

Work and Pensions Committee

Oral evidence: Pension costs and transparency, HC 1476

Wednesday 6 February 2019

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Members present: Frank Field (Chair); Rosie Duffield; Ruth George; Steve McCabe; Nigel Mills; Chris Stephens; and Derek Thomas.

Questions 119-223

Witnesses

I: Andrew Bailey, Chief Executive, Financial Conduct Authority; Christopher Woolard, Executive Director of Strategy and Competition, Financial Conduct Authority; Deborah Jones, Director of Life Insurance and Financial Advice, Financial Conduct Authority; and Pritheeva Rasaratnam, Head of Pensions and Funds Policy, Financial Conduct Authority.

Examination of witnesses

Witnesses: Andrew Bailey, Deborah Jones, Pritheeva Rasaratnam and Chris Woolard.

Chair: Good morning to you all. Andrew, will you introduce your team? We will then begin with a question from Nigel.

Andrew Bailey: I am Andrew Bailey, chief executive officer of the Financial Conduct Authority.

Pritheeva Rasaratnam: I am Pritheeva Rasaratnam, head of pensions and funds policy at the FCA.

Deborah Jones: I am Deborah Jones, director of supervision for life insurance and financial advice at the FCA.

Chris Woolard: I am Chris Woolard, executive director of strategy and competition at the FCA.

Q119 **Nigel Mills:** Mr Bailey, could you start by telling us how high up the list of the FCA's priorities pensions issues come?

Andrew Bailey: The answer to that is "very high". If you don't mind, can we heroically put Brexit to one side for a moment, which of course is a slightly alternative world?

This is a serious point, actually. Instead of only issues around pensions, if you don't mind I would somewhat broaden that out to intergenerational issues, because there are more issues that sit around us in our world, such as behaviour and trends in the mortgage market, and the fact that more people are having mortgages later in life, as well as increasing indebtedness in the younger end of the population. This is still evolving; it is a changing pattern.

We can put all those together into what I tend to call "the life cycle mode", of which pensions are obviously a crucial part. For me, they are the most important thing if, as I say, I could heroically put Brexit to one side for a moment. I would wager that pensions will be around after we have some conclusion on Brexit. I hope that gives you a sense of their importance.

Q120 **Nigel Mills:** There is a slight danger, in that we have a cynical assumption that the FCA loves dealing with banks and things, and that pensions are a bit of a Cinderella. I asked you about pensions and you managed to weave mortgages into the answer, which feeds my worry.

Andrew Bailey: I am sorry—it shouldn't, because the reason I said that was not because of banks, but because of what we are observing. We did a big survey called "Financial Lives" just over a year ago to try to get a better handle on, and picture of, people's financial condition at different stages in their life.



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Two things are happening: first, the average age of people taking a mortgage in this country is getting higher; and secondly, the average length of a mortgage is getting longer. The consequence of that is it knocks on to the pensions world, because people are repaying mortgage debt much later into life. That is why it is an important connection, because it affects the saving rate.

Q121 Chair: Is that not because of mortgage companies, given that we have these “Generation Rent” renters imprisoned in their status, and mortgage companies refusing to give 100% mortgages? We know perfectly well that Santander’s survey showed that in every part of the country it was cheaper to repay your mortgage than to rent.

Why are you not pushing the companies to come up with 100% mortgages for those whose credit rating is good when you look at whether they pay their rent on time, and who are going to be substantially better off buying than paying rent? They are shut out of the market. You say that you are dealing with the problem, but why do you not actually deal with the problem?

Andrew Bailey: There is more to it than that. First, I have to be honest: the experience with so-called 100% loan-to-value mortgages in the financial crisis was not good. Let us be clear.

Q122 Chair: There is a difference between now and then, isn’t there? If I am in my office starting out, and me and my partner show that we have never, ever fallen behind with our rent, why are we not considered as credit-worthy for a mortgage that will actually entail less expenditure?

Andrew Bailey: Let me put it into perspective. There was a retracing from 100% loan-to-value mortgages after the crisis because it was a bad experience. Secondly, the real cost of housing in some parts of the country—not all, I know—has increased quite substantially, so the affordability has changed. That has had an effect on people’s access to mortgages. There has certainly been some retracing from the post-crisis retrenchment, but I agree with you that there are still issues in the mortgage market in that sense.

Q123 Chair: But are you doing anything about it—putting pressure on the companies to change their policy?

Andrew Bailey: What we are seeing is innovation in the mortgage market in the sense that, for instance, one way to make mortgages more affordable is to make them longer. That, viewed on its own, is not irrational, but the reason I raised it in the context of Mr Mills’s question is that it has an impact on pension savings. There is no question about that. The reason I answered the original question as I did was because it is important that we see these things in the round.

Q124 Chair: But it must have a beneficial effect on pensions, mustn’t it? If you are paying less out for your housing, you have more for your pensions. I would look to you to pull up these companies and say, “Come on. Why aren’t you offering 100% mortgages where the credit rating shows that there is no risk?”



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Andrew Bailey: Can I qualify that? The point I made about the real cost of housing means that whether you have a 100% mortgage or whatever, the real cost of debt servicing for mortgages has gone up as a share of income. That would still be the case in a world where we had solved the problem as you suggest. That has an effect on the rate of pension saving. That was the reason I quite intentionally said what I did to Mr Mills—just to put it into perspective and to underline the significance of this issue.

Chair: We will come back in correspondence with you.

Q125 **Nigel Mills:** I think we have helped with the wandering off from pensions on to banks, haven't we?

If I look through your board agendas for the last few meetings, how high up would regulating pension schemes have been? Have you had any agenda items on that?

Andrew Bailey: Yes we have, because we have a whole series of quite big policy steps that we are taking on the pensions side, which the board is involved in. The board is involved in all our major policy initiatives—all the things that end up in rule changes.

I have been on the board since the FCA was created, but if you go back to the beginning of my time as chief executive, in many ways the first big moving part there was the asset management market study, which has had some very important feed-through into the pensions world. That is something you discussed in one of your hearings the other day with Chris Sier and his colleagues.

We then had a whole series of other major moving parts, which colleagues will happily talk to: the retirement outcomes review and work on costs and charging. Obviously, if I turn to the supervisory front and the response to events that have happened, British Steel has been an important part of that. I can assure you that that is focused.

Q126 **Nigel Mills:** Is that your feeling, Ms Rasaratnam? You've got your boss sat next to you, so I suspect I will not get a negative answer. But do you think that the issues you are raising and want the FCA to give urgent priority to are getting the hearing and the senior management attention that you would like them to get?

Pritheeva Rasaratnam: Absolutely. It has been quite a busy time in the pensions policy space. Andrew mentioned a few of the things that we are taking forward, such as the retirement outcomes review. We published our pensions strategy jointly with the TPR in October. Pension transfer advice has obviously been something that a lot of attention has been given to. We fairly regularly go before the executive committee.

Q127 **Nigel Mills:** "Fairly regularly"? Is that every other time, every other quarter?

Pritheeva Rasaratnam: For every big project, every time we issue a consultation paper, we have to go before the committee to explain what we are doing, explain the policy intention and deal with any issues. You

will have seen the range of issues that we are consulting on, and those will all go before the executive committee.

Q128 Nigel Mills: This is your big chance to ask for more people, more resource and more time. But you are happy. We don't need to push that for you. This is for any of the panel: what are your three biggest concerns in your function of regulating pension schemes? What would they be? What three things might keep you awake at night?

Andrew Bailey: I'll start and the others can join in. I'll try and start with the big picture and you can draw down. I think the pension freedoms were a sensible thing to do in the context of the point I made earlier about the changing pattern of working, the change in longevity, and the need for flexibility. However, when I look at many of the things we are doing and the things that Pritheeva has just referred to, in a broad sense we are putting in place the framework for helping people to use the freedoms after they have been put in place.

One of the points I make regularly, which is absolutely at the heart of this, is that we as a society have moved the responsibility for pensions from employers, and to a degree the state, to individuals. Initially, we had freedoms in accumulation and now we have freedoms in decumulation. We are now having to put in place the framework of regulation and assistance to allow people to operate that. I think that that is at the centre of it. It is, frankly, following on from the decision to implement freedoms. That for me is a big part of it.

Alongside that—I know you are looking at this in your inquiry—is the question of transparency: how we get sensible and useful transparency that people can actually put to work to make those decisions effectively. Then alongside that goes the conduct of the industry and how it behaves towards selling and advising on pensions. Those are moving parts. Chris, do you want to add to that?

