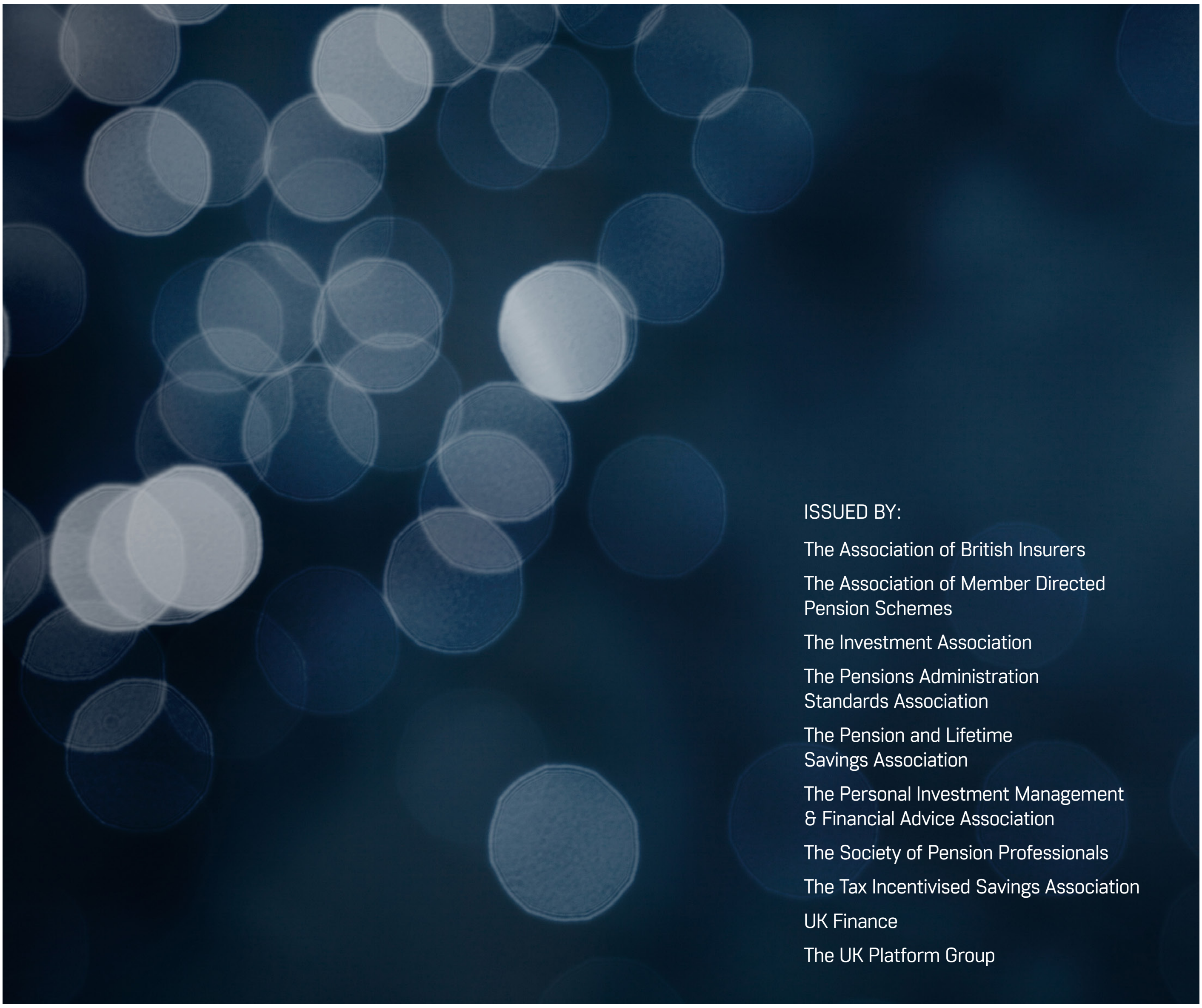
10.08.17

PROGRESS UPDATE: IMPROVING PENSION AND INVESTMENT TRANSFERS AND RE-REGISTRATIONS



ISSUED BY:

