Phoenix Group – Supplementary written evidence (SCG0066)

It was a pleasure to appear in front of your committee. I wanted to once again thank you for the kind invitation.

I am following up on three points which were raised during the session, which I hope will substantiate my verbal evidence.

Pensions fund capital deployment

In my evidence I alluded to the UK's asset allocation, particularly in relation to productive and alternative assets. The UK has the second largest pool of long-term capital after the US, with £6trn in pensions and insurance assets. However, the asset allocation of UK pension funds is an outlier when compared with other major pension markets. We significantly underinvest in 'alternative assets', which translates to investment in growth equity, and social and economic infrastructure, such as housing and energy.

Market	Equities	Bonds	Alternatives	Cash
Australia	51%	14%	24%	11%
Canada	31%	25%	43%	2%
Japan	25%	56%	14%	4%
Netherlands	27%	46%	23%	4%
Switzerland	30%	32%	34%	4%
UK	26%	58%	14%	2%
US	46%	34%	18%	2%
Average (P7 nations)	42%	36%	20%	3%

Data: Thinking Ahead Institute, Global Pensions Asset Study 2024

Last year Phoenix commissioned the Pensions Policy Institute to conduct a deep-dive analysis into pension fund investment in the UK. It found UK allocation to non-listed, or 'alternative assets', was just 6%, significantly less than the Global Pensions Assets Study found.

International comparisons

You and Lord Sharkey asked about wider international comparisons. In their recent report, New Financial identified jurisdictions which include a specific growth or competitiveness element, and are comparable global financial hubs:

- Australia: ASIC - '…promote strong and innovative development of the financial system'
- Hong Kong: HKMA - '…helping to maintain Hong Kong's status as an international financial centre'
- Japan: JFSA - '…promotion of vibrancy' of markets
- Singapore: MAS - '…to promote Singapore as a dynamic international financial centre'

- Switzerland: Finma - '…promoting the reputation of the financial marketplace…serve to enhance the competitiveness and future viability of Swiss financial centre'
- US: CFTC - '…promote … the vibrancy of the US derivatives markets through sound regulation'.

We believe these examples of well-regulated jurisdictions demonstrate how growth can be embedded into regulators' mandates. However, we do note that objectives per se are insufficient in changing a culture of a regime which has hitherto focused on consumer protection and financial stability.

Regulatory innovation through the use of sandboxes, which allows for the safe development of products, is a key way regimes can keep pace with innovation. Sandboxes can allow regulation to organically change over time, potentially leading to a more autonomous regulator and less government intervention. We strongly support the use of these mechanisms as a growth tool for the sector and enabler of wider economic activity.

- Academic comparison of UK, Aus, Singapore, Hong Kong sandboxes Regulatory Sandbox and InsurTech: A Preliminary Survey in Selected Countries by Christopher C. Chen :: SSRN
- Singapore Overview of Regulatory Sandbox
- Australia Enhanced regulatory sandbox (ERS) | ASIC
- Hong Kong Insurance Authority - Promotion of Insurtech development
- Switzerland Digitalisation of the financial sector

Financial advice and harm to customers

Lord Grabiner asked for further examples of where our regulatory regime on advice can lead to poor customer outcomes. I have compiled some of the most common cases we see across our business. This is not an exhaustive list.

- **Restricted customer information**: not being able to ask customers what other pension assets/savings they have. This means that an action that could be perfectly reasonable in a wider context e.g. full encashment of a pension pot which is small in the context of wider savings, may not be considered appropriate under the narrower view of one provider – more below. Our binary system results in either a full fact-find and personal recommendation (under advice rules), or generic information provision. This is a consequence of the regulatory approach to providing advice. Most savers do not want, or are unable, to pay the cost of financial advice, meaning the majority of savers are left with generic information to make a series of one-off decisions that could have a substantial impact on their standard of living in retirement. Moreover, not understanding the full financial picture of a customer makes it harder to innovate and create the right products which optimises the management of their wealth.

- **Encashment:** a provider is limited on its ability to personalise information if a customer is seeking to fully encash their pension. This could lead to a significant tax bill and potentially the savings being eroded by inflation if they are not reinvested.
- **Lack of intervention powers**: not being able to intervene if a customer is drawing down their pension at an unsustainable rate.
- **FCA targeted support proposals (CP24/27):** the joint work between the FCA and HMT on targeted support is very welcome. The issue of insufficient support for savers throughout the savings journey, but particularly at retirement, has been known for many years. The current binary approach of either full financial advice or generic information is insufficient and is actively causing harm to consumers. Targeted support can create a middle route that allows providers to support savers in making better decisions about their retirement. We are strongly supportive of the work being conducted and view it as a key opportunity to prevent harm and promote better outcomes.

Please do revert if you need any further clarification on any of the points above. I look forward to the findings of your inquiry.

29 January 2025