

Work and Pensions Committee

Oral evidence: Pension costs and transparency, HC 1476

Wednesday 5 September 2018

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Members present: Frank Field (Chair); Heidi Allen; Ruth George; Steve McCabe; Nigel Mills; Chris Stephens.

Questions 1 – 66

Witnesses

I: Dr Chris Sier, Former Chair, FCA Institutional Disclosure Working Group, Andy Agathangelou, Founding Chair, Transparency Task Force, and David Pitt-Watson, Visiting Fellow, Cambridge Judge Business School.

Examination of witnesses

Witnesses: Dr Chris Sier, Andy Agathangelou and David Pitt-Watson.

Q1 **Chair:** Welcome. Andy, might you identify yourself for the sake of the record? I will go down the panel and then we will begin with Nigel.

Andy Agathangelou: Good morning. I am Andy Agathangelou. I am the founding chair of the Transparency Task Force, which is a collaborative community of financial services people helping to positively reform the sector. I am also the chair of the Interoperability Steering Group, which might become relevant if we talk about the Pensions Dashboard later.

David Pitt-Watson: I am David Pitt-Watson. I was a pension fund manager, but I led the Royal Society of Arts investigation into "Tomorrow's Investor" and pension structure. I am currently an executive fellow at Cambridge University.

Dr Sier: I am Christopher Sier. If it is okay I might spend a couple of minutes just outlining some of the experiences that I have had in this area to demonstrate my credibility.

Q2 **Chair:** I hope you will be able to do that to our questions, Chris. I know you have prepared very carefully and have replies to the questions that we may want to ask. Might you just speak to them and we will accept your written preparations as part of our evidence? Sorry, I interrupted you introducing yourself.

Dr Sier: No, not at all. I was going to say I have been working as an independent person for the past decade driven by a desire to establish what I would call the true cost of ownership of savings from the perspective of a consumer. I have had several roles in that time, including working for the World Bank, EIOPA, which is the European regulator in this space, and most recently for the Financial Conduct Authority chairing their independent investigation into the issue of costs and charges in the pension fund industry.

Chair: Brilliant, thank you.

Q3 **Nigel Mills:** We might as well start there, Dr Sier. Obviously, the FCA set up that working group because they found that pension schemes and other investors struggled to get clear information on costs and charges from asset managers. Can you just perhaps run us through what you think the reasons were for that lack of transparency and how the proposals of your working group would address those?

Dr Sier: Absolutely. As I proceed, I am going to use the terms "institutional investor", "asset owner" and "pension fund" interchangeably. In my view, they sort of mean the same thing, so I want to make sure I clear that up from a terminology point of view.



HOUSE OF COMMONS

There were several reasons for a lack of transparency. The first is a historical one; because no one considered asking for detailed costs data important, the process of asking or demanding just has not been part of either the informal zeitgeist or the recommended best practice. Essentially, institutional investors learned to suspend their disbelief and ignore the fundamental principle of asking how much something costs and then to have those costs checked and compared. The mantra that net performance is all you need has erroneously and sadly prevailed. That is the first reason.

The second is that institutional investors have not been aware of either the need to collect data or of the benefits, most specifically, of collecting such data, and this has been compounded by poor consensus on what data should be collected. If you do not ask the questions about data and you are not aware of what you need to ask for, this is a problem and there has been no standard to collect to, bluntly.

Thirdly, some suppliers, including asset managers, have not supplied adequate data even on request from clients, and this is deeply concerning. There are three possible reasons for this. The first is refusal, the second is complacency, and the third is a lack of operational ability, each of which have significant repercussions for their clients.

The combination of the above three reasons—namely, we have never done it before, a lack of demand for cost data and poor delivery of such data—would be bad enough were it not compounded by the overwhelming complexity of the asset management industry, a complexity that is now so operationally inefficient that a very simple equity fund in the retail space can have as many as 15 layers of intermediation between the consumer and the marketplace. I presented a paper on this in 2009 to the Foresight programme in BIS and John Kay echoed the complexity issue in his report to BIS a couple of years later.

Q4 Chair: Chris, do you think it would be more lively if you just spoke to your paper?

Dr Sier: Absolutely. If you would like me to do that, it is fine.

Chair: Yes, and then we will take the paper as evidence.

Dr Sier: That is fine. Bluntly, the complexity is a problem. Every layer of intermediation adds a layer of cost and a layer of complexity. The complexity is important because it is intimidating for people to address.

The reason why I think the proposals from the working group I chaired for the FCA will address this transparency is because they address the root causes. First, they present a set of data standards upon which trustees and institutional investors can hang their hat, and this removes the fear of not knowing what to ask. My experience is that trustees often do not like to admit that they do not know something, and giving them something on which they can hang their hat is a very important thing to do. That is why they employ advisers.



HOUSE OF COMMONS

The recommended framework is also supported by the FCA and carries that gravitas, but the most important reason why I think it will work is that the committee that I chaired was made up of senior representatives of the asset management industry, all of whom signed up to agree, on behalf of the industry, to adhere to this data collection standard, and this is very important. While there were members of the asset servicing community—the trustees on the panel, who wanted this data—it was made up of very senior individuals from very large asset managers that are household names and their respective trade bodies, all of whom agreed that the standard was appropriate. It will be very hard for an asset manager, when asked for this data, to say no.

Q5 Nigel Mills: Thanks for that, Dr Sier. I have a couple of questions on the detail. First, did you ever sense there was a bit too cosy a relationship between the trustees, pension schemes and so on and the asset managers and that this was just always how it worked and we all do it the same way and there are a couple of nice lunches and nice events for you during the year if you come with us and that is fine?

Dr Sier: That is possible. The thing that I saw more was something slightly different. What I saw more were long-term relationships that had developed trust between supplier and buyer that were very difficult from an emotional perspective to break apart. To be told by an independent person like myself, or indeed David, that the person that you have trusted implicitly for the past decade may have been conservative with the truth around costs is an extremely—sorry?

Q6 Chair: Been fleecing you?

Dr Sier: That would be the pejorative term.

Q7 Nigel Mills: But it was too cosy a relationship, in effect?

Dr Sier: I put it down more to fear of exposure of having made a mistake.

David Pitt-Watson: To give you a sense about it, I chair the endowment of Nesta. It is the innovation charity; it is about £400 million. We spent the last couple of years trying to discover what the full costs of managing that £400 million were. We still do not know, despite having asked the question time and time again, and my trustees include the deputy chair of Rothschild, the former head of one of the biggest pension funds in Britain and the former Deputy Governor of the Bank of England. It is difficult, really difficult, to get this data and that is one of the things that hopefully Chris's exercise will solve because we will be able to say, "That FCA data is what we want".

Dr Sier: Just to clarify that point as well, I very much see the point being who the onus is on. If we have indeed solved the problem of asset managers giving data on request, and I have a cautious optimism that we have done that, we have given them something that everyone can hang their hat on. The next problem we have to face is how we get trustees to



HOUSE OF COMMONS

ask for the data. In the face of the behavioural measures or the behavioural issues that I mentioned, the issue becomes very much one of how you convince a group of individuals, who may stand to look very bad at the results that come out, that in fact it is very important to ask and collect this data. The next hurdle is figuring out how to help trustees gain the confidence to ask for the data and to make it totally ubiquitous and part of the mantra of being part of the corporate governance of a pension fund.

Q8 Nigel Mills: That is intriguing because your working group, I think, positively recommended that the FCA should refrain from mandating the submission of data using those templates. Presumably, if we have some trustees who are reluctant or just do not know how to do this, mandating it would have helped.