The Association of British Insurers

The Association of Member Directed Pension Schemes

The Investment Association

The Pensions Administration Standards Association

The Pension and Lifetime Savings Association

The Personal Investment Management & Financial Advice Association

The Society of Pension Professionals

The Tax Incentivised Savings Association

UK Finance

The UK Platform Group

CONTENTS

INTRODUCTION

BACKGROUND

The UK investment and pensions industry is responsible for the management of over £3 trillion of assets,[1] and estimates based on a cross section of aggregated data sources suggest that there are over 60 million individual policies and accounts in the UK.[2] These assets are serviced by a broad range of financial services firms and organisations.

The prevalence of transfers and re-registrations has increased over the last 20 years, due to increasing numbers of individual savings accounts (ISAs) and pensions as well as a widening choice of services, including online investment platforms. With recent developments such as auto-enrolment increasing the number of pots under management, more options available to customers as a result of the freedom and choice reforms, and possible future developments (such as customer data becoming available through pension dashboards), this issue is likely to become even more important.

When moving investments and assets between institutions, investors have a legitimate right to expect the financial services industry to execute their instructions in a timely and efficient manner. Furthermore, consumers' service expectations are increasing due to the relative simplicity of switching in other markets.

In February 2016, eight of the leading investment and pension trade associations established the Transfers and Re-registration Industry Group (TRIG) to drive forward best practice in transfers and re-registration of customer assets.[3]

This initiative was prompted by the findings of a Financial Conduct Authority (FCA) Business Model and Sector Analysis on SIPP and Platform providers in 2015,[4] which identified potential issues with both the timeliness and quality of communication for transfers and re-registrations. The TRIG's goal is to improve the customer experience without prescriptive regulatory intervention. However, we would anticipate that if this initiative is seen to be unsuccessful, then there is a likelihood of intervention from the FCA in the future, in relation to the firms they authorise.

During 2016, the TRIG conducted a series of workshops and a scoping exercise. This exercise looked at the institutions involved in the transfers and re-registration landscape, customer expectations, and the product wrappers and assets within the retail investment and pensions market. This enabled us to better understand the scale and complexity of the challenge, which covers a total of 549 different processes.

After this scoping process, a consultation paper was published in December outlining five proposals to improve the process of transferring pension and investment assets.[5]

Following feedback received in December at a stakeholder session regarding the challenges facing occupational schemes in particular in relation to transfers, the Pensions Administration Standards Association (PASA), the Pension and Lifetime Savings Association (PLSA) and the Society of Pension Professionals (SPP) were invited to become involved in the project.

Submissions for the consultation paper closed on 31 January 2017. A total of 44 responses to the consultation paper were received from various stakeholders across the retail investment and pensions industry. The consultation process generated a large number of responses from platforms and GPP providers, as well as some off-platform SIPP providers, custodians and fund managers. We did not receive a large number of responses from organisations in the occupational pensions sector, whose future engagement will be critical for success. Please note that the analysis of submissions reflects the percentage of respondents that expressed a particular view, but has not been weighted by market share. A full list of respondents can be found in Appendix A.

The TRIG has discussed the outcomes of the consultation process with the FCA, the Department of Work and Pensions (DWP) and the Pensions Regulator (tPR). Last month, the FCA welcomed the Improving Pension and Investment Transfers and Re-registrations Consultation Paper in its Investment Platforms Market Study Terms of Reference.[6]

[1] http://www.theinvestmentassociation.org/assets/files/research/2016/20160929-amsfullreport.pdf, pages 37 (UK Pensions Landscape) and 76 (UK Authorised Funds).

[2] This includes data from the Pensions Regulator, the Financial Conduct Authority, Her Majesty's Revenue and Customs and members of the Association of British Insurers.

