what the frequency will be to be helpful to the industry.

In terms of the breakdown of what people do, I am not sure that either the Treasury or the DWP gets that sort of information. We have been relying to quite a large extent on what the ABI has been collecting in terms of data and what people are deciding to do overall.

Jeremy Quin: I appreciate it may well be qualitative from the FCA or the ABI but I think some guidance in that will be helpful to understand what is going on.

Harriett Baldwin: Gwyneth, did you want to add anything on that?

Gwyneth Nurse: Yes. I think the FCA has a sort of ongoing programme of work looking at this stuff, so we will be definitely looking to them to collect data. We are seeing what more we can do through Pension Wise itself to collect wider data to allow us to do more qualitative work, so I think to some extent it is work in progress.

Q104 Richard Graham: Minister, welcome. Just on the whole origins of the new freedom of pensions, this was done by the Treasury and the Chancellor explained to the Treasury select committee that this was because they were largely driven by reforms to taxation and implied, as you have just mentioned, that administration of Pension Wise would be transferring in due course. The FCA is now setting up a pensions dashboard, which as I suggested to them earlier, could really be called a savings dashboard. If you are going to have

a pensions dashboard that is really valuable it would need to have people's ISAs in there, it would need to have their endowment mortgages, if they still have one. It would probably need to have any product like a friendly society insurance product that has an investment if the insurance is not drawn down on. So at what stage are we really seeing the whole world of pensions in the Treasury eyes morphing into simply another savings product, at which point really the whole pensions scene could be administered by the Treasury? What is the strategic direction of the Treasury on this?

Harriett Baldwin: I would say in terms of setting the strategic direction on this topic that one of the things that we are doing is very much backing financial technology or FinTech so there are examples around the world—I do not know if the Committee is going to have a chance to look at them—where people already have the technology on their iPhone to look at their pensions and savings all on one application that has been brought in from a range of different providers. That has been brought about by the private sector and by financial technology. I would say probably our strategic steer there is around ensuring that if there are barriers to financial technology that we are aware of them, and that we would want the industry and new start-ups to come up with some interesting ways to display all of that to consumers.

Q105 Richard Graham: If it was just a pensions dashboard surely that would then be a pensions offering, which would be under the TPR, the Pensions Regulator, rather than the FCA, whereas if it is a savings dashboard that is going to mirror what the FinTech world is doing in the private sector then it would be something that comes under a wider remit and a pensions heading is less important.

Harriett Baldwin: I think the Committee may have a different view but for the average person they do not know whether they are regulated by the Pensions Regulator or the FCA or whatever for their particular product. What would be useful to the consumer would be to have a way to look at all of that and how it all interacts together on some user-friendly piece of software. So I probably should be just setting out that invitation to the industry to innovate something in that direction, because it has been done in other countries around the world.

Q106 Craig Williams: Thank you, Minister, for the opening statement. I think you touched briefly on this, but I wanted to tease out a bit more about the Pension Wise and the initial uptake; the new marketing is welcome but were you surprised by the low uptake of Pension Wise at the outset?

Harriett Baldwin: I tried to make it clear that one of the things that I think we in the Treasury were particularly cognisant of is that this was a new rule, that there were 4 million potential people who might need guidance in terms of how they could move forward, and that what we were concerned about was making sure that we had sufficient capacity. So we commissioned with that in mind and we also tried to ensure that if there was even more capacity demand that we had surge capacity planned for, and so on and so forth. So it was in that context that we have clearly given many, many people that opportunity to have both a telephone interview and a face-to-face interview, as well as using the website. Now, the operational oversight of this will be going to DWP but I think it is absolutely right that we should, now we have settled down to steady state, be evaluating on an ongoing basis what is the appropriate need and capacity. Clearly there are going to be I think over 300,000 people every year who will reach their 55th birthday.