Dr Sier: We recommended not mandating the submission and, to be brutally honest, there was a good reason for that. If you want to identify the good from the bad, figuring out who is willing to be honest and who is willing to be dishonest is a very useful behavioural cue. From a trustee's point of view, if you want a first line of defence in selecting a provider or deselecting a current provider, asking them for data that has been set by the FCA as a reasonable standard and them refusing or declining or failing to give it is a very good first way of saying, "I think it is time we moved on with this relationship".

Q9 Nigel Mills: But asking for data that has been set by the FCA sounds like the FCA has practically made it compulsory that that data is available, doesn't it?

Dr Sier: There is no compulsion, but I think there is a strong implication there will be repercussions should the data not be given to somebody who asks for it and those repercussions can be twofold. They can either be an intervention if there is a serious breach, and I think we put clearly in the report that this is an option for the FCA, but more importantly we can follow the mechanisms of the Local Government Pension Scheme, which I know we are going to talk about shortly, which are, "We will sanction you for failing to give this data". The next behavioural issue we have to deal with is the willingness of trustees or institutional investors to be robust with a group of individuals with whom they have never been robust before.

Chair: Do you think Chris might come in, as you have mentioned the scheme, and then we will come back to Nigel?

Q10 Chris Stephens: Dr Sier, you previously helped develop the Local Government Pension Scheme's code of transparency for asset managers. What do you believe are the benefits that that initiative has brought?

Dr Sier: The benefits have been enormous. The Local Government Pension Scheme is a highly concentrated pool of assets that is entirely attractive to asset managers. To wit, it is £260 billion-plus of assets, 70%



of which is managed by the same 30 to 40 asset managers and those 30 to 40 asset managers are household names.

Q11 **Chair:** Such as? Can you give us a few?

Dr Sier: I believe the asset manager with the largest share of assets and mandates is Legal & General, followed closely by organisations like BlackRock, Capital International, Baillie Gifford; the list goes on and on like that. These are managers that are household names that service nearly every pension fund in the UK in some capacity or other, are the largest asset managers in the world and also service the retail community. A portion of those assets has set an empirical standard and a code of conduct that requires those asset managers to deliver that data to a standard, and that standard was the one that I originally put forward three years ago now to the LGPS. They accepted that standard and they have signed up to the code of conduct and there are now 60-plus asset managers that have signed up publicly to a register of that code of conduct.

The implication there is if you do not adhere to that code of conduct you will be removed from that register. You are going to agree to submit data to that standard. Therefore, if any other client of those asset managers asks those asset managers to give data to the same standard and adhere to the same code of conduct for them, regardless of whether they are the Local Government Pension Scheme, it makes it very difficult for those asset managers to say no.

Q12 **Nigel Mills:** We have fixed it, have we? This is it, the asset managers are now all bought into transparency and any pension scheme can find a reputable one?

Dr Sier: Excellent question. There will always be a pool of asset managers, but an increasingly shrinking pool, who will either refuse or decline to give data, and I believe there are reasons why they will do so. One is they genuinely have something to hide. Secondly, they have—

Q13 **Nigel Mills:** Such as they have been charging too much?

Dr Sier: They have been misrepresenting their data in the past, precisely. They have something to hide, but I am saying it is an increasingly small pool; it is contracting.

The second reason will be they are so operationally complex that they are unable to easily give the data, so it is easier for them to say no than to go through the effort of going to scrape this data manually from their systems. Any asset manager that has gone through a train of acquiring other asset managers over the past decade could well face this problem because operationally they may have failed to integrate their platforms.

Then the third reason is—and this is the one that I am most confused about—there is almost a reluctance to do it because there is the belief that we have never done it before, the data is ours and we know better



HOUSE OF COMMONS

than you. That arrogance, which governs that position, strikes me as extremely surprising given the benefits that exist to asset managers in the wider community of transparency because currently asset managers are being picked on their willingness to give data. Those who are unwilling to give data will lose market share, full stop.

Q14 Nigel Mills: How do we know the data is not just some sort of made-up number of, "I know roughly how many people I employ, I know roughly how much we pay them, and I know roughly what external transaction costs I incur. You are 5% of the assets I manage, so I will just give you 6% of my total costs and it will all be fine"?

Dr Sier: Again, a very appropriate question. The issue that we have is the data has been so limited, not only do we not know what the correct answer to that is, we do not even know what the correct data fields are that need to be collected because there is no empirical evidence to sensitivity test those particular data fields.

As a scientist, the lack of data and the decisions that people have made on what is a totally apparent lack of data is utterly shocking, because there has been no hypothesis testing and no empirical measurement of the answers once those hypotheses are tested. To my mind, the most important thing here is collecting data en masse to be able to develop a perspective on what is good and what is bad. That does not exist yet but hopefully will exist.

David Pitt-Watson: If I could just add on to whether the problem is solved, I hugely support what Chris is doing but I was looking through my notes before coming here and I came across this headline from earlier campaigns, which says that savers will be told all about hidden fees on their pensions, the industry saying that was going to happen, and I noted the date was 2012. Your investigating this is really important and it is really important because a 1% fee you have to multiply by 25 over the lifetime of a pension; 1% will take 25% of your possible pension; 2% will take 50% of your possible pension. People knowing about what the charges are and what the full charges are is something that Chris has been working on. I have done a bit and Andy has also been working hard on it for a number of years. I do not think we are there yet, but having it in the public eye that this needs to be resolved is absolutely fundamental to our getting a solution. I do not think Chris would say and I certainly would not feel that we are there yet.

Q15 Nigel Mills: I am slightly intrigued because we have a charge cap for auto-enrolment schemes of 75 basis points. Should we be having these costs counting towards that charge cap? Would we need a second charge cap for this or would we need to have a higher one that combines? I just do not know the answer to that.

Dr Sier: The answer to that question—and this is again shocking to me—we do not know because we do not know what the impact of those undisclosed costs are because, guess what, they are undisclosed. Up to



HOUSE OF COMMONS

this point we do not know what we do not know. The whole point in setting a standard for data collection that is comprehensive is because we will start to get a perspective on what those other things are as they emerge.

To my mind, when I globally have seen the mean cost of managing or owning a pension end to end it is in the order of 3% to 5%, and having worked in markets like Turkey for the World Bank and seen that the charge cap that we take of 0.75% is taken as normal as being 2.5% in the Turkish market, I realised that we are very far away from understanding what any of this cost is in actuality and what it means. To set an arbitrary charge cap of 75 basis points is nice, but we do not know what we are missing and how big it is and we do not know whether anybody is breaching or reaching that charge cap.

Q16 Chair: But when Steve Webb set that cap at 0.75 I argued it should be 0.25.

Dr Sier: I would agree. My experience of asset management is that setting up and operating a fund, particularly a simple fund, is a matter of a few basis points per annum. It is as simple as that. A lot of what the additional cost is does not come from the asset manager; it comes from all of the incremental technology, infrastructure and layers of intermediation that are needed to do the job of asset management, and that is part of the problem we have to resolve.

Q17 Nigel Mills: We all want the good pension. Do I want my pension investing in some cheap and cheerful tracker or do I want super sexy, moving the money around every fortnight, chasing profit, being very expensive? Are we in danger of pushing people down a line of cheap and cheerful and rubbish?

Dr Sier: To my mind, it is a different question to the one of the work that we have been doing at the institutional level. How one helps the consumer to make decisions is a different problem to how the industry should provide a good value for money product. To my mind, the industry is immensely complicated, overly so, immensely expensive and immensely inefficient and, therefore, potentially immensely risky. Everything above that on the advisory space is a different question and the Pension Dashboard and other initiatives that follow on from that help to address that as an issue.

At its core, though, the industry is in an extremely complex and messy state and that needs to be resolved and it can only be resolved by getting data on it.