Chris Woolard: I will flesh that out slightly. There is a lot around the appropriate rate at which people are saving. It is often discussed that people save too little into their pensions. We cannot directly influence that. What we can influence, though, when you do save into a pension, is whether you are getting value or whether your investment is disappearing into fees and charges in what is a very long value chain, and you track it back to the underlying asset management as well.

There has been a big focus there about how we drive out those costs, not just in a way that an individual might be able to understand, but on the role that pension trustees play in that process, and how investment consultants who advise on thousands and thousands of individuals' pensions play a role in this system when we have some fairly strict regulation around an individual advisor advising a single person. So there are those kinds of questions.

Then, clearly—Deborah might want to say a little about this—there is the other end of the scale, where we now see a group of people opened up,

really for the first time, as an unavoidable consequence of the way the pension freedoms have executed. There is obviously increased activity around scams and some of the advisers operating in this space, but I will leave that to Deborah to explain.

Deborah Jones: I would answer the question from a slightly different lens, but very much building on what Chris has said. I come into it at the supervision end. The policies are set, but what are we seeing on the ground, and what can we do about it with the firms? I think there is a really key priority around the information that customers receive. Are the firms giving that information? That is not only about it being the right information, but it being given in a way that is comparable and understandable. It is also about ensuring that the rules that have been set are clearly understood and that the firms are abiding by those in a way that translates through into making a difference to customers.

Suitability and scams are my next point. They are different issues, but they sit adjacently. As a customer, your basic question is, "How do I know that I am getting something that is good for me?" Clearly, scams at one end of the scale are absolutely outlawed, and we have a specific pensions scams team that is constantly on the look-out for unauthorised businesses entering this space and is picking up intelligence.

Q129 **Chair:** How big is the team?

Deborah Jones: It is a team of approximately 10 people, but to be perfectly frank I cannot give an exact figure, because we flex the number depending on what is coming through the door at any given moment. In response to a particular set of intelligence or multiple cases all arriving at the same time—that would be the hub of activity that co-ordinates and brings it together.

Q130 **Chair:** So it is 10 out of a total FCA staff of what?

Andrew Bailey: About 3,700.

Deborah Jones: My division is regulating everything from life insurers to financial advisers. We have got 120 at the moment, covering the fixed firms that we interact with regularly, but also the reactive work dealing with the intelligence.

Increasingly, we are trying to get on the front foot so that we are not just waiting for a complaint to come through the door, but are looking as far as we possibly can at how we can best use data. That is not just intelligence about a complaint about something that has already gone wrong, but intelligence about something that might have gone wrong, so that we can be on the front foot. It is a constant balance about where we put those resources, but with scams, it is important that we pick up where something has obviously gone wrong.

Q131 **Nigel Mills:** Mr Woolard, you gave us a few answers on transparency there. Where would you put the balance with who should be doing the heavy lifting? Should it be the regulator demanding it, or should it be for



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others to drive? Do you think you have got that line in the right place at the moment?

Chris Woolard: This is an area that always sounds very boring when we talk about it, but our regulatory perimeter cuts into the question of what we can regulate and what we do not regulate. Where we ended up in our asset management work is that there is clearly a degree of front-end transparency that we can insist on for the ultimate consumer. MiFID and PRIIPS from a European angle help us do that, up to a point.

Transparency in this market is incredibly important for those running pension schemes and the trustees of those pension schemes. Often that will have far more of an effect than the individual transparency that a consumer might get at the far end. That is an area where we have got to a voluntary answer with the industry.

There is the work of the IDWG; I know Chris Sier gave you evidence about that. So far we are pretty pleased with what we have seen. I think we have got a pretty comprehensive set of information there that builds on the work that the local government pension scheme did. It is, however, something that we are going to have to look at in terms of the actual effects that roll out across this year. Is it really working in practice? Is it really delivering trustees' information in such a way that people can usefully manage the schemes they are responsible for?

Q132 **Nigel Mills:** If I was being slightly provocative, I would suggest that these were not particularly new issues and it has taken a particularly long time to get any sign of progress. Are you not still taking a bit of a laissez-faire approach, thinking, "The industry will get there in the end"? Do you not perhaps wish that if you had been a bit tougher a few years ago, you would be in a lot better position now?

Andrew Bailey: I mentioned the asset management market study, which in many ways was the genesis of the work that led to Chris Sier's work. The FCA got its competition powers in 2014, and the market study was under way 18 months or so after that. It wasn't the first market study that the FCA did with its new powers, but it was probably the biggest one—it probably still is the biggest one. For me, it was certainly the most important one. It was the most important thing we were doing in my early days there.

I would like to reinforce a point that Chris Sier made to you about this. He said that it is now a real test of the industry that they take this up—if they don't, as Chris Woolard said, we will have to act. There is no question about that. Whether they take it up is a real test of them now. They have participated in this work. As is well known from some of the media coverage, the early days were frankly bumpy, to say the least, but it settled down and everybody participated.

I would just add one thing. This year, we are implementing the senior managers' regime into the industry—in fact, into the whole financial services world outside banking and insurance, where it already is. That regime has at its heart responsibility and accountability. It is a real test of

seeing those principles at work. I strongly support what Chris Sier said, in that sense. It is a real test.

Q133 Chair: May I go back to the size of your staff trying to crack down on scams? It is one in 370 members of staff, isn't it? Sir David Metcalf, who tries to enforce labour market standards, publicly says that he doesn't have enough staff to do the job as he would like to do it. Do you think you have enough staff?

Andrew Bailey: I will give you two answers to that. In one sense, you never have enough resource to do that sort of thing. What we, like a lot of organisations, are doing is making a substantial investment in data capture and analysis. That is important in the scam world. If we go to the obvious source and are able to, to use the vernacular, "scrape" the internet more effectively, we will save a lot of human resource at that end. We will not save a lot of human resource, in my view, in the world in which we then have to prosecute cases. We are looking to make a substantial investment at the data end to support the staff. In this day and age, it is not just about the number of staff; it is also about the investment we make.

Q134 Chair: Sure, but coming back to the question, do you think one in 370 on countering scams in an age of greater pension freedom is adequate?

Andrew Bailey: I don't tend to look at it as a "one in 370" issue, for the reason that there are many other pressing calls on our time. To use Deb's phrase, is 10 enough? Ten is certainly larger than it used to be. Whether it remains enough, I have to say that we will have to be responsive to that. Frankly, if the rate of scams goes up because people are able to do more with the technology and the access they have, we will have to respond to that. There is no question about that. You can have my word on that.

Q135 Ruth George: Moving on a bit to the issue of scams and financial advice, on SIPPs, I have seen some particularly worrying cases in my constituency of ordinary investors who have lost huge amounts of money because FCA-regulated financial advisers have advised them to go for SIPPs. You wrote to SIPP operators in October, Andrew, about their ability to pay out for potential compensation schemes. Were you satisfied with the response on that?

Andrew Bailey: Honestly, the jury's out. I will get Deb to come in on this. Yes, the message clearly got home, because we got some very clear responses, but the jury's out in terms of the practice. As you said, we wrote very deliberately because it is a big issue and there have been some quite high-profile cases. There was a particular legal action going on. We wrote very soon after the legal action reached a point at which we could write.

Deborah Jones: We wrote the letter and followed up with phone calls to all the relevant firms, and had some site visits in appropriate cases. There is ongoing activity with the firms where we are not completely satisfied at the moment that they are in the right space to ensure that they are in a



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better financial state to protect consumers like your constituents in the event that claims need to be made. That is ongoing work.

I would also flag that in these cases where an adviser has suggested that a client puts money with the SIPP operator, there are obviously two partners potentially at fault, and we would have to look at that in the round. That is also an angle that we are very aware of. Looking at high-risk investments is a piece of work—to revisit this and whether advisers are taking an appropriate approach—that we have planned for next year.

Andrew Bailey: We closed a number down early last year as well, so it is a high priority.

Q136 **Ruth George:** How many did you close down?

Andrew Bailey: I think three were closed in January last year.

Q137 **Ruth George:** Was that SIPPs or financial advisers?

Deborah Jones: Three SIPP operators were declared in default by the FSCS.

Q138 **Ruth George:** What action do you take against financial advisers who advise inappropriately on such schemes?

Deborah Jones: We can take a range of different actions. We would look at a range of files—typically, we go in to review files—to see whether suitable advice has been given. If it has not—if you are familiar with the approach we took on British Steel advisers and the unsuitable advice there—we can do a similar pattern of things. If the firm is in agreement with us that it has not done a good job, it might voluntarily accept restrictions or a change of its permissions; if there is disagreement, we consider all the options including, if necessary, enforcement action in that space.