[3] The Association of British Insurers (ABI), The Association of Member Directed Pension Schemes (AMPS), The Association of Professional Financial Advisers (APFA), The British Bankers' Association (BBA), The Investment Association (IA), The Tax Incentivised Savings Association (TISA), The UK Platform Group (UKPG) and The Wealth Management Association (WMA). In June 2017, APFA and WMA merged to form the Personal Investment Management & Financial Advice Association (PIMFA). In July 2017, the British Bankers' Association merged with five other trade bodies to form UK Finance.

[4] Transfers of bank accounts or Cash ISAs are not within the scope of the initiative, as these transfers have already been subject to a recent review and improvement of market practice.

[5] https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2016/pensions/transfersandreregcp.pdf

[6] https://www.fca.org.uk/publication/market-studies/ms17-1-1.pdf

PROPOSAL 1 - CREATE CLEAR SERVICE EXPECTATIONS FOR PENSION AND INVESTMENT TRANSFERS/RE-REGISTRATIONS

The TRIG proposed that organisations adopt a maximum '48 hour standard' for completing each of their own steps in a transfer or re-registration process. This approach would enable each counterparty in a process to be equally accountable for ensuring that an efficient transfer and re-registration process is in place.[7] Similarly, organisations will not be accountable for the underperformance of counterparties that are outside of their control.

This 48-hour window would comprise two business days, with a 'business day' defined as a day when the London Stock Exchange is open. Each firm would process its step by 17:30 of the second business day following the day of receipt.

For the purposes of measurement, each step in the process would begin at the point that an organisation can begin processing, rather than when the organisation does start processing. Similarly, each step would be deemed complete at the point when the relevant communication has been sent to the consecutive counterparty, to enable it to commence the following step.

Counterparties would be allowed exemptions in the case of legitimate delays. This could include the need for due diligence (eg. for scam and money laundering prevention), legislative requirements for people to take financial advice, or where a specific asset requires more than 48 hours to be encashed.

CONSULTATION FEEDBACK

There was broad support for the proposal that the industry should introduce a standard for completing each step in a transfer and re-registration process, with 64% of respondents supporting this proposal, and only 14% against.[8] However, responses were often unclear as to the level of support for the proposal, and in many instances the same issues or barriers were raised by both 'yes' and 'no' respondents.

The principal point of debate on the proposed new 48 hour standard for each step was whether it will assist the delivery of an improved end to end outcome through increasing accountability or simply provided a means of accepting and excusing a lengthy process.

Many of the respondents focused on the practical difficulties of designing and implementing the 48-hour standard, outlining the numerous product and process variations, the number of counterparties, and the large number of possible exemptions.

Others felt that the 'steps' approach would not incentivise organisations to minimise the number of steps (ie. through insourcing), or to minimise time sending material through the post.

A number of respondents also, pressed the need for the industry to implement an end to end timeline. Roughly 60% of respondents supported setting end to end targets for transfer and re-registration processes instead of, or as well as, the 48-hour standard, although it was unclear how this might be achieved across the board.

In total, 64% of respondents supported the introduction of a standard for completing each step in a transfer and re-registration process and 60% of respondents supported the introduction of end to end targets.

[7] For this approach to work a standard industry understanding of what constitutes a 'step' in the process is required. The TRIG's proposed definition of all steps is 'the execution of a complete instruction received and the dispatch, where necessary, of the next complete instruction'.

[8] A further 21% of responses did not express a clear preference.

PROPOSAL 2 - PUBLISH SERVICE LEVEL MANAGEMENT INFORMATION

This proposal focused on whether the industry should develop a common reporting mechanism for all transfer and re-registration processes, in the absence of standardised or regular publication of management information (MI) of all investment and pension transfer and re-registration service levels.

The consultation proposed that each participating organisation would maintain MI which would include: the total number of transfers and re-registrations they have handled, the number of times they have completed a step in the process and the percentage of these steps completed within the 48-hour standard.