Q18 Chair: Can I move on from here? If, in fact, the cap was 0.25, then the clever dicks would still be in the scheme trying to get the business of 0.25 and we would see that they were clever because their returns would be better.



Dr Sier: I would still argue that if you set a cap and you do not know what is in the cap and what is out of the cap, it does not matter what the cap is. The first thing we have to determine is what the entirety of cost is and then we can think about how to manage it down.

Chair: We might come back to that.

Q19 **Steve McCabe:** I want to stick with this idea of whether the problem is solved for a second. Obviously, we have the 0.75% cap we have been talking about. We have independent governance committees, the FCA rules on disclosure of transaction costs and, most recently, the regulations to provide the illustration for members. I wanted to ask Andy in particular about that last point. The Minister seemed to think the problem had been solved because I think he said that this was the final step on the journey to cost transparency. Was he right about that? Have we solved the problem and, if not, what else could we do to protect and assist ordinary savers?

Andy Agathangelou: The simple, honest answer is that in my view we are a long, long way from solving the problem, and it would be a huge mistake to underestimate how much more work needs to be done. That is the simple view that I have. I will elaborate and try to qualify that answer.

First of all, it should be recognised that the DWP, the FCA, the Pensions Regulator, the CMA and others have been doing some wonderful work over the last few years, so much so that people in Australia, Canada and the USA are, frankly, quite envious of the improved level of consumer protectionism in the UK. That is great news.

However, there is a massive issue around scope. For example, the DWP and the Pensions Regulator have done some tremendous work recently in relation to protecting the consumer from adverse costs in occupational DC schemes, but we seem to have a recurring pattern, which is that the regulatory approach appears to be quite piecemeal. It focuses on a particular part of the industry but not the industry as a whole. Therefore, there has been relatively little work done in relation to protecting the member from costs in the defined benefit market. Some people say that is not a problem for the consumer; that is a problem for the employer. Of course, the two are very closely connected because the more well off the employer is the more scope there is for the employer to give better benefits and protection and security and pensions to the individual. There is a huge piece of work to be done around cost disclosure in the defined benefits market.

Furthermore, we all talk about the importance of the self-employed. Very little has been done to truly protect the interests of self-employed people and that has largely been outside the regulatory activity for the last few years.



Chris was absolutely right in my opinion when he mentioned earlier that there may have been a tendency in the past for asset managers to provide imperfect information, whether that is through error or through an attempt perhaps to massage the figures and make sure that their information is portrayed in the best possible light. I am genuinely worried that we are failing to recognise the inherent tension between an industry that will continue to behave rationally, whose main objective is to maximise profit for their shareholders: perfectly sensible; why shouldn't they do that? They will do that as much and as well as the regulatory construct allows them to do it.

All the time we have those real commercial pressures there, we have to, surely, take the view that it makes sense to truly protect the interest of the consumer by regulating the industry to make it behave the way we want it to behave. That is why it has taken 10-plus years to get to this meeting. That is why it has taken so long and so much effort by people like David and Chris and many others to campaign as noisily as possible over the last 10 years to get to a point where we are simply saying, "Enough is enough. Let us have some adult conversations about this. Let us understand the commercial dynamics within the industry and recognise there is a true tension between the profit motives of the industry, as laudable as they are, and the simple desire to protect the interest of the consumer from adverse costs".

Q20 Chair: What are the next moves we should advocate, then, on that basis?

Andy Agathangelou: I would say that we are embarking on a very high-risk strategy if we do not do something very robust about the following, and I will just, if I may, work my way through a bit of a list.

Chair: Just the headings.

Andy Agathangelou: Of course. Data integrity needs to be fixed. That is a real risk that is unmitigated if somebody somewhere is not policing the quality and validating the data.

Secondly, it is a high-risk strategy to not move towards a mandatory framework. Why do things on a voluntary basis? It is just an unnecessarily problematic approach.

Q21 Nigel Mills: You disagree with the working group's finding on that?

Andy Agathangelou: I think the working group has been doing some wonderful work, but having been involved with the Investment Association's cost disclosure advisory board, my personal experience is we have reason to suspect that the industry will always adopt a profit-maximising agenda if it is allowed to. It is right that it does so, but as regulators and as Government we need to address that.

Chair: Can we get back to your list and then we will go back to Steve?



Andy Agathangelou: Of course.

Dr Sier: May I just comment on that? That is assuming that one can direct the profit-making motive in the right direction. If indeed transparency becomes the key way of making profit, then it is going in the right direction, and that is what I believe is happening in the market at the moment.

Q22 **Chair:** Surely, if you are seen to be giving the very best deal for consumers you will get a larger share book, won't you?

Dr Sier: That is exactly what is happening. Just on the other point about DB—

Chair: We are going to take Andy's list and then go back to Steve.

Andy Agathangelou: The next point is that cost is one very important facet of all this but it is only one of them. Performance is also incredibly important. Cost without an understanding of performance is pretty sterile in terms of the quality and value of that data. Similarly, on risk, what risks are you being exposed to to achieve that performance? Fourthly, a massive topic: where is the money being invested? That is a hugely interesting point for any pension saver, policymaker or Government. The world is in a bit of a mess in many ways, with climate change and so on. Surely we ought to have much greater transparency around where the trillions and trillions locked up in pension schemes are being invested.

Chair: We are coming back to that.

Andy Agathangelou: The next point I would like to make is that one of the reasons there has been such huge progress in the last few years is because the regulators have been regulating. The consumer, through the tax system, provides the money for the regulators to regulate. Why should we run the high-risk strategy, in my view, of asking the trade bodies, who ultimately might have some natural conflicts of interest, to take care of disclosure and transparency moving forward? I would be far more relaxed if the regulators regulated.

The next point I would like to make is that there are some very serious festering sores on the face of financial services. Forgive the dramatic language, but it just demonstrates to my mind that we do not have a mindset within the industry to truly protect the consumer's interest. Two quick examples—

Q23 **Chair:** We want practical proposals to achieve that objective rather than the list of what is wrong. We know what is wrong or we think we do anyway.

Andy Agathangelou: The first example I will mention is the net pay versus relief at source scandal. It is a scandal. It is likely to end up in the court sooner or later if the regulators and Government do not fix this. Very simply, there are low-paid earners who are missing out on tax relief they are entitled to because the employer has selected a pension scheme



HOUSE OF COMMONS

that prevents them from having that benefit. That is a major problem and it undermines value for money.

The proposal there, very simply, is that your Committee could ask HMRC, DWP or TPR to give you a number relating to the number of people who are in a pension scheme who are not getting tax relief and to ask what they will then collectively do to redress that shameful situation.

The second relates to pension scams, another festering sore on the face of financial services. This is a huge issue post pension freedoms. It is a disaster for the industry but it is so bad for some individuals that it has literally led to suicides. We have a situation at the moment where some individuals are running the risk of being taken to court in relation to HMRC wanting tax payments from them.

These are just examples that describe the mindset of the industry that does need to change.

Steve McCabe: I think we will leave it there. We have had quite a lot there and I think we should move on.

Q24 **Chair:** All right. David and then Heidi.

David Pitt-Watson: You talked about the cap, the IGCs and the illustration. First, it is the cap only on certain costs and we do not know what all the other costs are. This is only done for default funds, so if you can be persuaded out of a default fund you have no protection. IGCs were put there to make sure that you got a competitive deal. IGCs have done some good stuff, but they certainly have not gone in and worked for the consumer for a competitive deal.

In terms of the illustrations, yes, the illustrations are getting better but it is still not the case that when you are sold a pension somebody says, "Listen, this says it costs you 1%, really it costs you 2%, and that is going to take half your pension". If you look at the price list, for example, that your Commons staff who are in DC funds are offered, you will see that there are several offers there that will take well more than half their possible pension in fees by the time that they retire.