Q139 **Ruth George:** Certainly in one of the cases that I have seen, and in some that have been highlighted in the media, financial advisers have simply gone bust, gone out of business and left the individuals with no form of recompense through that means.

Back in June, we took evidence that the FCA believed that suitable advice from financial advisers, accompanied by effective due diligence, checked by SIPP operators, is more proportionate than imposing a ban. Do you still think that it is a proportionate way of dealing with SIPPs, or are cases that you see making you think again about a ban to ordinary investors, rather than high-wealth individuals?

Deborah Jones: At present, we remain of the view that there is a place in the market for a wide range of investments, but it is very important that those riskiest investments, the non-standard investments, are sold only to those consumers for whom they are suitable—

Q140 **Ruth George:** But that's not happening. There are cases where that is not happening.

Andrew Bailey: A lot of those are historical cases. I do not excuse them, but to say we are dealing with—

Q141 **Ruth George:** I am dealing with cases now that are ongoing; they are not historical.

Andrew Bailey: If you have cases of people being advised now in that way, please let us know.

Ruth George: There were some on “Money Box” on Saturday.

Andrew Bailey: Please let us know, because we will obviously act on that. What I would say about the SIPP industry—because it has grown quite rapidly in the last six, seven or eight years—is that it has evolved into two parts: one is what you might call a high net worth sector; and the other is a very different sector, which people use for, frankly, much smaller savings, relying obviously much more on it as the only source of income.

To be honest with you, I think we have had to catch up with that evolution, because it has caused practices to happen that have definitely had detriment for people. To reiterate, if you have examples of people who are being mis-sold today—we are also interested in historical ones, don’t get me wrong, but particularly if you have examples going on today—we are very keen to hear about them.

Chris Woolard: To add to Andrew’s earlier answer on investment and technology, the first pilot of this that we have done in the organisation is around SIPP operators. It is about, can we have better intelligence against those who act in this space in a way we wouldn’t approve of? The second area is around phoenixing, which is where advisers or other companies go bust and try to resurface, and how we trace them through an often quite complex web of companies. Again, back to the question about what priority we give this, that is an example.

Q142 **Chair:** Are you in touch with “Money Box”, to ask for their cases?

Chris Woolard: We normally talk to “Money Box” or any other media outlet when they feature these kinds of things.

Q143 **Chair:** Have you in this instance?

Chris Woolard: I do not know that answer off the top of my head, but we can check.

Andrew Bailey: We are happy to check any cases that you have against our record of cases.

Q144 **Ruth George:** As you say, the market has expanded very rapidly in the last few years and it is very hard to keep track of. I hope that, from this, the FCA will have a serious look at those several issues.

Andrew Bailey: I agree. We have had to clamp down very hard, frankly, on the practice of putting unacceptably risky assets into SIPPs. I come back to my point about the evolution of the SIPP market, which serves



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people who are much more dependent on it—that makes it worse. There is a history here of the industry feeling that it could do more or less what it wanted, in some cases, in terms of assets. That is just not acceptable.

Q145 Ruth George: Thank you. Obviously, getting proper pensions advice is absolutely key to this. When we are seeing—I think—10.9 million calls a year to individuals about pension freedoms, it is obviously very important that people get that pensions advice from Pension Wise. What are you doing about providers that look to incentivise people not to take advice, for example by gaining access to their funds more quickly?

Andrew Bailey: Is it worth drawing a distinction between guidance and advice? You mentioned Pension Wise. Chris, do you want to talk about what we are doing on the advice front?

Chris Woolard: Again, this is an area where, frankly, the rules of the game are playing catch-up with the freedoms to some extent. What we have had over the past three years is really a pretty steady drive towards ensuring that when people take decisions about their pensions, first, they get information sooner, so earlier wake-up packs that try to engage with the decision five years before they have done so historically. Secondly, they are pointed towards Pension Wise if they are not taking regulated advice on a consistent basis. Then, this month, we have published more information about investment pathways for those going into draw-down, to try and create a series of default options that hopefully guide people towards a reasonable outcome for them. Certainly, in terms of the idea of giving people incentives if they do not take regulated advice, particularly if you are looking at a non-trivial pot—a significant pot of information—we take a pretty dim view of that, frankly.

Q146 Ruth George: Will you ban it?

Chris Woolard: Our guidance is very clear on that. Where you have got customers who are making decisions, good, legitimate, regulated firms need to direct people towards Pension Wise if people have not got advice.

Q147 Ruth George: Absolutely. They need to be. You said that you take a dim view of firms not doing that. What are you going to do to make sure that they do it, and that there is no way that they can avoid directing people to advice?

Chris Woolard: Our guidance and rules set down that that is part of the journey that we expect consumers to be on. We look at that as part of our routine supervision—Deborah might like to say a word on that.

Q148 Chair: Is that part of the 10 people?

Chris Woolard: No. That is part of what we do on a routine basis. The other thing that we have agreed, as part of our joint strategy with the Pensions Regulator, is that we are going to do a proper end-to-end process that starts with the customer and how they go through their entire journey across products that might be regulated by TPR or the FCA, to see if there are any gaps in that journey and hand-offs that need addressing.



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Andrew Bailey: It is worth saying, following Chris's point, that we have become increasingly granular and directive on that front. To give you an example, one category that the industry always points us to is the so-called insistent client who does not listen. We have said, "Yes, but you can't wash your hands of that." There have got to be clear rules of engagement for so-called insistent clients. That is the person who walks in and says, "I know what I want to do; I've just got to get you to give me token advice. I am not going to listen to you, but tick the box." We cannot just tick the box.

Pritheeva Rasaratnam: The other thing to add is that we obviously have a duty, following the Financial Guidance and Claims Act 2018, to make rules about nudges to guidance—the so-called default guidance. We are currently considering how best to do that. We have to ensure that consumers receive either guidance or an opt-out, and one of the questions that we will consider is who should give that opt-out. We are working with SFGB on testing various approaches, which is something else that will help in terms of nudging people towards guidance.

Q149 **Steve McCabe:** What is your current estimate of the proportion of savers who actually use Pension Wise guidance?

Chair: Who would like to answer that?

Chris Woolard: I'm not sure we've got the stats off the top of our heads.

Q150 **Steve McCabe:** It's something you must know if you spend a lot of time looking at it. You must have a pretty good idea. Are we talking about 20%, 80% or 10%? Where, roughly, do you think we are?

Chris Woolard: It will vary very significantly by particular product. In the SIPP market that we were just talking about a moment ago, where there are no obligations—if you desire to go into a SIPP, it is self-invested—about 25% of people take regulated advice and the others don't. I suspect that very few are actually talking to Pension Wise.

Q151 **Steve McCabe:** Do you have stats on that, and can you send us them? I think that is really quite important to what we are asking.

Andrew Bailey: We do, and we can, but it differs from sector to sector. I would also say—this comes back to the point on guidance—that one of the reasons that we have been strong supporters of creating the Single Financial Guidance Body is that that was not doing the job that is needed.

Q152 **Derek Thomas:** To clarify that point, is that a quarter of all savers or of those looking to move?

Chris Woolard: No, that is purely SIPPs. That is in terms of that particular product. Looking at those who are, for example, going into draw-down for the first time, the numbers taking advice or speaking to Pension Wise would be far higher. Let's get you the right numbers.

Q153 **Derek Thomas:** So within SIPPs, it is 25%. It's possible that half of them are not even looking to move.



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Andrew Bailey: Draw-down is interesting. Something that has come out of our retirement outcomes review work is that even where people take advice, we were concerned that they were defaulting to an easy cash option, which was obviously not in their best long-term interests.

Derek Thomas: It would be helpful to break down the figures into those seeking advice—full stop—and those seeking advice who are moving the product. That is quite a different picture altogether.

Q154 **Ruth George:** Certainly, on SIPP, it is very worrying if only 25% of people taking on these high-risk investments are getting regulated advice—the rest therefore do not have any sort of buffer. If you are not prepared to ban them for ordinary investors, would you consider making a compulsory gateway for people to take independent advice?

Andrew Bailey: The other issue, as I was saying earlier, is to reduce the incentive to use high-risk investments. We will obviously consider it.

Q155 **Steve McCabe:** But the question was whether you are in favour of default guidance. Are you going to pursue that? That is what you have just been asked.

Andrew Bailey: That comes back to the point Chris made about pathways. One of the clear questions we posed—

Q156 **Ruth George:** If there are pathways, but only 25% of people are taking the recommended pathway, it's not good enough.

