

Rt Hon Sir Stephen Timms MP
Chair of the Work and Pensions Committee
House of Commons
London
SW1A 0AA

23 September 2022

Our Ref: C220801F

Dear Sir Stephen,

RE: Oral evidence to the Committee on 8 June.

Thank you for your letter of 22 June following my evidence session with the Committee on 8 June. Please accept my sincere apologies for the length of time it has taken for us to respond to your letter. You asked for further details on comments I made during the session which I have provided below.

- 1. You said it would be important to see what effect the stronger nudge has through the data. When will you do this? What data will you use? How will you assess the 'value of the intervention' and the success of the policy?*

We are working closely with the Money and Pensions Service (MaPS), alongside the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR), to understand the impact of the Stronger Nudge on consumers. This will primarily utilise MaPS' Pension Wise take-up data, which MaPS publishes quarterly on its [dashboard](#). The take-up data for Q1 2022/23 (April-June 2022) has been published, but only includes one month of the Stronger Nudge rules being in force. We expect the take-up data for Q2 2022/23 (the first quarter where the Stronger Nudge rules have been in force throughout) to be published in October, to provide more valuable insight on the early impact of the Stronger Nudge.

We also collect retirement income data that show the number of contract-based pension plans accessed for the first time with Pension Wise guidance. We publish this [data](#) - from all regulated firms that provide retirement income products - annually as part of our Retirement Income Market Data. We will publish the next data set shortly, although this will not include any period during which the Stronger Nudge rules have been in force.

Together, these data sets will give us a better understanding of the success of the policy, specifically whether the intended outcome of greater take-up of Pension Wise appointments is being achieved.

- 2. You said feedback to your consultation was that an earlier nudge might also be beneficial and that you were considering the potential for further developments (Q154). Is it your view that an earlier nudge would be more effective? What options for future development are you considering, given that the timing of the stronger nudge is in legislation?*

The nudge as required by legislation comes at a point in time when the consumer has made a decision to access their pension. The idea of an earlier nudge received most support from respondents to our consultation on our Stronger Nudge to pensions guidance ([CP21/11](#)) in relation to the question of what is needed to deliver greater take-up of guidance. As we noted in

the consultation paper, this was also supported by findings from the MaPS trials, which found that take-up of guidance was significantly greater amongst those still exploring their options, compared with those that called to ask for a specific decumulation option.

[Feedback to our Call for Input on the Pensions Consumer Journey](#), published jointly with TPR, which explored how best to engage consumers throughout their pensions journey so they can make informed decisions leading to better pension saving outcomes, has built our understanding of this further. There was broad consensus among respondents to our call for input that engagement could be improved if there were interventions earlier in the consumer journey, for example, communication with consumers when they have not yet made up their mind about what action they want to take.

The timing of the Stronger Nudge is set out in the Financial Guidance and Claims Act 2018 and our current rules deliver against that requirement, which Parliament has set. However, it is important to note that the Stronger Nudge represents a minimum requirement – firms can deliver additional nudges to guidance earlier in the consumer journey if they wish. Our rules already contain requirements for firms to signpost Pension Wise guidance at various points of the consumer journey (for example in wake-up packs or when communicating with a client to encourage them to think about their options to access pension savings). As noted in the joint Feedback Statement to the Pensions Consumer Journey Call for Input at this stage, we do not think proposing new prescriptive rules is the right approach – we think this is best left to firms to consider the most appropriate way of supporting consumers in their decision-making.

We have recently introduced the New Consumer Duty (NCD), which requires firms to act to deliver good outcomes for retail consumers and to put consumer needs first. Consistent with the outcomes-based approach in the NCD, we believe that further prescriptive rules on this are not necessarily the right approach, and that firms should tailor their communications based upon their consumer base. Industry has a key role – and we remain open to discussions with industry if they are considering more innovative ways to engage consumers at different stages of their pensions journey.

- 3. You told the Committee that you needed more data to understand: i) the circumstances of people in their fifties who are drawing down their pension saving faster than expected; and ii) whether the definitions of guidance and advice need to change. When do you expect to have clarity on these issues?*

The question related to (i) was raised in the context of the pandemic-driven increase in the number of over-50s bringing forward their retirement plans identified by the Office for Budget Responsibility. We will shortly be publishing our Retirement Income Market Data covering the period from 1 April 2021 to 31 March 2022 which should help inform our understanding, although there are limits as to how much insight it can provide specifically on this issue. For example, while it will provide us with data on the number of contract-based pension pots accessed for the first time and the size of those pots, it will not provide information on an individual (as opposed to a pot) basis – as this data is not available.

We are highly cognisant of the changing economic environment and the impact that this may have on consumers deciding to access their pension savings – so any changes that may be seen are unlikely to be linked solely to the pandemic.

In relation to (ii), we recognise concerns over the number of consumers accessing advice and support. Industry stakeholders have raised issues with the functioning of the advice/guidance boundary, including calls to change the definitions of guidance and advice.

We continue to believe that there is more that firms can do within the existing framework, but recognise that there are broader issues to be resolved too. To understand the scope for improvements under the current regime we are working with a number of trade bodies, including the ABI, to understand the practical difficulties caused and whether there is scope for greater

support to consumers within the existing legislative definitions through any regulatory change or guidance.

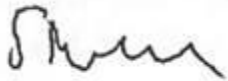
As I said in my evidence, the advice/guidance boundary is there for a good reason, to protect consumers. We want the market to deliver good outcomes for consumers and will use our industry engagement to consider the need for any wider reform.

As part of our Consumer Investments Strategy we are exploring regulatory changes to enable firms to provide more sales and support services to mass market consumers investing in straightforward products like stocks and shares ISA wrappers and will be publishing a consultation paper on this before the end of the year. The approaches that we intend to outline then may provide wider learning that could be used in the pensions space.

In addition, we provide ongoing support through our Innovation Hub to help firms pilot innovative business models. We work with firms to help them understand the advice perimeter and how this will apply to the models they are developing.

I hope that this is helpful. I apologise for the delayed reply.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Sarah Pritchard', with a stylized, cursive script.

Sarah Pritchard
Executive Director, Markets



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Sarah Pritchard
Executive Director, Markets
Financial Conduct Authority

From the Chair

22 June 2022

Dear Sarah

Thank you again for your oral evidence to the Committee on 8 June. We would be grateful if you could provide us with more detail on the following points:

- You said it would be important to see what effect the stronger nudge has through the data. When will you do this? What data will you use? How will you assess the 'value of the intervention' and the success of the policy?
- You said feedback to your consultation was that an earlier nudge might also be beneficial and that you were considering the potential for further developments (Q154). Is it your view that an earlier nudge would be more effective? What options for future development are you considering, given that the timing of the stronger nudge is in legislation?
- You told the Committee that you needed more data to understand: i) the circumstances of people in their fifties who are drawing down their pension saving faster than expected; and ii) whether the definitions of guidance and advice need to change. When do you expect to have clarity on these issues?

We would be grateful for a response by Wednesday 13 July.

Yours sincerely,

Rt Hon Stephen Timms MP
Chair