Q25 **Chair:** How do we protect our staff better now then, David?

David Pitt-Watson: I would fill all of those gaps and I would make sure that your staff do know that fees matter. You have to multiply the number by 25.

When we did the citizens' jury at the RSA, the thing they really hit the roof about was that 2% means 50% of my money has gone. We know that only 20% of the population can do a basic compound interest calculation on the studies that have been done.

Q26 **Steve McCabe:** Should there be an obligation to just put that up—a big, bold price somewhere?



HOUSE OF COMMONS

David Pitt-Watson: Absolutely. It would seem to me as well that if you have a complex product like a pension we cannot just run with caveat emptor on everything. If you go to the doctor and he gives you the wrong prescription, you are pretty angry at the doctor and if they keep doing this they get struck off. Doesn't there need to be something where we say, "Look, here is the default. Here is what you can go down to the chemist and buy for yourself and it is pretty safe", but if you are going to be advised to do something that is more complicated, the person who does that owes you the fiduciary duty and is responsible for that? I saw your last report: bamboozlement. If you have been bamboozled, you can come back and say, "I am sorry, you owed me a professional duty", and you can come back and do something about that.

I would fill all of those gaps. I would think about what the duties are. I would think about having appropriate defaults that people can go into and I would think about this as a journey. We have made a lot of progress in the last few years in trying to get some of this transparent and some of it is better. What Chris is doing will be another stepping stone, but I think Andy is right that the view that that is the last piece in the jigsaw and it is all done is very far from where we are today.

Dr Sier: The challenge we have is that the work that I have been doing is to try to get a standard for data from one building block of the pension supply chain and just one. It has always been, to me, the most difficult because it is the one that held all of the cards, namely the asset management industry. They were the ones that controlled the information flow and breaking down that silo is just the first step. Both Andy and David are absolutely right in that respect.

Sorting out some of the drivers is also very important in the DC space and in the SIPP space. The idea of helping people understand what good value for money is and bad value for money is is very important, and people run away from the term "value for money" because there is no common definition. I think outing who is good and who is not is very important in every single situation. In my world of the institutional investor, I think a public register of who complies and who fails to comply with reasonable data requests would be extremely useful, both for current users of those asset managers and potential future users of those asset managers, assuming that the currency of transparency is really the underlying decision criteria you have to make. Let's face it, if you cannot trust your asset manager you do not want to work with them, and you do not trust them if they do not give you data. If they are so operationally incompetent that they cannot give you data because of that operational incompetency, I would argue you also do not want to work with them because anybody who is looking after your money and your data who cannot use it properly or give it properly should not be a reasonable counterparty.

One point to make, though, is the difference between DB and DC that Andy alluded to. Defined benefit schemes currently, up to this point or up



HOUSE OF COMMONS

until recently, let's say, have not had the incentive to control their costs because it is the employer that is dealing with that relationship on behalf of an individual that is benefitting from that relationship. The exposure through a number of corporate failures has made it totally apparent that the employer is potentially very much on the hook for the outcomes for the consumer. I have watched with great interest the varying degrees of chastisement that employers have had for failing in what should be considered their breach of duty to their underlying current and former employees.

The idea that dividends are paid ahead of contributions to pension funds is frankly shocking to me. It means that the corporate governance system that we have, where the rights of the shareholder exceed the rights of the employee who has taken a job often for life with a company on the assumption that their outcomes when they retire are protected, is, I think, very unfair.

Q27 Chair: It is for us as well. We would like to come back to you to see what information we should supply to all our staff about their pension schemes and what they should be asking. Is that all right? We will do that as good employers, so to speak. We will come back to you.

David Pitt-Watson: Absolutely. Can I offer from the endowment of Nesta that if your DB scheme would also like to investigate in the same way as we do we will tell you all the questions to ask and the pitfalls that we still have not managed to overcome?

Chair: I am grateful. We will follow up on that as well.

Q28 Nigel Mills: I was going to ask about whether you think we have managed to create 10 million new savers who have any understanding or interest in what on earth is happening with their money, but I get the impression from what you have just said that we know the answer to that is no.

David Pitt-Watson: I think that is right and it is the employer as well that is choosing the supplier. That is why that 75 basis point cap was important. Thinking about whether we can get those independent governance committees to do their job properly is helpful. Let's get all the charges and then let's come back and say, "Okay, is it still 75 basis points?", when we have had all the charges, all of those sorts of things. The more that this can be done by the industry doing it itself rather than it being a regulation and then the industry thinking about how you get round it the better.

Q29 Nigel Mills: I am slightly struggling to understand why this is so hard for trustees. Presumably, I say, "I have £100 million I want somebody to manage for me", and I get a beauty parade of no doubt some glossy presentations telling me about their historic performance. Can't I just say, "What is your gross performance and what is your cost and what is your net return?" Isn't that all I need to ask them to tell me?



HOUSE OF COMMONS

Dr Sier: I can clearly answer that question. First, there are several definitions of gross that are used by different players in the industry. There are several definitions of net and there are several definitions of what goes into cost. There is something that is called "gross". There is something that is called "gross gross". There is "net", there is "net net" and there is "client return". All of these were issues that we dealt with when we were investigating the way the industry reports those.

Q30 **Nigel Mills:** Your spreadsheets presumably that you have—

David Pitt-Watson: I was a fund manager for many years. I did not know what the total costs were, I just chose the pricing. I did not look at what the spread was on the share. It is only coming back and thinking about it. To give you an example from Nesta, there was one, it was quite a complicated portfolio, but when we asked, they said, "We cannot tell you what the numbers are but they are in these documents", and the documents were so extensive that they would not go through the firewall. It is quite difficult doing this. A simplification and the sort of thing that Chris is doing is very important, but having done that we will need to stay on the case and there are other things we will need to—

Dr Sier: We need that scrutiny and we need the organisation that maintains that scrutiny that has empirical data that can be worked on that can help people make decisions better and help the industry improve. That lack of data, that paucity of data, is the reason that we have not been able to do anything concrete in this space for as long as I have been working on this. I have lots and lots of data I have collected as an individual, but it is, compared to what is needed, a tiny fragment of the supply chain in its entirety and within portions of that supply chain, as a proportion of that, very little. We have a lot of data we have to go through.

I am going to quote for you the chief investment officer of a very large fund manager when I wrote my first paper on this in 2009, a paper that I presented to Treasury, the Foresight programme, BIS and FSA at the time, which outlined the fact that there were 15 layers of intermediation and the total cost of owning a simple equity fund was around 4.5%. His comment was, "I do not recognise these costs". I went away outraged because I felt that he was telling me I was wrong, and from an academic point of view you do not like an empirical paper to be criticised. It is just one of those things. However, I came to realise that it was not that he did not accept them, he just did not recognise them because they were included in that cost base, a lot of processes that he, at his 50,000-foot view of the world, never recognised as relevant and being applied to the assets that he and his firm had under management.

Q31 **Chair:** Why is it so difficult? If we go to the doctors and they do a diagnosis, we do not expect it to be cost, cost, cost. We do not expect it to be net, net, net. Why is it so difficult to get the industry to agree the use of English that is accurate?



HOUSE OF COMMONS

Dr Sier: It is in their interests not to do it.

Andy Agathangelou: Just to build on Chris's point—

Chair: I want an answer to that, I do not want to build on Chris's point.

Andy Agathangelou: I think that it is opportunistic, opacity, obfuscation and complexity by the industry. It is a perfectly rational response to a regulatory drive to get the industry to change.