Chris Woolard: We are conflating two very different points. The point about default pathways applies to those who have saved in a normal, standard investment vehicle to accumulate, then find themselves at the point where they are choosing what to do. Do they buy the annuity, go into draw-down, go into UFPLS, or take their money in cash?

There is a group of people who are going into draw-down at this moment in time. We know from the work we have done on research that the big question for people is how they get their 25% tax-free cash now. People concentrate on the decision around the 25% tax-free cash, but not on the decision around the other 75%. As Andrew was saying, many end up defaulting into holding that money as cash. Clearly, if you intend that to be your vehicle, that gives you an investment income over the next 30 years, that is not a good option. You should be in something that is investing that money for you, and from which you are drawing down.

The default pathways try to deal with that problem by saying, "At that point, your pension company has to offer you potentially four default pathways." That allows you to say, "Right, I'm going to take the money in one lump sum. I'm going to buy an annuity, but not just yet, or I'm going into some kind of draw-down over time." That's what it is intended to solve.

Aside from that, a separate issue is that every year we have a number of people who choose to go into a self-invested pension plan, which is not the kind of draw-down piece that we are talking about. Looking at new



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customers who are opening SIPPs, 25% had been advised to, and 75% chose to do so on an execution-only basis—in other words, “I know what I’m doing; I’m going to make my own choice.” Some of those clients may well be sophisticated and know what they are doing; others may have had some other route into this through an introducer or non-regulated entity that led them to make that decision, and clearly, that is the point at which we start to worry.

Q157 Ruth George: There are also people who access their pension fund and then put it into a SIPP.

Chris Woolard: Exactly. There is a crossover there, but it is quite a small group.

Q158 Nigel Mills: Are you happy with the amount of people who shop around at the point of decumulation and make sure they are getting the best deal, perhaps from a different provider to the one they used for their accumulation?

Chris Woolard: In broad terms, no. We can see a picture where, depending on the nature of the firm, well over 60% of people simply default to, “I will decumulate with the person I saved with in accumulation.” There are good logical reasons why people might do that. They say, “I’ve saved for 30 years with this brand or firm. I trust it. Why would I not trust it in retirement?” In reality, however, we have done a whole range of things that are intended to try to increase the amount of competition in the market at this point, and really give people options to shop around.

Q159 Nigel Mills: But are they working? Are more people shopping around, or is it horribly static?

Chris Woolard: It is early doors. We have only really had these kind of reforms in place for about a year in some cases, and in other cases for about two years. I think it is too early to tell, but the advent of pension freedoms and the number of choices that individuals need to make in many ways is reinforcing the idea of, “I’ll stay with what I know”, rather than “I will go and shop around”.

Q160 Nigel Mills: There was quite a consensus in Parliament, and a lot of pressure for us to make the guidance guarantee pretty much compulsory unless somebody chose to opt out in a complicated way several times. The compromise that was effectively offered by the Government was that it would be left to you to make that work. On a spectrum in which nought is where guidance is entirely optional but exists, and 10 where such guidance is absolutely mandatory before someone makes a decision, where are you trying to pitch your regulatory actions? I hope you would be somewhere near a 10.

Chris Woolard: We are trying to pitch for the real world, and I think the real world has increasingly two clear groups in it. There are people who have a significant amount of money saved and who are going to rely on that for their long-term income. I would hope that when we are dealing with that group we are much closer to 10 on your scale. There are also a

large number of people who I think are being flushed out of the figures and who become clear in a world where there is no compulsory annuitisation.

Those people have quite small pension pots—on average we are talking about £14,000—and in many cases, even when they have had guidance from Pension Wise, or whoever, that guidance will say, “Probably your best bet is to take the money as cash.” In those situations you want to ensure that that is a relatively simple journey, but nevertheless if people are genuinely sitting there with a pension pot that is about their long-term future, we would absolutely want to be at the end where we think that either they have had regulated advice, or they have had a guidance conversation.

Q161 Ruth George: Let us move on to the Pensions Dashboard, which has obviously seen a lot of delays and no clarity about when we will get it. We have had recommendations for the five templates. Do you think it good enough that those are voluntary? Will that leave enough clarity for investors?

Andrew Bailey: I think it comes back to the point I was making a few minutes ago. We are starting off in a world where there is now voluntary encouragement in the industry as part of the process for the new group that has been set up—I know you talked about that—and how to put it into effect. We would be delighted if that led the industry to take it up on an extensive voluntary basis. As I said earlier, I think all the incentives should be there, and the responsible thing is for the industry to do just that.

Q162 Ruth George: What will you do if they do not?

Andrew Bailey: If they do not, we will have to step in. There is no question about that.

Q163 Chair: When?

Andrew Bailey: As soon as we know that is happening. They get a certain amount of leeway here, because they have this group doing the further work to put it into effect. We are observing that; we are following it closely, and we will stay very close to it.

We will also stay very close to understanding what the industry’s intentions are on this front, and you can take our word for it that we are making it clear to the industry that we expect this to happen. We have said that right from the beginning, coming out of the asset management market study. I reinforce the point Chris Sier made: I think this is a good test of the industry. If they fail, we will do it.

Q164 Ruth George: If they fail, then what?

Andrew Bailey: We will make it happen.

Q165 Ruth George: You will make them do it?

Andrew Bailey: Yes.

Q166 **Ruth George:** So it will not be voluntary. If they do not do it, you will make them do it.

Andrew Bailey: It will not be voluntary if they do not do it, no.

Q167 **Chair:** When will you draw together what evidence you have to make it mandatory?

Andrew Bailey: We can do that through our supervisory work as well as through our general overview of the industry. I imagine also that we will get a pretty clear picture on that out of the group that exists.

Chris Woolard: Certainly out of the successor body to the IDWG—the work that has now been set up around that—I think we will get a pretty good view of what is happening around the transparency of charges. On the dashboard itself, the DWP is consulting at the moment on how there might be additional powers around that. One of those would give us a specific power not just to cobble together what we can from our different toolkits but actually to set the templates and those kinds of things. That is obviously for them.

Q168 **Ruth George:** Would you welcome that power? Are you asking for that power?

Chris Woolard: At the moment, as Andrew said, it is in the industry's hands to get this right, and I think a lot of this will be simpler if they try to get it right first time. But certainly, we would welcome a backstop that is very explicit about our having a power to act.

Q169 **Chair:** So this is going to be a backstop that you desire—an insurance policy.

Andrew Bailey: You will hold us accountable for it as well.

Q170 **Steve McCabe:** I want to ask a bit about the effectiveness of trustees, and IGCs in particular. I suppose straightforwardly, how effective are they at getting a good, competitive deal for their members?

Pritheeva Rasaratnam: The first big test of IGCs came quite shortly after they were brought into effect in 2015. In 2016, we and the DWP assessed their effectiveness as part of a review of the progress by IGCs, firms and trustees on remedying poor-value legacy workplace schemes. The task they had been given was to reduce charges on about £26 billion of pension assets that had been identified by an OFT market study in 2013 as being at risk of being poor value for money.

In 2016, we found that they had reduced charges on £20 billion of those assets to below 1%, and in December 2017 we found that they had reduced charges below 1% on a further £4.9 billion of those assets, so the majority of the assets at risk. We looked at IGCs at that time and found that they had been generally effective in agreeing robust and timely action with providers, and challenging providers, although there were areas for improvement. That is the main test of IGCs we have carried out to date, and it showed they are generally effective.



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Chris Woolard: On the wider question of trustees, again, this is something we picked up in our asset management work. There are many thousands of very small pension schemes with fewer than 10 members. For those trustees, there is clearly a real challenge on their part with doing any sort of exercise of market power to control costs and those kinds of questions.

One thing we undertook at that point was the referral of investment consultants—those that were advising them, effectively—to the CMA. Secondly, we said we thought it would be a good idea if the DWP and others made it easier for those funds to consolidate in some way—not necessarily to completely merge, but to come together to drive value on behalf of their members. That is something that the DWP is consulting on, obviously.

Q171 **Steve McCabe:** One of the things I struggle with when I think about this is that I do not know how they can be effective at getting value for money if they do not know all the costs involved. It seems to me that they are being asked to make a judgment with half the information or something. How does that work?

For example, I read about that West Midlands Pension Fund scheme, where the variation was an estimated £10 million, which turned out to be £92 million. That suggests to me that you couldn't possibly be getting a really good deal for your members if there could be that difference in the amount of charges that were being imposed.

Chris Woolard: Getting under the skin of what you are being charged as a pension trustee is absolutely vital. That is why we have had the work of the IDWG. As I said earlier, that builds on what the local government pension funds have done—they have done that in a really comprehensive way. That is about getting a handle on costs and charges in a way that, bluntly, as an ordinary consumer, you are never going to do, but that you should do as professional bunch of pension trustees.