Presumably now we have extended it to 50 the population of people who will potentially use the service is that much larger as well. I think it was that initial change that we thought would generate a lot of demand and we commissioned accordingly.

Gwyneth Nurse: I think that is right and I think the marketing that started at the end of August—so TV, radio, newspaper, the Citizens Advice Bureau guide is getting out there and talking to the communities—is also likely to drive more demand over the next few months.

Q107 Craig Williams: So you do not think we can take anything from it at the moment in terms of reforming Pension Wise? It is steady as you go, so now marketing kicks in. We have heard from a lot of witnesses about the different quality between face-to-face interviews and the static website, so at the moment it is the new marketing and see what happens with the numbers now, is it?

Harriett Baldwin: I think there were some adjustments that were made, so for example when I first took this role I asked my husband to mystery shop the service and he found that it was quite difficult to get the face-to-face interview. He had to ask quite hard to get the face-to-face interview, and so we have made some adjustments to the script to make it now much more an option that people are offered right at the beginning. I am going to embarrass him now that I have brought this detail into the public domain, so that was an example of something that I thought the script could be made more flexible in terms of what people wanted. If someone really wanted a face-to-face interview they should be encouraged to have one.

Q108 Craig Williams: We were just suggesting to the FCA that they did mystery shopping, so it is nice to see that.

Harriett Baldwin: There was another improvement that the Citizens Advice made in terms of the location finder, in terms of where your nearest Citizens Advice was that could help you with this, and they made some modifications in terms of their location finder. So it has been something we have been evaluating on an ongoing basis, making some small adjustments as we go.

Chair: We will not ask his Christian name, because we do not want to blow his cover for his next move.

Q109 Debbie Abrahams: Before I move on to my question about Pension Wise, Minister, you may have heard that the previous panel was asked around the charges and you will remember as a Member of this Committee it is one of the things that you felt particularly strongly about. We are still having this issue around transparency and comparability. When does the Government think that it will be the right time to do something about this?

Harriett Baldwin: That is an excellent question, and we have as a result asked the FCA to do this very comprehensive piece of work, which they have just released today. Our consultation itself closes on 21 October, so what we would aim to do is once the consultation is closed to take into account the feedback we have had both from the FCA and the Pensions Regulator, look at the data-gathering exercise and the results of the consultation and then I am sure we will want to take a decision in terms of how we move forward in time for Budget 2016, would be my expectation.

Q110 Debbie Abrahams: That is good to hear. Thank you, Minister. Moving back to the Pension Wise service, it has been suggested that this might take a more personalised and more holistic approach, and I wondered what your views were on that.

Harriett Baldwin: I think that the guidance I have seen delivered and also through the telephone service is admirable in its consistency. There has been a goal of having really consistent guidance given to people through all the different channels and I know the FCA has also observed and the industry has also observed how consistent and high quality that guidance has been.

Certainly we have had feedback from Citizens Advice that there might be one or two things that in the particular generic script and the follow-up letter that you get after you have had an appointment or a telephone interview could be more customised to the particular circumstances of that individual, and I think that is with particular reference to these guaranteed annuity rates. So I think that is currently an action point with the team but, Gwyneth, did you want to add anything to that?

Gwyneth Nurse: Absolutely. We are looking to develop Pension Wise. We got it up and running quickly and effectively and now we are looking to improve it. So I think this is an area, to the extent we can without pressuring the advice boundary that I know has been discussed and I will come back to under the Financial Advice Market Review, to do what we can to make it more personal to each individual.

Q111 Debbie Abrahams: Given the point that you have made as well about a steady state in terms of people that are interested in using the pension freedoms, it is still a very small number, and an even smaller number, between 10% and 20%, that are accessing Pension Wise. How are you going to try to improve and increase the uptake?