Dr Sier: Forget the regulatory drive, if someone asks you for data and it is not in your interest to give that data and there is no incentive to give that data because you are not going to be chastised either from a regulatory perspective or a client perspective, why would you do it? First, it is going to reveal something that you do not want to have revealed. Secondly, it may be operationally complex and involve real cost for you to implement that procedure. The answer is going to be no or, at best, it is going to be, "Give me 18 months".

Q32 **Chair:** I cannot understand this because on the Hillsborough inquiry conducted by the then Bishop of Liverpool, the Prime Minister, or Home Secretary as she was then, said to all Departments, "You must provide data that you have for this inquiry. It is not up to the inquiry to try to guess whether you have the information, you produce it". As Prime Minister, she said to the inquiry that is now going on on the blood contamination, "It is up to Departments to search and to produce the data for that inquiry. It is not up to the inquiry to try to guess where the data is". Why can't we have an equally straightforward direction like the Prime Minister has done twice on two major inquiries?

Dr Sier: It is perfectly possible but what data and how much of it, over what timescale, and how do you deal with market impact data? How do you deal with the fact that the very cost of something that you are buying changes through the process of buying? My first question is: which data do you want? There are asset managers out there who I know very well who when presented with that question by a client will go, "We will give you absolutely anything you like, just tell us what it is", because our systems are the size—

Q33 **Chair:** No, I am not saying that. On Hillsborough it was not people turning up, "We will tell you whatever you want". They had a duty to provide the information in their Departments that would be judged as crucial for the inquiry. Why can that boot not be on the other foot?

Dr Sier: I am afraid, Mr Field, it is a circular question because if you are asking the person who has a vested interest in not giving a piece of data to define the data it is going to give, they are not going to give you the piece of data that is going to make them look bad.

Q34 **Chair:** That was not so with Hillsborough. The cover-up stopped. They did produce the data.

Heidi Allen: It is not a criminal inquiry, though. This is just routine



HOUSE OF COMMONS

business that is very badly regulated and there is not a Prime Minister or a Home Secretary saying, "You need to". It is regulating itself almost because everybody is taking a slice of the action.

Dr Sier: That is why defining what is best practice has been—I do not know of anybody else who has been working on this longer than me, certainly in the vocational space, and to my mind the issue has been how you get data to be able to prove any one of a number of hypotheses that I, David or Andy might have about the way the market performs, because they are only hypotheses. We can see outcomes but the way the industry behaves is just pure hypothesis. The only way to get that data is to understand what data you need and, therefore, what is needed is a coherent standard that people can hang their hat off. That is as much for the users of that data or the beneficiaries of that data, the investors or the institutional investors, as it is for the asset managers.

If someone came to me right now and said, "I want all of your data", my first question would be, "I have lots of it. What do you want, my date of birth, my passport number, my National Insurance number? What is the data for?" They say, "We want to find out who you are". Today, for example, I came in here prepared with a long list of things that I have done in this space to prove my provenance, and I thought, in my wisdom, this would be a very good way to start, but the first comment that I was told was, "We know who you are, we do not need that data", so the work I spent preparing all that last night was pointless.

Q35 **Chair:** No, it was not. I said that I did not want you to read a laundry list to us and that we would receive that as written evidence.

Dr Sier: I am not trying to be in any way rude or offensive; I am emphasising a point.

Chair: All right. I am going to draw this stage to a close unless any other member of the Committee wants to ask about data.

Q36 **Steve McCabe:** Can I just ask one question on this? It does sound to me as if the problem is as David described it: we can ask for data and you end up with so much that you cannot figure out what on earth you have been given. Would it be that difficult to identify a minimum set of data that would be useful to answer the questions that—

David Pitt-Watson: Yes, and I think that is where Chris goes with what it is that he has. I guess what I am also saying is, though, just having the data on its own is not going to be enough. It is perfectly sensible to think about defaults and the charges for the total data particularly where people are going into defaults. It is important that the IGCs start to do their job properly, which is to make sure that you have a competitive deal rather than to make sure that you are not simply in a terrible deal. It is about all of that—thinking about what the duty is. You have a fiduciary duty when you do this, which I think would reflect what the Chair was saying, which is that the sense should be as a fund manager that if somebody asks you for data, you should be telling them the data that



they need to know. You should be telling them that the 2% is 50% of your pension, but that is not told.

Dr Sier: To be honest, I think there are managers out there who will do their very best to try to understand what your need is and answer the question as they see fit, but they would still get it wrong because they cannot see inside what it is that you want to know.

The responsibility that I have in my self-appointed role, which is beyond what I did with the FCA, of trying to get hold of this data to the benefit of all is to define what I think is the best reasonable standard. I have had two stabs at it, one in an unauthorised way that was picked up by the Local Government Pension Scheme and one in an authorised way with the FCA. With all of the actions that follow on, if one lays out a logical action plan to be able to solve this problem, it all starts with understanding the size and shape of the problem and that requires data. If that is the hypothesis, then one has to understand what data you need to solve the hypothesis. It all comes back to the questions you are asking and the first question you ask is how we make it better for consumers, and you backtrack from there. You inevitably and logically end up at the conclusion that you have to get data on how the industry behaves and performs from the people who control the data, who are the asset managers, and that is why I am where I am for exactly that reason. It is the start of a very long journey but it is the first step and probably the most important one because everything else will follow after that fact.

Chair: All right. We have some other topics we would like to discuss with you.

Q37 **Heidi Allen:** If I may ask a very speedy question just to wrap that up, I wonder if it would be possible for any of you to write to us afterwards. This should not be impossible but it is unwieldy and there is a lot of profit at stake and a lot of people making a lot out of their own little piece of the jigsaw, so it is deliberately vague for a reason. What if you could design the textbook, good value pension investment that organisations and investors would still make a profit from? You could provide us with a template, if you like, of what a good consumer-focused pension investment would look like. To check that it is good, what would be the data and the KPIs? We can then, as you say, work backwards. That might be helpful to us in opening the debate about what questions we need to ask. Otherwise, I feel we are just going to—

Dr Sier: Can I illustrate a good example for you to help you understand how I would answer this? The possibility of zero cost fund management has been raised by one fund manager in the UK. They are willing to offer a fund for free. My mantra is nothing is for free. There is no such thing as a free lunch. That is a biological precedent. It is a precedent in every aspect of business. The first question I ask is, "What do they get out of it?", and the answer is stock lending. They derive the revenues from having beneficial ownership of the assets that are funded by someone else and they can lend them out to market and take revenue for them.



HOUSE OF COMMONS

The implication there would be that they make quite a lot of money, but we have no idea how much it is. At the face of it saying, “We want—”

Heidi Allen: It sounds better so we will—

Dr Sier: It sounds better and they will market it very aggressively as the first zero cost fund in the UK, while it is nothing near zero cost, as long as you do not count opportunity costs, which is the lost revenue from stock lending that they pocket.

Q38 **Chair:** Who is this body? Who is doing this?

Dr Sier: This was announced about two weeks ago. Fidelity International, I believe, David? Yes, Fidelity. It is a fund that is offered in the US already, but the idea is that if one wanted ideally to have a free fund management industry, that is exactly the structure that we would end up with and it would still not be appropriate.

Q39 **Heidi Allen:** It is just another way of making money, isn't it?

Dr Sier: Correct, exactly. One has to diagnose all of the elements to be able to make the decision correctly.

Q40 **Heidi Allen:** While we are trying to work out what on earth to recommend to Government in terms of stronger or more detailed regulation, will the Pensions Dashboard be remotely helpful to consumers? I have some big shaking heads from the back row already. Is it the great utopia we hope it is? Are you a little bit nervous about whether the Government are still sincere about making it come alive in the near future? What are your views? We will perhaps start with Andy and then David and Chris, if you have any views.