The paper proposed that the relevant organisations' MI could be published on their websites and in their marketing materials and also be made available upon request. The consultation paper proposed that industry level MI would be collated by the governance body, and sought feedback on whether this MI should be made available to industry, regulators and the public, and in what form.

Receiving parties would also be required to collect and submit MI on the end to end timeline for transfers and re-registrations so that the industry as a whole could monitor timelines, but this information would only be provided to third parties on an aggregated basis.

A best practice kite mark was also proposed as a means of signaling firms' commitment to improving their customers' experience in this area.

CONSULTATION FEEDBACK

There was broad support for the proposed service level reporting, with 84% of respondents agreeing with the approach. However, in most cases, respondents qualified that support with the need for a number of factors to be considered including the need to ensure any comparisons were "like-for-like".

Opinions were fairly evenly divided between those who supported sharing MI only with participating firms (in some cases, only on an aggregated basis), those who supported sharing MI with the sector and regulators, and those who believe that MI should be available to all stakeholders. However, those who supported MI being available to the public mostly thought this should be aggregated at the sector level.

There was also a fairly even split between those who favoured a kite mark at 45% and those who did not at 40%. The main argument against investing in a kite mark was that it is unlikely to gain customer recognition.

Whilst 40% of respondents agreed that reporting should be in place by the end of March 2018 and then published by the end of October 2018, a further 30% of respondents felt this timeline was not realistic.

In total, 84%
of respondents agreed with the proposed approach to service level reporting.

PROPOSAL 3 - ADDRESS SIGNIFICANT PROCESS IMPROVEMENT OPPORTUNITIES

The scoping process suggested a number of issues that contribute to delays in transfer and re-registration processes. Proposal three focussed on addressing these issues, including quick wins to speed up processes such as the removal of cheques from the transfer/re-registration process and improved payment mechanisms.

The consultation proposed the creation of a programme to identify, prioritise and implement solutions to resolve transfer and re-registration issues, through the establishment of a practitioner forum.

Respondents were broadly supportive of the industry taking a collective approach to addressing known barriers, with

90%

of respondents supporting this suggestion.

CONSULTATION FEEDBACK

Respondents were broadly supportive of the industry taking a collective approach to addressing known barriers, with 90% of respondents supporting this suggestion.

Some felt that a practitioner forum would be a suitable method of achieving these aims, although respondents raised concerns about how these would interact with existing forums and services, as well as who would sit on this group.

Respondents expressed mixed views regarding whether ‘quick wins’ should be the initial focus rather than other more complex but higher priority issues. Higher priority issues proposed by respondents included: greater use of automation; standardised documentation; the need for interoperable solutions; industry standard service level agreements, and governance.

Respondents also identified a number of actions or quick wins that could be taken to improve transfers and re-registrations, some of which overlapped with the ‘high priority’ issues above. Themes identified by respondents included: standardised documentation; greater scrutiny of current performance; uptake of existing solutions, drawing on existing forums, and the removal of wet signatures from processes.

The majority of respondents agreed that the initiative should aim to improve payments, with 82% wanting to remove cheques by March 2018. However, a number of respondents also flagged concerns regarding whether this timeline is achievable.

PROPOSAL 4 - CREATE COMMON INDUSTRY STANDARDS AND GOOD PRACTICE GUIDELINES

Industry standards and good practice guidelines provide a mechanism for different providers to maintain an agreed means for communicating with each other and their customers. In most mature industries, standards are developed in order to assist efficiency, competition, transparency, and comparability.

The consultation proposed to create common, independent standards that can be used across all parts of the industry. This does not mean that there needs to be a single standard developed for all types of transfer and it would likely mean that different standards are required for different processes. However, the industry should seek to avoid developing standards that either duplicate or overlap existing protocols.

The consultation paper also set out two different options for the implementation of standards: an interoperable, multi-supplier model or a utility model. The paper set out the TRIG's assessment of the strengths and weaknesses of these delivery models and sought views on the completeness of this analysis. It also sought respondents' views on their preferred delivery model.