Harriett Baldwin: I somewhat dispute what you just asked in the sense that I think that if you have had 1.5 million hits from unique users out of a population of 4 million, and if you consider this is only one channel that people can get help, guidance, advice from—they may also be able to get it from their provider, for example, so I have been to some of the advisers and listened in on some of the calls that they have had from customers and seen the kind of conversations that they are having—I would ask the question the other way and say of the people who have acted, so we have quoted that number of 200,000, how confident am I that all those 200,000 people who have acted have had the opportunity to get at least guidance? I would be very confident that it is really all of them, because we have made this widely available. As Gwyneth said, since the marketing campaign started up again at the end of August we have seen a big increase now in terms of the hits on the website as well.

Q112 Mhairi Black: Just to bring it on to the issue of scams, we have heard that scammers are using the new publicity of Pension Wise as an opportunity to scam people so do you agree that pension freedom has increased the scope for scamming, given that there are now many people who quite often do not have a lot of knowledge or understanding about their pensions and are free to make whatever choice they want?

Harriett Baldwin: I think it has been very important to take that into account in designing the way the whole process has worked. So for example if you have a telephone appointment with Pension Wise to make sure that you have the right sort of code words,

and I do want to say loud and clear, and I hope the Committee's report will echo this, that nobody should ever do anything on an inbound telephone call from someone that they do not know and they have not made a pre-appointment to meet that person. If they do not have that code word from Pension Wise then they should not be having that conversation. That has been really important.

What the FCA and the Pension Regulator have been doing is writing out to people and anyone who has tried to transfer gets that communication written to their home with the documentation warning them against scams. The evidence seems to suggest that that has resulted in more awareness, so there has been more reported attempted fraud. That 430 number that you may have seen from the City of London is people attempting and being reported, so that has gone up, which I think has to be a positive sign. In terms of successful frauds the number that we have seen is 78, and that is the same number as before the freedoms.

There is this terrible practice and I think we all have the responsibility to make sure that for our constituents and for the public at large they are very aware that there are a lot of very bad people out there trying to take advantage, not just of this situation but for younger people unlocking your pension before you are 55 and things like that. Please never take an inbound call to your home and act on it. Let us make sure that we all work together to communicate that message really strongly to everyone.

Q113 Mhairi Black: So other than the number that you have just quoted there, do you have any other indicators as to how effective the awareness-raising measures have been so far?

Harriett Baldwin: Those are the best measures we have. Gwyneth, I do not know if you can think of any others but those are the ones that we monitor on an ongoing basis.

Gwyneth Nurse: Yes. That is what we have so far. It is early days in the sense of the freedoms, so we are very actively monitoring it through our contact centre, through the appointments that people have, if people are reporting things, reporting them into Action Fraud, and we have also made sure that Project Bloom that the Government set up to co-ordinate activity across from fraud—the project is run by the National Crime Agency—we are making sure that that group of people is actively co-ordinating all the information and working out what we should do across Government.

Harriett Baldwin: If I may mention the other one as well, it is the websites, the fake websites. There was one called Pension Wise Choices that we got them to take down, because it is an offence to impersonate Pension Wise on the internet. So that is another area where you do have to be vigilant, and we do continue to be vigilant.

Q114 Mhairi Black: We have heard from other evidence sessions about the difficulties of pursuing unregulated marketing companies and scams that originate outwith your own jurisdiction. Do you think there are any specific measures that could be put in place to tackle these issues more effectively?

Harriett Baldwin: I think the measures are the Project Bloom and the Action Fraud and the mailing out to everyone who is trying to move money, to make sure that they are aware that they could be vulnerable at that particular point. What we would like to see, and we have not seen yet, but in due course if there have been these 78 successful cases

we would like to see people caught, locked up and shut down. That is what we would like to see and that is what they are working on in terms of the agencies involved in Project Bloom.

Q115 Ms Karen Buck: I hope I am not being unfair, but I slightly got the sense from the previous witnesses that the establishment of the Financial Advice Market Review was not particularly driven by concern about the advice particularly for the holders of small pension pots. Do you think there are grounds for concern? If there are not, I am not quite sure what the motivation for the review would be.