Q172 **Steve McCabe:** When you conducted this earlier, partial review and decided they were coming along reasonably well, you decided to postpone a full review, but I think there is one pending—is it next year? Will you be looking at how you get access to that information about full costs? Will that be something that will come up?

Chris Woolard: Yes. We postponed the full review of IGCs partly because of the other pressures on us, which Andrew has already alluded to, but we will have a review this year. That is scheduled as part of our business plan. It will ask questions around how IGCs really achieve value for money. What you have referred to is obviously part of that.

Q173 **Steve McCabe:** If you were to try to give us an overview, what is the right balance between costs and risks?

Andrew Bailey: That is a very good question. To put it into a bit of perspective, for me, going back two-and-a-half years and coming into this world, one of the things that was really eye-opening, and it really came through the asset management market study to start with, was that this



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world really was dominated by people looking at the returns on investment and not at the costs, which is pretty bizarre, particularly in the pensions world.

We did a fairly simple illustration of this in the market study. We said, if you are holding a pension saving for 20 years and you just vary the cost by what looks like an almost trivial amount when you are just quoted it as an upfront price that you then compound over 20 years, and you estimate the effect on the pension, it is very substantial. It is very clear that that wasn't functioning.

For me, it was one of the really eye-opening moments in that work. The whole industry, in the broader sense, was looking in one place when it should have been looking in both places. I was going to say looking in the wrong place, but they should certainly be looking in both places. That is clearly the objective.

Q174 Steve McCabe: I'm thinking about this further review that is coming up. One of the things that ShareAction said was that actually the assessments are often pretty vague and the IGC reports are largely characterised by the lack of information in them. How did you get to a stage where you gave them a clean bill of health when this was happening and you were aware of it? Do you accept the ShareAction report?

Pritheeva Rasaratnam: We spoke to ShareAction before they published their report. I agree that it is a nuanced picture that they presented. They did talk about the fact that there was emerging good practice from IGCs, but you are absolutely right—there were varying standards of reporting.

One of the things they recommended that we do was issue further guidance on value for money, to help IGCs. In fact, that is one of the priority actions coming out of our joint strategy with TPR. We are going to work with The Pensions Regulator to try to set out a bit more guidance about what value for money means and what we expect IGCs to do when they assess value for money. That is a really important piece of work that we think will really help with the effectiveness of IGCs going forward.

Q175 Steve McCabe: One of the criticisms you have is that you think that, in some situations, they could be more proactive and drive providers to take robust action earlier. Have you issued guidance on that? Is there any evidence that you have been successful in changing that?

Chris Woolard: We haven't issued direct guidance to them but we have had a number of conversations with IGCs. The picture, if you want me to give a fair summary of where we are at the moment, is that it is clear to us that IGCs have had an impact. They have had a meaningful impact in reducing the underlying cost of funds for many members. In that respect, there is a good job being done there. But the fact that we have got a review scheduled and the comments from ShareAction that we have discussed with them and, frankly, broadly accept, means that this is an evolving picture. It is good as far as it goes but it could go further. That is probably the way I would cast it.



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Andrew Bailey: The work on cost transparency is still work in progress, which underlines that as well.

Q176 **Steve McCabe:** I guess we are probably waiting to see what happens with the review next year. You say they are making a bit of progress but there are some significant areas you are still concerned about. There is a problem about both the reports they provide and the information they get, particularly on charging. Is that a fair summary of where we are?

Andrew Bailey: It is a reasonable starting point to frame the review, yes.

Q177 **Steve McCabe:** Thank you. Can I just move on now to ask you a little bit about the charge cap on the default workplace schemes? It doesn't cover all the charges, so how effective can it be?

Chris Woolard: Clearly, we are now being asked a question about regs that DWP set, and it is obviously their rules around how those default charges work. The aspect of them that it does not cover is effectively around transaction costs.

The logic around transaction costs has always been that you could act against a member's interest if you set up a negative incentive not to incur transaction costs. In other words, there might be times when it is in your member's interest to go and deal quite extensively to protect their investments. If you've got a cap on that number, that could cause the wrong outcome.

In the work that we have done around asset management, around the piece of the picture that we regulate here, we have taken a slightly different approach to that. That is that we accept that argument; we believe there is some validity in that argument. But in setting up an upfront all-in fee, we expect there to be an estimate of what those transaction costs will be, because every fund manager will have a strategy. Are they selling lots or are they staying passive and holding? They know what that strategy is in advance.

In the circumstances where a fund manager does need to go and deal more extensively around those costs and charges, that should be something they then explain to their members and say, "Look, we had to incur further costs." It is not, if you like, a free pot of money, which I think people sometimes suspect it might be. It is very difficult to cap absolutely everything in this space, because of members' interests, but equally you can explain it.

Q178 **Andrew Bailey:** Deborah, do you want to say how you see it from a supervisory point of view?

Deborah Jones: Looking at costs and charges is obviously something that we have to follow up on. We don't just set the rules; we look to see whether they are in place. We have got some work we are looking to report on by the end of the month, which has looked in adjacent space at asset managers and retail investments about how they have approached some of the MiFID and PRIIPs upfront disclosure rules.

As I said, the full work will be published later this month, but one area that has come out, for example, is that firms may be doing this well in the formal documentation that summarises this but their wider marketing material, which may be the thing that is read first and most widely, does not always summarise those aspects in full. It is really important to us that firms present a clear and not misleading set of information across the piece, and that we have got consistency on that.

Q179 Steve McCabe: Chris said a moment ago that he thought there was a reasonable argument for not including transaction costs in the cap. How would you deal with transaction costs?

Chris Woolard: As I said, in terms of how we have dealt with it in relation to asset management, which is a parallel you can look at, in the upfront costs you are quoted as a customer there should be a best estimate of what the fees, charges and transaction costs are going to be. In other words, there is an all-in price that you can say, "That should be the total cost for me."

If, in those circumstances where the market has had a huge amount of disruption, your fund manager had to go in and trade for you to protect your investment and they have incurred higher transaction costs, that is something they should then have to explain, and that is what our rules effectively say. They should have to explain to their members the fact that they have had to do that, rather than simply saying, "Oh well, you know, they were just higher this year for whatever reason." We think that strikes a balance between not creating a wrong incentive and ensuring that you are not effectively signing a blank cheque.

Andrew Bailey: One of the big-picture things that came out of the asset management market study—an old issue, but one that we were keen to tackle—is what is sometimes called "closet tracking". Obviously, in the nature of things, if you are running an active fund you are going to charge a higher fee than if you are running a passive fund, because a passive fund is reasonably "mechanical". But what we observed was that there was quite a population of funds describing themselves as active and charging an active fee, but when you looked at what they were doing, they were tracking in various forms.

Q180 Steve McCabe: And when the ABI says that there is no widespread consumer demand for detailed information on transaction costs, I presume you do not really agree with that, because you are saying that where they have had to intervene and there are legitimate extra costs, that information should be made available. Do you think the ABI is wrong on that?

Andrew Bailey: Yes. To go back to the point I made a few moments ago, if you start with history, when we did the market study, we observed that, as I said, costs were frankly not a point of focus. It is a short step from there to your point, "Well, therefore people aren't interested in them, therefore we don't look at them."

Q181 Steve McCabe: They would be interested if they thought they were being



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ripped off, wouldn't they?

Andrew Bailey: Exactly. You get more interested when you know what is going on. I am frankly quite sceptical about that observation, "Oh, there's just no evidence that people are interested in costs." They are interested in costs when you allow them to see what is going on. I am afraid we don't buy that argument.

Q182 **Steve McCabe:** Tell me about NOW:Pensions. How do you explain a situation like that and how do we stop that sort of thing happening?

Chair: Who would like to do that one? Pass the question—the music has stopped.

Steve McCabe: Is it not just outrageous?

Andrew Bailey: That is probably one we will need to come back to you on, I'm afraid.

Steve McCabe: In what sense?

Q183 **Chair:** Nobody knows about it, is that right? Nobody has an answer?

Andrew Bailey: I don't have the details.

Q184 **Steve McCabe:** NOW:Pensions has 1.6 million savers with an average pot of around £300. They have a unique charging structure, in that they charge a £1.50 admin fee per month per member, on top of a 0.3% annual management charge. They cater to lower earners, usually people who move jobs frequently, and they have managed to eat away the entire pot of some of their customers by their unique charging structure. I would have thought you would have been aware of these people. That sounds to me like the sort of thing you are supposed to be looking at.