Andy Agathangelou: The success of the Pensions Dashboard project is very important. It is foolishly complex for ordinary people to get a total view of all their pension holdings. It is just daft that they cannot do that easily. We have the technology. We need a portal that is joined up. However, getting to that point requires some heavy lifting from the industry and the reason what they have to lift is so heavy is because of the lack of interoperability within the financial services sector.

I mentioned earlier I chair the Interoperability Steering Group, which is concerned with the ridiculous challenge of moving data from one part of the industry to another in a safe and cost-effective way.

Q41 **Heidi Allen:** They have their own finance and IT platforms, basically?

Andy Agathangelou: They have all their different systems all with a different format that do not talk to each other. Interestingly, some other sectors—for example, aerospace, automotive, banking—have gone through an interoperability process that has resulted in their ability to move data in a far more straightforward way. Until we solve the interoperability problem, the dashboard is going to be inherently difficult to solve. Therefore, the two need to be looked at together, in my honest



view. Yes, we need a dashboard. It is the very least we can give our citizens in terms of them understanding what they have, and once we have it it is obviously going to be a catalyst for better competition.

This is not something that is an incidental “nice to have”. It is an absolute prerequisite if what we want is a fair, open, honest, competitive marketplace. It would worry me if Government did not see it as obvious that we needed this. Here is one specific reason. The UK currently has the lowest savings ratio since 1963 when records began, according to the Office for National Statistics. That is a huge worry. It is a huge worry because it might mean that 20, 30, 40 years from now we will have whole generations of people getting to retirement literally unable to stop working. That is going to cause all sorts of intergenerational pressures.

The industry, Government, policymakers and rule makers must work together to help rebuild the trust that this industry has lost over the last few decades, and the Pensions Dashboard is a tactical and strategic vital component in doing that.

Chair: That is brilliant. Thank you.

Q42 **Heidi Allen:** So you are a fan?

Andy Agathangelou: Yes.

David Pitt-Watson: Yes, I think we agree with Andy.

Q43 **Chair:** Chris, do you have anything to add?

Dr Sier: I also am a fan. I think that practically it will be difficult to execute, not least because there are interoperability issues, but if you tell people to supply the data and are specific about what it is and mandate it, then they will do so. For me, the dashboard is important for one simple reason. I, as an owner of two tiny workplace pensions and a SIPP, get asked every year by my wife why I get three annual reports and why I do not consolidate those three. The answer is, “I have no idea which one is good and which one is bad. How would I make a decision?” and that decision-making criteria is there. But at least I have three reports to which I can refer. I do not have any other data points.

For people who do not even have information on their pension funds the first inevitable step you have to take in starting to look after your money is knowing what the hell it is. We are in a state at the moment where there are, I believe the report said, tens of millions in the next few years of pension pots that people have forgotten about, and the Pension Dashboard will help people find those pension pots. At its most basic iteration, it is nothing more than an information service to help people make the first step, which is helping us understand what we have. What it does not do is help people to decide what to do about it, but it is the very first and a very important step.

Q44 **Chair:** Sure, but Andy’s point is important, isn’t it? Given the industry



HOUSE OF COMMONS

ought to be under the cosh for its behaviour in the recent past, this could be a very important way of rebuilding a decent reputation.

Dr Sier: Do you want to know my honest answer about that? I do not think so and I do not think so because it does not tell you anything about what is good and what is bad.

Q45 **Chair:** No, but you are undermining your own argument now, Chris. You are telling us the first step to knowledge and rational behaviour is to know what you have.

Dr Sier: Precisely, but that is not—

Chair: Therefore, I think Andy's point for the industry to work to ensure that we could get that would be a very important way of increasing public confidence.

Dr Sier: At an abstract level I agree.

Andy Agathangelou: If I could make a brief connection between the two key discussions we have had so far, I think Chris made the point just now that if we want to fix the dashboard issue we need to define the data that is necessary for that to work and then mandate for it. If you think about it that is exactly what we need in the whole cost and charges debate. We need Chris's template to define the data that is necessary. We then need to mandate for it, get rid of all the wriggle room, get rid of the grey areas and just get on with it.

Q46 **Heidi Allen:** Yes, because I would want to see not only what I have and who owns it but how much they are taking and how often. I would want to see that, otherwise it is just a glorified way of presenting this paper on one page.

Dr Sier: I would like a potential way of assessing value for money because the point for me is the context of what I could have had if I had had something different. For me the issue is I have something; do I stick or do I twist, and sticking or twisting has to have a number of issues around that. One is what the alternatives would be and how much it would cost to get there. Both are important and both those pieces of information are not available.

Q47 **Heidi Allen:** Just one final question from me on this. I am sure you have all seen the written statement that came out yesterday. Are you glass half full or glass half empty? Do you think the Government are still serious about this?

Andy Agathangelou: I think the good news about what happened yesterday, the way I read it, Heidi, is that it shows the power that people have. A great big petition resulted, in my view, in a change in position.

Heidi Allen: We all got the emails, yes.

Andy Agathangelou: Okay, and that is good news because it shows that people power can make a difference. We need to build the momentum.



HOUSE OF COMMONS

We need to drive it through. We need to make those people responsible for delivering accountable for delivering. It should all be done in a transparent way and we need to get on with it. Every day that goes by without a Pensions Dashboard we are missing an opportunity.

Q48 Heidi Allen: Do you think the Government are wriggling a bit or do you think they are as serious as they always have been? I guess that is what I am trying to get to.

Andy Agathangelou: I would like to think they are.

Heidi Allen: Okay. David and Chris? Just a smile from Chris. I think that says it all.

Q49 Ruth George: Obviously, we have had IGCs in for a few years now and there seem to be different opinions as to their effectiveness. What are your own views on how effective they have been at scrutinising value for money and informing members?

David Pitt-Watson: The IGCs were the industry's proposal when the Office of Fair Trading looked at this because they said, "Look, this is terribly complicated and we need the IGCs". They have done some good, I think principally in the area of those extra charges, like how much it costs when you invest and when you withdraw and so on. If you were to say, "Have the IGCs done what I think the Office of Fair Trading had in mind in its report?", which was to make sure that you were getting a competitive deal, that has not happened.

If one was thinking where one wanted to go with IGCs, rather than saying, "This has been hopeless, abandon", it would be to say you do need to be serious about making sure that everyone is getting a competitive deal and to be able to promise that everybody is getting a competitive deal. It is the case in the market right now that there will be two near identical products where one was costing several times what the other was costing. It is known that that is the case. Given that we have experts on independent governance committees, they on behalf of the beneficiaries should be calling to account and saying, "You are the person who is charging three times the amount that the person around the corner is going to. I cannot be representing the beneficiaries of your fund and say that that is okay when I know if they went round the corner they could save a large amount of money".

It would be getting the IGCs so that they were able to make the John Lewis promise that they were never knowingly undersold or whatever the thing would be, but there is a real distance that we have to go with this. They have just scratched the surface of their duties so far.

Dr Sier: My observation is that there was a great deal of variation in quality between IGCs and between the people that are on those IGCs. I think that is one issue. I think that they have not standardised or indeed quantified the way they report value for money, and I think they have a long way to go to do that at the level of the scheme itself or the SIPP



itself, or the level of the insurer itself, let's say. Do I believe that the consumer, all the way down at the bottom—the person who owns, the member—really has any contact or understanding or interest in what the IGC does? No. I certainly don't and I have a SIPP. I have never been communicated with by my IGC explaining clearly to me that I have a product that is good value for money in the context of the marketplace, so I don't have any comparative mechanism. That is just a personal observation. I think, yes, they are moving in the right direction. The velocity with which they are travelling and the standards to which they adhere need some work.