Harriett Baldwin: I think the review is a fantastic idea. Obviously, I would think that, because I suggested it. I think that what we have in this country are very highly qualified, very good sources of financial advice for people, but that they tend to be aimed towards people who have more money than average. What I would like to see for my constituents and your constituents is that more people have access to that very good financial advice. I think the average person does not know the difference between advice and guidance. They just want help, and they want help not just at this particular point in their lives but at various key stages in their life. This is an integral part of what we are aspiring to do in Government, which is to make sure that people see financial services as something that is on their side to help them achieve their goals at every key stage in their life. Having so many people point out that there was this big gap in terms of advice for people with smaller amounts of assets, people who might want to have the opportunity to accumulate savings, meant that I thought it was appropriate and the FCA have welcomed the opportunity to work with us in terms of this Financial Advice Market Review.

Q116 Ms Karen Buck: Recognising those problems, particularly for the holders of smaller funds, do you think the market will respond to meeting that need and if so how, given the constraint by definition is to do with people's ability and capacity to spend money on it?

Harriett Baldwin: I am not going to prejudge where it ends up, but I would say that at the moment one source of guidance and help to someone with a small amount already is their provider. I do not think we should underestimate the role of the provider and the way that if you do want to use your pension freedom for even a small amount of money there will be someone who you can call up, an organisation. Often the providers themselves have very useful and helpful points on their websites. I would say that is a key part of it.

I also would go back to the point I made earlier about financial technology and the ability for technology to lower the cost for providers to have some sort of more meaningful guidance and interaction with their customers and potential customers. I would hope that those two areas would be things that were brought out in terms of the overall Financial Advice Market Review and the recommendations. It is very clearly defined in statute where the point of advice is. It is where you make a recommendation to someone to do something, as opposed to pointing out the range of things they could possibly do. It is key that we are working with the Regulator on this, because at the end of the day clarity from how it will be regulated going forward is going to be a really important part of the overall package.

Q117 Craig Mackinlay: Just following on from that, again these people with smaller pots who will not be able to afford IFA advice, it is whether there should be a sort of safe harbour where advice can be given by someone of sufficient standing, but without taking on that full

liability of the FCA's risk and everything else that tends to make IFA just not want to touch smaller pots. Is there somewhere we can go? I did suggest that perhaps there is a limit, a £50,000 pot or less, there is a limited amount of advice where liability does not come with it for the adviser. I am very concerned that people are not getting advice in those lower ends. Is there a way that we can restrict regulations to get people decent advice but where the adviser is not saddling himself with a whole spectrum of "best for you" type of advice that would usually cost £1,000 or more to do that job properly, which would represent a good proportion of the pot we are trying to deal with?

Harriett Baldwin: To answer the question directly, that is exactly the sort of question that the Financial Advice Market Review will be looking at and exactly the sort of situation that they will want to address. I am sure you know this, but it is probably worth putting on the record, the DWP statutory rules on this are that if you have a pot with a guaranteed annuity rate that is more than £30,000 that is when you are required to get regulated advice if you want to take advantage of the pension freedoms. So that is where we have drawn the boundary in statute at the moment. In terms of the review that would be exactly the sort of point that we would want to be looking at.

Q118 Craig Mackinlay: I do worry where you said earlier on providers are often quite useful at giving advice. Well, they would be. They are only going to sell their own product, generally, which is not where most people are. They should be looking at the market more broadly for what is best for them.

Harriett Baldwin: Yes. It is also worth highlighting that an extra adjunct of this Financial Advice Market Review is that we are also doing a review of the statutory free guidance landscape, so we are looking at the three different ways in which that is currently available to people through the money advice service, the telephone service and Pension Wise.