Andrew Bailey: We will come back to you on that one; that is the most sensible thing.

Steve McCabe: Seriously? Are you engaged with it at all?

Andrew Bailey: I am afraid I don't have the details of that scheme in front of me.

Q185 **Steve McCabe:** That is extraordinary. Tell me one last thing: if the cap does not cover all the charges, is there a danger that you are creating an illusion of transparency, because on the surface you are saying, "Ah well, you can see what this is costing and it is capped," but in reality you are only seeing a bit of it? Is there a danger that we are maybe not perpetrating a fraud, but slightly misleading people into thinking that the thing is much more open and transparent than it really is?

Andrew Bailey: I would reinforce what Chris said there. It comes back to having that supplemented by relevant and meaningful transparency around transaction costs. There are good reasons why you cannot cap the transaction costs, but you are right that if you have a sort of opaque world beyond the cap, then the cap is not doing its job. However, we think that, with a combination of the cap applying to things that can be sensibly

capped and proper transparency on the other things, we can get to a sensible outcome.

Q186 Chris Stephens: Let us stick to charges, shall we? As I understand it, the FCA's position on default decumulation pathways is that firms should "challenge themselves on the level of charges", using 0.75% as a point of reference. As I also understand it, the FCA remains open to a cap on charges but is not minded to introduce one in line with the Committee's recommendations on pensions freedom. Is there any risk at all of introducing a charge cap?

Andrew Bailey: Any risk?

Chris Stephens: Yes.

Andrew Bailey: Our general approach towards capping—I will let the others come in in a moment—is that we regard it as a tool in the box to be used when what I would call more market-consistent tools are clearly not working and the market is failing.

In a completely different part of the universe, on payday lending, there was not a market tool that would do what we wanted, so the cap was used, although it is actually a combination of measures. That is our general approach, and the same philosophy holds here. We would want to examine and explore what I might call market-consistent tools, and if the market fails, we will have to bring the cap back in.

Pritheeva Rasaratnam: We have not ruled out a cap, as you say, and we made it very clear in the paper that we put out that we will be watching what firms do on this. However, one challenge is where to set the cap if we were going to impose it. This is a market that does not really exist yet, so investment pathways have not actually been introduced. There is a real danger that going in with a cap at the wrong level might have unintended consequences. You might find that you set it too high and that firms are actually capping up to the cap, rather than capping down.

Once we have introduced pathways, we want to see how the market develops and where charges lie. We will do a review one year after investment pathways have come in, looking very carefully at charges at that stage. A cap is not out of the question at that stage if we do not see charges making their way to where we expect.

Q187 Chris Stephens: Is that a charge cap or simply a regulatory intervention? In that it would be seen as a simple—

Andrew Bailey: It is a tool in the bag, so yes, in that sense it is, but it is not the only tool we have.

Q188 Chris Stephens: Is there any reason why the FCA does not agree with the Committee's recommendations on pensions freedom in relation to the charges?

Andrew Bailey: Yes, for the reason I gave earlier, if you do not mind my saying so, which is that we would prefer to see market-consistent tools at



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work first, to see if they achieve what we all want to achieve. If they do not, as Pritheeva said, we are back in that territory.

Q189 Nigel Mills: It is a bit like "Groundhog Day". I remember doing an inquiry on this Committee a few years ago on a charge cap on the accumulation stage. All the answers you have just given us for why you should not introduce one on decumulation were the same as those given by your predecessors on why one should not be introduced for accumulation, including that it might give perverse incentives, that people might level up, and that there are other market things you could do. However, I presume you all agree that the charge cap on accumulation in auto-enrolment has been a success. Charges are much lower now than before.

Andrew Bailey: It certainly achieved that. I would say, and this goes back to the discussions we have had and your observation about our predecessors, that those sort of approaches only work, in my view, where there is much better transparency. If you don't have transparency, the chances of success are reduced.

Q190 Nigel Mills: The irony of this is that, for those who auto-enrol, which we have seen is a large part of this market, their employer chooses which scheme they are in. The employer at least has some hope of being a sophisticated buyer; they can look at various schemes.

I do not get any say on what scheme I am enrolled in, whether I want the cheap and cheerful or the slightly more expensive and snazzy scheme; my employer does that. However, the one point at which you rely on millions of individuals who have no idea what is going on to start making decisions is where the protection stops and charges can go up. Does it not feel like you have slightly intervened in the wrong end of the market at that point?

Andrew Bailey: I do not know whether this is an answer or not, but let me illustrate the point about auto-enrolment by referring back to the history, as Pritheeva was saying. I think you are right that introducing that cap has had the effect of pushing charges down to it. On the other hand, if I remember rightly, the Chair argued at the time that the cap should be quite a lot lower. I think you had a bit of an argument with Steve Webb at the time.

Q191 Chair: Yes. Who do you think was right in that argument?

Andrew Bailey: I am stepping into dangerous territory.

Chair: Go on.

Nigel Mills: He has to regulate Steve Webb now.

Andrew Bailey: He's not any more—he's in a firm. You could make the argument that, yes, you have got charges down to that level, but if there really was an argument—I might be taking your argument in vain now; I don't know—that you had the scope to push them further down, the cap might actually hinder that. That is the point about the market.



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Q192 **Nigel Mills:** Do you have any evidence for that? Is that a review you are doing? "Crikey—this cap's been a terrible idea. Charges are now higher than they would have been."

Andrew Bailey: Auto-enrolment is not in our part of the universe.

Q193 **Nigel Mills:** But these are your schemes that you are regulating. I presume there is no evidence that they would all be charging less if only there was not this pesky cap forcing them to charge more.

Andrew Bailey: As Pritheeva said, we have to keep it constantly under review, because you are constantly reviewing the behaviour of the market in that respect, and we can intervene in response to that.

Q194 **Nigel Mills:** One of the issues I have on this is that we have moved on from the day where I accumulate up to the age of 65 and then I magically do something with my pension that has started decumulating, and I retire on that day. I tend to slowly move, and slow down my accumulating, and then just do nothing, and then at some point start decumulating. It is not quite as easy to see when you stop accumulating and start decumulating as perhaps it was before we had freedoms a while ago. Is it not a bit strange to have a very different regulatory and charging environment for what I do not see as a sudden change in my activity?

Andrew Bailey: I think it goes back to what I said at the beginning. What you just described is, in a way, one of the benefits of the freedoms: people can choose how they exit from the labour market, and they can make that consistent with their pension savings and their retirement income objectives. That is all for the good.

It is, however, as you said, a much more complicated world. In some ways, that is natural and goes with it. Designing the right incentives and the right regulation around that will probably always be quite a complicated business, because the world will, of course, change around us. We are going to have to make interventions over time to reflect how the market evolves. I would not want to pretend to you that we will be able to do something and it will be over.

Q195 **Nigel Mills:** This was quite predictable. I seem to remember that in the inquiry that we did on pension freedoms as a Committee two Parliaments ago we said, "For God's sake, start thinking about what is going to happen when people start to use these freedoms. They are going to sit there and do nothing or they are going to get very confused. You need to put some safe routes in for them." I think you now call those default pathways. We are sitting here, two Parliaments and five years on, and we are still saying, "This is going to be really difficult and really important, and we really ought to do something."

Andrew Bailey: I would say that we are making a lot of interventions. If you look at the amount of policy rule-making that we are doing, we are making a lot of interventions. You are right in one sense. There has been a bit of a cycle of this. When I came into this, there was a cycle of wanting



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to use regulation to free up as much as possible. We had some interesting discussions around that.

I think we have moved on from that now towards how you can use the regulatory world to set the right sort of boundaries and incentives for, frankly, managing what is a complex and very individual system helpfully for people. It goes back to your original question: should some of that have been anticipated at the time? Interesting question—it is a bit late now.

Nigel Mills: I think it was.

Andrew Bailey: Well, I wasn't around at that time, so I don't know. You are a better judge than I am.

Q196 **Nigel Mills:** I just worry that the big problem that we still have is that nobody understands this. People are not engaging in their saving. They do not really know what their options are when they retire. Yet we are still being a bit shy about trying to protect them, and make sure that they get the advice or guidance that they need before they do anything, and that they have safe pathways and the advice to shop around.

When we hear Ms Rasaratnam using the word “nudge”, that word implies to me that I know I should not eat cake every day and I need to be occasionally reminded not to do it. What I need on pensions, when I am making these big decisions, is not a bit more nudging to get me over the line to do the right thing; I need a big intervention that tells me, “Here’s what your options are, here’s what could go wrong if you get this wrong, and here’s the suggested safe things you could do.” When we hear language like “nudge”, it implies that you are planning a slightly weaker, smaller intervention than many of us would like. Is that a fair categorisation of what you meant by “nudge”?