Additionally, the consultation also sought feedback on which current standards development activities should be considered as part of this proposal, and whether other industry standards should be aligned with this initiative.

Respondents expressed overwhelming support for the development of one set of industry standards, with

95%

of respondents agreeing with this approach.

CONSULTATION FEEDBACK

Respondents expressed overwhelming support for the development of one set of industry standards, with 95% of respondents agreeing with this approach. However, respondents emphasised the need to align existing standards, rather than starting with a blank slate.

There was a widely held view that the development of standards should be professionalised (ie. not reliant on volunteers) and truly independent of suppliers.

In relation to UKETRG, respondents expressed frustration with the high frequency of changes, the lack of documented business cases, the communication of the rationale for changes and the TeX process for mandating the use of ISO standards.

There was also a desire for standards to be freely available to all, on the basis that this would help to ensure a level playing field that is open to new solution providers. However, we are aware that professionalised, independent standards come at a cost, and there was limited recognition of this fact within responses.

In relation to the delivery of standards, most respondents preferred the interoperable, multi-supplier model, with 67% of submissions expressing a preference for this approach. A number of respondents believed that more competition would lead to greater innovation, and cost reductions for users. Freedom of choice for firms to use a provider that suited their operations, and the cost of providers moving away from their current services, were other reasons cited for support for the interoperable, multi-supplier model.

A concern raised by respondents in relation to the utility model was the key dependency risk it posed, and some respondents felt that re-tendering would be difficult to implement in practice. Only 14% of respondents preferred the utility model.

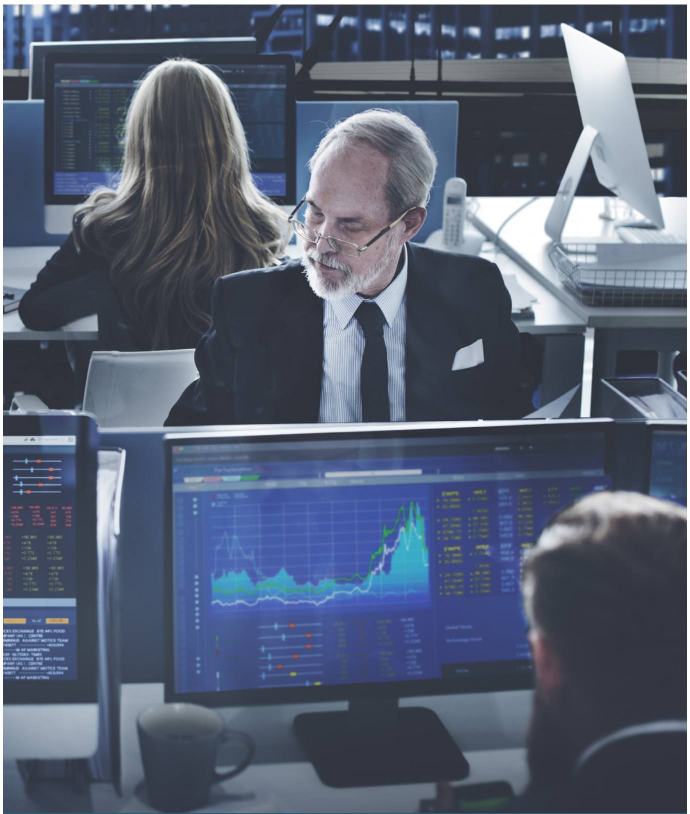
Users of TeX highlighted that its introduction has dramatically improved ISA and general investment account transfers. Additionally, a number of respondents highlighted that Origo provides an excellent service for pensions transfers. However, some respondents wanted Origo's Options service to be more interoperable with other transfer and re-registration solutions.

One of the main concerns flagged by a number of respondents was the need to be mindful of the cost of changes to the industry.