Q119 Heidi Allen: We have touched on this already and you have heard the tail-end of our conversation with the previous witnesses. This is to do with guidance and advice. The review is obviously rightly going to look into it. Do you have any early feelings, either of you, about how we might achieve that? It is for Average Joe, is it not, knowing what they are getting and whether that is enough for them?

Harriett Baldwin: As I say, I think for me it would be very desirable if we had an outcome where we could take advantage. In fact we do have a lot of very highly qualified, very skilled people who know a lot about the whole landscape. At the moment the economics of providing that do not always add up for people who do not have as much at this stage in their life, but they may do later. I think the way in which you might be able to solve that is through technology, through some of the regulatory points that Mr Mackinlay was just mentioning, but the whole point of the review is to look at all those different alternatives. As I said earlier most people out there just want help. They do not know whether they are getting regulated advice or not. They just want help, and they probably do not want help on an ongoing basis. They probably want help at certain sort of key points in their life in terms of childcare, buying a home, how best to structure their pension for the long term, that kind of thing. So it is something that I would hope we could make more accessible to a wider group of people but people at different stages in life as well.

Gwyneth Nurse: I think the really important thing is we are not starting with the Financial Advice Market Review from a position of looking at the really detailed definitions. We are

looking at what do people need and want, and building up from there, so it is a really very open consultation.

Q120 Heidi Allen: I almost wonder if there is something in just making people not scared of the language and scared of the whole thing about pensions, and that, “It is okay to inquire and wonder and think about the future, but I don’t have to do anything right now, but can I feel able to have those conversations?” I suppose.

Harriett Baldwin: That is such an important point about the language and how complicated it is for most of us and how often we all find ourselves confused by the language. I think there is another group of people who just hear it and completely switch off about the topic and say, “I’m not going to worry about that now” so you are absolutely right.

Q121 Heidi Allen: That is such a risk, is it not? Because if everything we are doing with this policy is to try to make it open, accessible and to choose the best thing for you, if there are people with fingers in their ears going, “La, la, la” then the policy will not work.

Harriett Baldwin: There are millions more people now saving through auto-enrolment for a pension, so millions more people are now involved in this savings process.

Q122 Heidi Allen: You talked about a future aspiration and I think it is right, it is the way our lives are going around this digital access and on my app, and how am I doing today with my pension and my savings. Something perhaps sooner than that is this idea of this pensions dashboard. My understanding is that is on the way and that that is going to happen. Do we think that is going to happen and how soon on the Pension Wise website?

Harriett Baldwin: I do not have any announcements around that at all today I am afraid, but I think in terms of the pensions dashboard you heard the latest really from the FCA in the earlier session. I will use this opportunity again to state that I think that if there are financial technology companies or private sector providers who were able to come up with that now it would be something that would be extremely popular and welcomed by consumers.

Q123 Heidi Allen: Do I take from that that we do not have the funding to do that ourselves, to create that kind of technology ourselves?

Harriett Baldwin: If we were to have the funding, and if we were to want to make the case to have that funding, I do not think it would be our role to come up with what is the best way to do that for everybody. I am not sure I see that as the role of Government. I think it would be the role of Government to try to enable, and see if there were any regulatory barriers that turned out to be there that prevented the private sector from coming up with an innovation in this area, but I may be wrong on that. That would be where my head was at on that at the moment.

Q124 Jeremy Quin: Minister, you mentioned that millions more are saving now by auto-enrolment. A lot of them, as you will appreciate it, are doing it through the default contribution and the default fund. You heard me ask this before, is there a case for a default decumulation option as well at the end of that process, or do you think that is going to interfere with the market mechanism? Should there be a default at the end of the process as well as through the period up to that point?