Pritheeva Rasaratnam: I would say that the pathways are a really significant intervention. The pathways are for people who have decided they are not going to take advice. They need protection, and at the moment they are faced with a really difficult decision on retirement. Fair enough, they can take advice or guidance, but if they choose not to do that, they are left to make a very difficult decision.

Therefore, the pathways give them options that are clearly linked to the objectives that they might have at retirement—so maybe they want to hold on to their money for the next five years, or take it all out, or take a regular income. The idea is that it gives them a clear way of knowing that if they just say what they want to do with their money for the next five years, the provider is then under an obligation to make sure that the investment solution they provide is appropriate for those needs. I think that is a very significant intervention that will make decision making much safer for consumers who do not take advice.

Chair: We will track you on that.

Q197 **Derek Thomas:** I understand the dilemma about the cap, but the



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problem is that unless you actually give people real information and they engage, in the way that I would go and shop around for a pair of jeans, we do need to look at how we protect people. The example that Steve gave, where people have a small pot of money that is completely sucked up through charges, is something that really should flag up concern. Can you quickly answer one simple question, and then I will follow on: is the Cost Transparency Initiative an industry body?

Andrew Bailey: It is industry in the sense of both sides of the market, if you like: it is both the asset managers, the suppliers of investment services, and the institutional investors. It is an evolution from the group that Chris Sier changed; he had a slightly different composition to his group, because he had some independent presence on it as well as both the institutional investors and the asset managers, but it is an evolution from that group, and there isn't a majority. I mean, they have constructed it to be balanced.

Q198 **Derek Thomas:** Would you say it is self-regulatory? Is it a body that looks after, and is really motivated by, the interests of the sector?

Andrew Bailey: It is, in the nicest sense of the word. You put both sides in a room, we are there to observe, and you tell them what you want to come out of the other side and ask them to please get on with it. It works. The Chris Sier work got off, as I said, to a somewhat bumpy start—it was in the papers—but it worked in the end.

Q199 **Derek Thomas:** That is helpful. Going back to the need to empower and provide transparency, the CTI have said that they want to encourage fully transparent and standardised cost and charge information for institutional investors—so, if they are setting the framework, they have committed themselves to what they want to achieve. Who is driving the agenda on this? Is it the FCA, or is it the industry?

Andrew Bailey: If you look at the last two and a half years of the history of this, this all came out of the asset management market study, and I take a bit of credit for that. I cannot say that the industry was initially celebrating in the streets over the prospect of this, but they got it eventually. Let's be fair: after that, they were constructive participants in it.

The institutional investors are a very important part of that, not least because—as Chris W was saying earlier—this comes out of work that, for instance, local government pension authorities have done. Chris Sier, who was heavily involved in that as well, was in a way building on what he had already done for part of the landscape, which obviously helped the process quite a lot.

Chris Woolard: On that side of the market, the ability of the big pension schemes to say, "We will not deal with you if you are not subscribing to this standard. We will not place mandates with you" is a really powerful incentive.

Q200 **Derek Thomas:** Okay, so it kind of draws people in. Can I then ask—it



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says it will: are you watching to see how quickly it delivers this transparent standardised cost and charge? What are your expectations? When are you going to start saying, "Come on guys, you are dragging your heels"?

Chris Woolard: Yes. It is early doors. The first batch, effectively, have gone in, of attempts by asset managers to deliver on this standardised template. We are having conversations with, effectively, the secretariat of this group about "Okay, what's happening? What are we actually seeing here? What are the kinds of numbers that are coming through?" So far, for very early days, the numbers are quite significant.

We are in the hundreds of disclosures rather than the tens. So that is a positive sign, but this is something we are going to have to look at closely and, as we said back in the original market study, if this does not work we will have to come back and say, "Look, we are going to need some legislative support for this." But the initial signs, at least behind the scenes, are that people are taking it seriously.

Andrew Bailey: I was struck, reading the transcripts of your hearing, when you had the Investment Association here, and there didn't seem to be any foot dragging going on. You might say that they wouldn't, in front of you, but we will hold them to that, and you will hold them to that no doubt.

Q201 **Derek Thomas:** I do not think you have answered the question. You are encouraged, and you see that they are engaged. At what point do you say, "We really need to see this done by then"? Fully transparent standardised cost and charge information: that is a very clear, measurable thing. When do you expect it to be clear and measurable, so you know they have ticked that box, and are maintaining that box?

Chris Woolard: It should follow, broadly speaking, the cycle of mandates that not just the local government pension scheme but all other pension schemes are offering—so you would expect that to flow through. You would expect quite a lot of progress—in fact the bulk of the progress—within about a year. Beyond that, I think certainly over a two or three-year cycle, you would expect that work to be broadly completed; but then of course—I know they don't paint the Forth bridge any more but it is a painting the Forth bridge job, where people have just to have constant renewal around this.

Q202 **Derek Thomas:** Your point earlier, about catching up, is a really fair point. What we are aware of is that there are individuals and savers now that are not being protected, or have not got what will be available in a year's time. Obviously in the process they might not be making the wise choices. I appreciate that you are saying there is real engagement, and there is a real desire to get this right.

Andrew Bailey: It feels slightly different. The whole environment feels slightly different.

Q203 **Chair:** What new news have you got on Provident, for us? In our



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constituencies we know that as universal credit was rolled out they were active, going around the doors, with money. Although on the forms it said 450% interest rates, people were desperate and they were signing up. They have a policy almost of encouraging you to get into perpetual debt by "if you can't pay, take out another debt". We have put this information to you. What action have you taken to stop this behaviour, please?

Andrew Bailey: Let me divide that into two parts. I will get Chris to come in on what we are doing on what we call home-collected credit, and particularly in terms of your point about what we tend to call roll-over credit, which I think is the point you are making.

What we have done—I cannot ask Deborah to do it as she is not the supervisor of Provident, so I will take this one on—we have taken various steps, and most recently you may remember Rachel Reeves wrote to me on the subject of their advertising. I can tell you that there has been a discussion with the chief executive, which has cut that out. Actually, they have not breached any advertising regulations, but there is letter and spirit here. He basically said, "Yeah, it was the wrong thing to do."

Q204 **Chair:** As a result of your action, is Provident going to behave differently?

Andrew Bailey: Let me come to the other part, which I will get Chris to talk about, which is your point about roll-over loans.

Q205 **Chair:** It is not only that; it is about going round seeking to give loans and enticing very poor people with money—literally flicking this money in front of them—for them to sign up, and to come back on those who express any possibility of taking out a loan, till they do. There is that action. Then there is, once you are in the net, how do they keep you in the net?

Chris Woolard: We completed a much bigger piece of work around high-cost credit, which includes things like rent to own and other markets as well.

Q206 **Chair:** Sorry, but my constituents cannot wait for you to do big pieces of work. What are you doing now?

Chris Woolard: We have done it. There are two issues in there specifically about doorstep lending. The first is a clarification of the rules around signing a mandate. By law, you have to give permission for someone to call at your house and effectively offer you a loan.

Q207 **Chair:** If you have not given permission and they just knock on your door, is the loan invalid? Can you just keep the money and not pay it back?

Chris Woolard: Someone can canvass. Someone can clearly come to your door, as anyone can come to your door, whatever they are doing. In terms of the loan, you have to sign over permission to say, "I am happy for this to be collected in the home," and those kind of things. Many firms regarded that as meaning that, once you had signed once, the permission



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lasted forever. We have been very clear that it applies to the individual loan, so they need to do that every single time they lend.

The second thing is about the roll-over practice. People have two options. They can finish paying off the loan they have got and then add something additional, or they can roll it in. Rolling in, for most people, is far, far more expensive than just finishing off one payment and starting a new one. Again, that option has got to be very clearly put to people in those circumstances.

Q208 Chair: What has happened to Provident's workload as a result of your actions?

Chris Woolard: I don't know the exact numbers. I don't know whether Andrew does off the top of his head.

Andrew Bailey: That is a bit shrouded by the other thing that has happened to Provident's workload, which is what they did to it themselves. By their own admission, they shot themselves in both feet.

Chair: So you don't know.

Andrew Bailey: We do know: it has shrunk. If you look over the last year or so, the amount of activity has shrunk. What we are concerned about—this relates to Chris's point—is what happens next. Does it come back again? It is clearly an old industry. Payday lending is quite new, in the Wonga sense, but Provident has been around for a very long time, so this is not a new industry. We are concerned that, although we have seen quite a big shrinkage in the last year or so, it could come back. That is why we are concerned to take these measures.