Andy Agathangelou: I would simply say there are perhaps four or five things that are currently preventing IGCs from being as effective as they could and, frankly, should be. The first is that there is not a proper definition of value for money. There is a lack of comparability between different schemes, so that is an obvious thing that needs to be sorted out. Secondly, some of them are even now struggling to get the data that they need to enable them to assess value for money, going back to the previous conversation we had. Thirdly, it is interesting looking at the makeup of the IGCs themselves. In my view, there is probably still far too little representation of the consumer, the member, and that makes you wonder whether the appetite or the desire within the IGC to drive out better outcomes is as strong as it should be.

The final point is that there seems to be some confusion between the IGCs about whether they should be focusing on member experience or member outcomes, and that is a key point. There is great practice out there. The Phoenix scheme, for example, seems to be very well run. Somebody somewhere should do an exercise around best practice among IGCs and I am sure that that would accelerate the rate at which this whole new framework moves forward.

Q50 **Chair:** But anyone watching this programme who has a pension, when we finish must be deeply depressed about their investments, mustn't they?

Andy Agathangelou: Speaking very bluntly, I think the industry has had a predisposition to look after its interests rather than its customers' interests. For decades, there has been a tension between whether we look after the City or the citizen. A huge mindset, attitudinal, regulatory reform or change needs to happen and, frankly, what it needs is leadership. It needs people on your side of the table to say enough is enough—you, the regulators, the policymakers—and say, "This isn't good enough. We need to shake this down and sort it out". If we don't, there is a very real risk, being very frank, that we will get to the point where the trust deficit is so big that people will take decades to realise that the financial services industry as a whole has the potential to do them good.

Q51 **Chair:** I think what we also will conclude is that the better the deal we get for consumers, even with present savings rates, the better the pension they will get and that is what we have to mobilise in this.



HOUSE OF COMMONS

Andy Agathangelou: I think you are absolutely right. One of the real worries, if we don't deliver value for money to all those people who have been automatically enrolled, is a nightmare scenario.

Dr Sier: I think we are potentially missing one point, which is that there is an onus on the consumer to care about their own money. It will be a good outcome if one of the things that people watching this live or recorded do is go and investigate their own pensions, possibly for the first time, and I would say that is probably strongly the case. In most people's cases they will only ever look at their pensions for the first time after this conversation, if indeed they are watching it or care. One of the things that we have to address that we have not discussed is how you motivate an unmotivated and confused population who have a strong vested interest to care about it but don't for some reason for other.

Q52 **Chair:** I think in a sense we have depressed them because if we cannot even define "net" or whether it is "net net", why should anybody bother to go and look at their pensions?

Dr Sier: But that is at the institutional level, to be fair, and that is why we rely on trustees.

Chair: That is what we have been seeking.

Dr Sier: And the IGCs again.

Q53 **Ruth George:** How much of a difference will the regulations on the compound charges illustration make when it comes in at the end of next year?

Andy Agathangelou: I think that showing the compounding effect of charges is very important because that is the real world impact of those charges to the consumer. It is a very good idea that the regulators have decided to include that. I think Chris is going to make a point—go for it.

Dr Sier: If you are referring to the transaction cost disclosure, slippage calculations and the five-year projections that are required by MiFID, there is one problem with it. Under slippage calculations, which is the regulatory standard for collecting transaction costs, it is possible to have a negative cost or, in other words, a positive gain despite having realised real costs. While doing a set of transactions, the market may move in your favour so you get a gain from buying rather than a loss from buying. The issue for that is a very clear one. If you have to project forward a positive loss—a gain—five years into the future, you get a compounding of that added to the real performance, which presents unrealistic scenarios to consumers. I know a number of asset managers who quite rightly feel that it would be almost impossible for them to ever meet those projections because in many cases that inversion of transaction costs into transaction gain—it is a technical issue but it is an important one.

Q54 **Ruth George:** Does the illustration of compounding costs and charges



include those slippage costs?

Dr Sier: It will do because that is one of the fundamental transaction costs. It is a technical issue that is very difficult to explain, because I think I am probably failing to explain it now, and that is fair enough. But it is a technical issue and there are reasonable reasons why it may not work in some cases, but the problem is it is always—

Q55 **Chair:** But are you in favour of the publication of the compound interest data?

Dr Sier: With caveats and clear explanations. Obviously, if there are outlying situations where it is completely anomalous they have to be justifiable and explained. I can go through the reasons why it might not work in a note.

David Pitt-Watson: There are some techie things about how five years doesn't work, but I keep coming back to the clarity of understanding for people about what 1% a year means. It means 25% of your pension. We do not have that embedded in the process where if I am going to sell you something and say, "You could have it for 0.5% but this has good administration and we'll charge you 1.5%" and they think 0.5% versus 1.5% sounds like it's quite a good deal, but what has happened is that a quarter of your pension has just evaporated. One of the things in illustrations is people understanding how fundamentally important costs are and those who are doing the selling as well being under some duty to tell you how important they are over the lifetime of a pension, not over five years. If I am 25, I am still spending money when I am 85.

Q56 **Chair:** David, do you think we can get to a position where, given the gloom that we have had during this session, when we say 1% costs all the costs are in that charge?

David Pitt-Watson: I think what Chris is doing incremented across all products will get you 80%, 90% of the way there. We are going to manage to get that bit of the jigsaw puzzle, but if you say to somebody, "It is 1.5% instead of 1% or 2%", and they don't understand how incredibly influential that is on pension outcome, it will not have the behavioural effect that it ought to have so that they can get a good deal.

Q57 **Chair:** But if we are going to get that breakthrough—1% means 25%, 2% means 50% of your pension goes to somebody else—we must be able to say what the 1% covers.

David Pitt-Watson: Absolutely right, yes.

Dr Sier: And we will be able to.

Andy Agathangelou: In trying to cheer things up a little bit, there is a glimmer of hope here and there. First of all, the FCA is partway through a consultation on duty of care. I think this is extremely significant because duty of care and fiduciary responsibility are at the very heart of the reform that is necessary. If the FCA's consultation is successful and they



HOUSE OF COMMONS

drive forward a pro-duty of care and pro-fiduciary responsibility agenda, that is going to significantly help reform the way the whole industry operates in terms of behaviour. That is the first piece of good news.

The second piece of good news is that once the data has been properly defined and, in my opinion, mandated to be provided and the trustees know what questions to ask, "Give me the standardised data I need to help me assess value for money", we are not a million miles away from literally having a one-figure number that could potentially represent value for money. It could be colour coded: red is bad, amber is okay and green is good. That is exactly where we want to get to. We won't be there yet until we have a one-number representation so that the ordinary consumer can make intelligent decisions about whether they should or should not be happy with their pension scheme.

- Q58 **Ruth George:** Okay, we get the information out; we get it there; people decide they are not happy with what they have. How easy is it then to look at the charges and the value on changing your pension scheme? That is the other great cost and valuation that people have to do.

Dr Sier: Transfers can be very expensive or they can be free and there is very little comparative data that you can get hold of to determine under what circumstances a transfer will be costless or costly. This is another piece of information that goes beyond the institutional component, that goes up into the layers above that, which will be the way in which you interact with the insurer or the wrapper and with your adviser.

- Q59 **Ruth George:** But surely it is just as important, or in some cases more important, than the actual value for money that you are getting at the moment?

Dr Sier: It is one of the components that one has to consider: not only could I get better in the marketplace but is the journey going to cost me more than the value I am going to attain by making the journey in the first place?