Harriett Baldwin: Before pension freedoms we used to have this default, that people were only required to buy an annuity and they ended up defaulting, 60% of them not shopping around, into a product that was not very good value. I would say that I am somewhat sceptical of the opportunity provided by having a default. There will obviously be providers who will come up with that in terms of their product design, and we still have not seen all the different products that the industry will be offering. There will also be employers, I think, who have set up auto-enrolment and will want to take a more active role at the point of retirement for people as well, but by and large you should not look to me to be legislating a default option any time soon on this. That is not the way we are approaching this. We are really trying to approach this as a way where we have given people these freedoms, we have given people access to information and guidance and what we are seeing so far in terms of the reaction of people to having those choices is that they are making more active and informed choices, so we welcome that.

Q125 John Glen: Minister, I think you will have seen *The Financial Times* report on Friday that likened the drawdown products and the charges particularly for smaller pots to the charges of the budget airlines, making a point that they do not really resemble the costs that they say they represent. Do you recognise that? How do you respond to that observation and is there room for the Government to be involved in looking at provision of products for those smaller pots for those drawdown products?

Harriett Baldwin: That is the reason why we have asked the FCA and the Pensions Regulator to do this fact-finding for us, and why we have this consultation ongoing that closes at the end of October. I think it is in that context that I would see that, the information, and when we have the full picture then we will decide what we want to do about it.

Q126 John Glen: So you are open to potentially intervening in order to deal with high charges for small pots?

Harriett Baldwin: I think when we launched the information-gathering exercise the market generally saw that was a potential decision that we might take. Am I being sufficiently obscure in my language?

John Glen: Yes, you are being especially evasive.

Harriett Baldwin: Yes, but that is clearly one of the options that we have on the table and we will be evaluating when we have seen the data.

Gwyneth Nurse: Exactly. We are looking at the evidence base as we gather it both through the FCA and through our own consultation. Once we have the full picture then the Minister will be able to take decisions at that point.

John Glen: That is reasonably clear. Thank you.

Chair: Jeremy?

Jeremy Quin: Yes, well unless Richard wants to go first.

Chair: Richard, do you want to go first?

Q127 Richard Graham: Shall I just start? Minister, comparisons with different overseas markets and practices are never easy. Taxation systems, regulatory systems and life expectancy all differ in different places, but nonetheless pensions freedoms can benefit from experience elsewhere, and there are one or two discouraging precedents. The Murray Review in Australia suggests that they are looking at something called a default income product, which sounds very much like an annuity, going back. America is slightly different again. What study has the Treasury done of overseas market experience of pension liberalisations and what sort of conclusions do you draw about what is encouraging from them and what are potential hazards for us?

Harriett Baldwin: Yes, we obviously do look at all the other different regimes around the world. I am aware of the situation in Australia and the review that they have launched. One of the key differences and I am sure you will correct me, Mr Graham, since I know you know an awful lot about these things, is that they still have a means-tested pension at the end of the day, so I think that one of the key bases that had to be in place before we took the decision we did in terms of pension freedoms was that we had to have established that basic State Pension, which as we know is now triple-locked. That is a fundamental building block that you need for success if you want your pension freedoms to not result in people at a much older age not having that basic income. The messaging around pension freedoms has all been around you have that basic State Pension. If you feel that you can live on that basic State Pension then that will be there for the rest of your life, but if you feel that you cannot then you would want to take that into account in terms of the decisions you make with your second tier of pension.

Q128 Chair: Should the decision about drawdown then have been linked to the full roll-out of the basic State Pension?

Harriett Baldwin: It is linked to it in the sense that we have legislated for it and we made sure that that was in place before this announcement was made. I fully take on board the point you are making, which is that the implementation has not fully rolled out, but I think as you well know people are able now to get as of 55 exactly what their State Pension will be. The information is out there and people can plan around that.

Chair: Jeremy?

Jeremy Quin: No, I am done.

Q129 Chair: Minister, thank you for engaging with us in the way you have. It was a stunning performance.

Harriett Baldwin: Thank you for bringing this very interesting topic to your Committee.

Chair: It is wonderful to have someone who knows what they are doing. Gwyneth, thank you, also.