Q209 Chair: So my constituents are still open to their actions.

Andrew Bailey: Well, it is still in business, yes.

Q210 Rosie Duffield: I am more concerned about this area than about pension investments, because our job is to protect our most vulnerable constituents. Could you explain to someone like me, with no financial background, what kind of teeth you have in comparison with the FSA, whose strapline we see at the bottom of every Wonga or payday loan? How do you regulate this industry in practical terms? If we have constituents who are really vulnerable to these payday loans, what can you do? What do the FSA do? How do you work together? Sorry, that was a big, long question.

Andrew Bailey: What does the FSA do?

Rosie Duffield: Yes, how—

Andrew Bailey: The FSA doesn't exist anymore.

Rosie Duffield: Okay, so you have replaced them.

Andrew Bailey: Yes.

Q211 Rosie Duffield: All right. Let's hope there are ordinary people watching



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who can understand how you might help them.

Andrew Bailey: Let's go through that.

Chris Woolard: It works on a number of levels. Let's take payday lending as a specific example—the Wongas of this world and similar firms that people talk about. First, there is a cap in place, which means that the amount of interest and charges that you pay is capped at 0.8% a day. There is a maximum set of charges that you can incur, which would essentially be no more than double the original principal that you borrowed.

Q212 **Rosie Duffield:** Is that new?

Chris Woolard: That came in four years ago.

Rosie Duffield: Because sometimes we see those adverts that say something like "3,000% interest" in tiny, mini writing.

Chris Woolard: The average in the sector will still quote you 1,500%, because that is the way the APR calculations are set down in European law. Because you are borrowing a relatively small amount of money at a relatively high cost over a short period of time, that is then projected over an annual equivalent, even though the loan is usually only for 14 days.

Q213 **Rosie Duffield:** Do you think most consumers understand that?

Chris Woolard: Most consumers, bluntly, don't understand how APRs are calculated. They are actually quite complex. The value they have is that they give you a very big number that says, "Look, this is going to be expensive." When we look at where the average cost of a payday loan has gone, it is about 1.6 times what you borrowed. If you borrow £100, most people generally pay about £160 by the time they have paid the loan back.

Andrew Bailey: And that is considerably down.

Chris Woolard: That is very, very considerably down, compared with the situation we inherited.

Q214 **Rosie Duffield:** So you are saying that that is due to some of the things you have done.

Andrew Bailey: Yes, definitely. As you may know, Wonga is no longer in businesses.

Chris Woolard: There are then also a number of questions that occur on the supervisory side of the house, which is about how payday lenders have historically assessed affordability. We have taken action there with a number of firms. That has involved them paying back significant amounts of money where they had not done that properly—so paying back those costs to the people who had borrowed from them.

Again, that has caused disruption in the industry and shrinkage in the number of players in the market, because they have not been able to



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meet those standards, basically. There is a range of protections in here. When we look more broadly across the high-cost credit market, in particular—

Andrew Bailey: We should go on to rent-to-own, because that is another big issue.

Chris Woolard: On rent-to-own, there are firms such as BrightHouse and those where you basically walk into stores and buy goods. We have a range of proposals out there that, if the consultation takes effect, would come into force around 1 April. That would extend a similar kind of cap to them about the total costs and charges that you would bear, and also a range of other protections that you would get when you were in store.

Andrew Bailey: I have to say that rent-to-own is one of the most flagrant things that you can find. The idea that if you are on a low income you are going to pay three or four times as much for a washing machine as somebody who is not is pretty scandalous, frankly.

Q215 **Chair:** Can I ask for a report back on Wonga? Where are we with the loan book?

Andrew Bailey: Obviously, as I said, Wonga has gone into liquidation. It is being managed by the liquidator. The loan book is being collected. There has not been any sale of the loan book to date. I am not very surprised about that; it always struck me as rather unlikely that it was going to be sold. The liquidator is collecting. There is a stock of complaints that went to the financial ombudsman. They are now having to be handled as part of the liquidation, because obviously they are claimants on the liquidation. They will be managed through that process en masse, if you like—they have to be managed together, because they are now all claimants on the estate.

Q216 **Chair:** What about the poor? When Grant Thornton came to talk to me about the loan book, they said there is a part of the loan book where people have borrowed and they have standing orders to repay, and that will be run down. Their concern, and mine, was about what was going to happen to the poor who had also been engaged with, or trapped by, Wonga. What is happening to that part of the loan book?

Andrew Bailey: I think what you will end up with is a piece of the loan book that has not been collected. We will be very concerned to see how the decision is taken as to how that is managed, because that is crucial in what approach is taken towards debt recovery.

Q217 **Chair:** Does that mean you will rule out selling it to bailiffs and debt companies?

Andrew Bailey: It is not at that point at the moment, but I imagine there will be some debt management solution for it—

Q218 **Chair:** What do you mean by that?



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Andrew Bailey: There will be a process for seeking to recover the debts. But I can assure you that—

Chair: So it will be sold on.

Andrew Bailey: Well, that decision is yet to be taken. It is an unusual situation, so I do not think you can generalise from what we know about the past.

Q219 **Chair:** Will you tell the Committee before you actually sanction any action?

Andrew Bailey: We can certainly keep you up to date with that, yes. What I would say, however, is that any sale of the loan book will have to meet very stringent conditions in how it is to be managed, because we also regulate debt management companies.

Chair: So most of the loan book is actually going to be recovered.

Andrew Bailey: We will see.

Q220 **Chair:** The issue then is what happens to a minority of that loan book, which is the poor. Given what happens to companies when they go under and interests are sold, surely the more that is recovered by the automatic standing orders and all the rest of it that Wonga managed to persuade their customers to take out, the more lenient we should be about those who are trapped and cannot pay it back, who are the poor.

Andrew Bailey: We agree with that. We all want to see a very careful approach taken to that, which recognises that these are, as you say, almost by definition, people who are vulnerable. We will be very concerned about that.

Q221 **Chair:** So you will come back to us before you sanction any action on the disposal of that part of the loan book.

Andrew Bailey: We will happily keep you in touch. I suggest we keep you and the Treasury Committee in touch with that, as both of you will have an interest in it.

Chair: That would be very good; thank you.

Q222 **Steve McCabe:** I just want to come back to the question about people having access to impartial guidance. Your own report shows that 94% of people accepted the drawdown without getting any guidance and took the annuity or whatever was recommended to them.

I was struck by a case that I came across recently in my constituency. An elderly gentleman had bought an annuity with Aviva and told his wife that she was protected and not to worry if anything happened to him, but when he died she discovered that he had been sold a single annuity, not a joint annuity. I have been trying to figure out how that could have happened, when the gentleman had obviously set out to ensure that his wife would be protected if anything happened to him. I have to conclude that he must have been given a very weak recommendation, or perhaps



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not been given access to any decent guidance at all.

I wonder how many situations like that you come across. It seems to me that that is part of what we are hoping you exist to do something about and to protect people from. This woman has not only lost her husband; she is going to live in poverty and Aviva will be the beneficiary. How is that okay?

Deborah Jones: That is exactly the kind of issue that we will be looking at in our assessing suitability review. We conducted the first phase of it in 2015 to look at advice given; it is not limited to pensions advice, but pensions advice is certainly part of it. It is a broad-ranging review to take a sample—not a deep sample, but a slim sample—across advice to tell us where it is generally suitable, where disclosures are generally good, and where it is weaker. We try to cover independent financial advisers, and we may look at advice within firms.

This time around, we will look at automated advice models as well, so that we can pick up the different types of things that can go wrong—things can go wrong in the advice space, as you say. It is not always advisers setting out to be deliberately unscrupulous and take money; sometimes it is systems that are not properly capturing base information about customers' needs, so firms can be inadvertently and sometimes systematically giving the wrong advice and steering people in the wrong direction.

Q223 **Steve McCabe:** I guess if the only guidance you get is a form that drops through the post with quite a few pages of small print, and you inadvertently tick the wrong box—

Andrew Bailey: It would be useful to know when he was sold that annuity and which regime was in force at the time.

Chris Woolard: More broadly, there are routes that people can take to complain if they think they have been mis-sold something. If you let us know the exact circumstances, we can see what the lady's circumstances are.

Steve McCabe: Thank you.

Chair: Thank you very much. We have a lot of correspondence to follow up on, haven't we?

Andrew Bailey: There are some people behind me who may regret that. I just sign up to things.

Chair: Well, they are smiling now. Thank you very much.