Andy Agathangelou: This is certainly an area that your Committee might want to look into quite closely, issues around exit fees and preventing people from freely moving from one place to another. We will only have a competitive market when people can shop around in the buying stage of the process but also remake the decision as they go through the retirement journey to move from provider A to provider B. But bear in mind, of course, in the automatic enrolment market employers are making the decision about which scheme to use. One of the things that I am a little bit worried about is that many employers are going through that decision process about which schemes to use in a casual way and, frankly, the regulator's requirements about the competence shown by the employers in choosing those schemes is too low.

- Q60 **Nigel Mills:** You are in danger of wandering into one of my favourite



hobbyhorses of cheap pensions, not necessarily good pensions. I do not think you can necessarily use cost data to get you a traffic light system, because Mercedes Benz could be good value for money for my needs or Hyundai could, but the price does not necessarily tell you what is good value.

Can I ask a couple of other questions? First, should we be worried about the decumulation phase and the level of charging that people are facing? We talk a lot about charge caps and accumulation and stuff, but this is a whole new area of either planned drawdown or unplanned drawdown—a sort of “pretend it’s a bank account” drawdown. Is that an area that you think we should be concerned about?

David Pitt-Watson: Yes, profoundly. The reason is because there is some stuff getting the right numbers and some stuff illustrating it and some stuff in choice and some stuff in caps, IGCs, defaults—all of those sorts of things you have in accumulation. I think all of them help; not enough but they help. In decumulation you are absolutely at sea. I would be really concerned about what is likely to happen to people in decumulation. There is no default that they can go to, whereas in accumulation typically there is a default they can go to and it is much more complicated because they do not know how long they are going to live for.

Q61 **Nigel Mills:** The regulator really should be looking at charges in decumulation.

David Pitt-Watson: Absolutely and the illustration of them and the effect that they have and all of those sorts of things. This has to be a big focus and I think has been of your Committee as well.

Q62 **Nigel Mills:** The second question—trying to tempt you, Mr Pitt-Watson—is that one of the keys in understanding investment is knowing that the underlying information is good. Do you have any view on financial reporting and auditing standards in the UK? I am sure you have seen our previous investigations on some of this. Do you think we should be worried that the asset managers do not get the right information to know whether they are getting the good quality assets to invest in that we hope they are?

David Pitt-Watson: That is a longer conversation that I am happy to have, which is about what is the purpose of the information that we are putting into the market. I would have views about that, but they do go a lot beyond the charging on pension funds.

Q63 **Chair:** This brings us back to our audit function, doesn’t it?

David Pitt-Watson: Absolutely, because I think if you were going to do this you would want to make sure that you have the schedule that Chris has done, and that that is an audited schedule. By the way, you might want to place some onus on the auditor that it is not just the rules of reporting, but they need to report on any way that somebody has found to get around the spirit of the rules. For example, as you know, there is a



HOUSE OF COMMONS

limited amount of that in company reporting and that might be quite a sensible thing to think about when you do the audits.

Chair: We had three big fund managers before us and they reported with Carillion that the published data was a barrier to understanding rather than a conveyor, so they kindly took our pension savings out of Carillion before the crash. If one was lazy, until very late in the day you would have thought this was rather a good investment for our pension funds, so the audit is really crucial.

Q64 **Heidi Allen:** Something completely different. How valuable and important is it that we should include things like ethical choice of investments and the environment? We have talked a lot about money and whether consumers are getting good value for money, but as MPs we get e-mails saying, "Your local authority pension fund has invested in fossil fuels", and so on. How big a part is it of this transparency debate?

Dr Sier: I think it is very important. Giving people the opportunity to invest in things that allow them to express their choice is very important. The best expression I have seen of this is in the unionised environment. They have very strong corporate governance precedents around the funds and the way they invest them. This is not just at the national level through the actions of things like UNISON and Unite that present a corporate governance stance on behalf of their members and force investment along those lines, but it happens globally through the Committee on Workers' Capital. It is called the Committee on Workers' Capital because it is workers' capital and they help decide these corporate governance rules. I have seen them act in a very strong macro way on behalf of their members.

The issue is that same robustness of ability to exercise your rights as the owner of the asset, and let's make no mistake: it is your money and you own the asset. Regardless of what anybody else in the intermediaries think, it is your asset and you should be able to act on it. The infrastructure to be able to do that does not exist. For example, I have no idea what most of my funds are investing in at a company level. I might be able to moan and complain that I don't want to have investment in a company that avoids tax, but the only way I can influence my decision is by not buying coffee from a certain coffee shop that is reluctant to pay tax at the level that I think is fair. I can't dispose of my portfolio and I do think that should be my right.

David Pitt-Watson: Responsible investment is my background. I think there are two elements to this. One is that I think you do need to do something, which is not investing in things that you find objectionable. If I am a Quaker, I find it objectionable that I am investing in an arms company. There needs to be some low cost default that does that. There is then a much bigger question that is about what the responsibility is of the fund manager to make sure those companies are being managed in the interests of the millions of people who are pensioners. The shares of our big companies are beneficially owned by millions and millions of



HOUSE OF COMMONS

people. To a degree you can see that represented in how they are run, but you can see lots and lots of places where that is not represented. Getting that through the system could have a huge and I think hugely beneficial effect over time, in both legitimising what people are doing but also in creating a better, more sustainable and more profitable long-term world.

Andy Agathangelou: I think this topic is incredibly important. If I could just briefly mention the work of three organisations in this space, the first is the Institute and Faculty of Actuaries, whose workers concluded that climate change is a real material financial risk; therefore, the industry needs to be very cognisant of those sorts of issues. That is a very important point. Secondly, there are some organisations—David's old firm, Hermes Investment, as an example—that are particularly good at that type of responsible investment. Work from ShareAction shows that the millennials in particular are very keen to find out what their money is being invested in. If we want the industry to engage better with the marketplace, that kind of information will really help.

Q65 **Heidi Allen:** Do you all rate this type of information as being as highly valuable as the financial side of things?

Dr Sier: I think Andy's point about the risks of things like climate change or anything else is not about just expressing your own personal choice or what is the right moral choice and what you should and should not invest in. A good example of that would be that the Dutch pension regulator and the Dutch national bank mandated that pension funds could not invest in anything that perpetuated the production of cluster mines. That is a very important point. The other important point is if you are investing in assets that ultimately are going to be at risk and will fall in value as a result of things like climate change, you really don't want to be invested in them if you want to make money and you want to have retirement in your old age.

Q66 **Nigel Mills:** I absolutely agree that everybody should have the choice and we should have the transparency, but you want to be cautious because what you are saying to your investment manager is, "Don't invest in the things that you think will get the highest return because I don't like them, so don't invest in arms or tobacco or alcohol even though they might give me a higher return because I choose not to do that". If we get these default pathways you would not necessarily think this is a great idea for people to get the highest pension, would you?

Andy Agathangelou: I am so glad you have raised this point, Nigel, because there is a myth that investing responsibly leads to poorer performance. That is rubbish.

Nigel Mills: No, the question I am saying—

David Pitt-Watson: I think the point you are making is a good one and I don't think we would be disagreeing, which is that you need to have the choice that if you want not to default into something you can do that. I



HOUSE OF COMMONS

think what you might want to ask for everyone is that whoever is managing your money is performing those stewardship duties that are necessary in order to make sure that companies are properly run and that they are not running off with the money or destroying the environment. Some reporting of that is pretty important and it is important just to make sure that if you are looking after hundreds of thousands of people's money who live in a world where they are going to need that money in 20 years' time for their pension, that you are looking after it properly. If people want to invest in tobacco and they are happy with that, I would say that that is fine.

Chair: I am going to bring this to a conclusion now but with one observation, if I may. It is the first Committee I have ever chaired where there have only been males in the public gallery. As half the people in this country who have pensions will be women, I think there must be a lesson in there somewhere for us. Thank you very much for coming.