PROPOSAL 5 - INTRODUCE AN INDEPENDENT GOVERNANCE AND OVERSIGHT BODY

Prior to the formation of the TRIG, there was no forum which included stakeholders from across the whole retail investment and pensions industry. There are, however, a number of other existing standards and governance bodies, some of which have strong support from parts of the sector.

This proposal suggested the creation of a new governance and oversight body to oversee this cross-industry initiative and its recommendations. This new governance and oversight body would be resourced and funded by the sector as a whole and be responsible for implementing proposals 1-4 of the TRIG consultation as well as managing stakeholder communications.



Only

42%

of respondents supported the creation of a new independent governance body, and a further 26% of respondents did not support the proposal.

CONSULTATION FEEDBACK

Overall, support for the creation of a new independent governance body from respondents was weak: this received the support of only 42% of respondents, and a further 26% of respondents did not support the proposal.

Those supporting the proposal see a new independent body as necessary to drive up standards through competition; to collect management information and to oversee the development and maintenance of industry standards. Some who supported the creation of a new body noted that their support was conditional on the implementation of the 'interoperable, multi-supplier' delivery model for standards.

A significant minority of respondents across a range of stakeholders believed that the proposal is premature and that more information is required on the proposed remit of the body and how it would operate alongside regulators.

Assuming sufficient support could be mustered for the independent governance body, there were mixed views on how the body should best be constituted and what impact this should have on existing re-registration and transfers bodies. Less than half of respondents answered the question about whether any existing body could perform this role, and views from industry varied on which organisation would be best-placed to do this: common answers included TeX, Origo and the regulators. The Pensions Administration Standards Association was not mentioned by respondents, although this may reflect the small number of submissions received from organisations in the occupational pensions sector. Some respondents also noted that both TeX and Origo are perceived by some in the industry of not being representative of their interests.

Both TeX and Origo offered to review their structure and governance framework during this process.

NEXT STEPS - CREATING CLEARER SERVICE EXPECTATIONS AND PUBLISHING MANAGEMENT INFORMATION

We acknowledge that some 'steps' will need to be exempted from the 48 hours process and that there are a number of legitimate reasons why a transfer should be stopped, not least in cases of suspected fraud. The consultation responses highlighted a number of practical and legislative constraints for some individual steps, and we would like to explore these further with stakeholders at the August workshops.

In principle, the group remains committed to the 48-hour steps, as the best way of improving overall standards in the short term across all transfers and re-registrations, and of gaining some insight into where some of the issues with transfers and re-registrations might be arising.

However, we also recognise that the 48 hours could be more ambitious and that those using some solutions will almost always be meeting this standard already (and often exceeding it) for most steps.

We still believe that, in the short term, an end to end timeline for all types of investment and pension transfers and re-registration transfers will not be achievable across the sector. However, stakeholders including the FCA have pushed us to consider when this is achievable for subsets of transfers between FCA regulated firms, and we will give this further consideration.

We will also encourage receiving firms to provide 'best practice communications' to customers, as set out in Annex D of the consultation paper.

The group is not looking to progress this initiative within the initial timelines, due to concerns raised about the time required for systems changes and contract variations for Service Level Agreements where administration is outsourced, and competing pressures, particularly the implementation of MiFID II. We are reconsidering the implementation timelines, and will consult further with stakeholders around what is achievable.

The group intends to proceed with the proposal to collect granular MI, albeit on a delayed timeframe. The information will not be made available to third parties until data providers are confident about the quality of the management information. The group recognises that this will take some time, and also that it would not be appropraite for the TRIG to take on this function.

In addition, the group will consider possible means to collect and aggregate the following high level data on an annual basis from all organisations involved in transfers and re-registrations in order to inform future improvements:

- The number of transfers in and out, or transferred/ reregistered (if intermediate counterparty)
- The value of transfers in/out, or transferred/reregistered (if intermediate counterparty)
- The average end to end timeline in/out for ceding and receiving parties

Organisations could also be asked to respond yes or no to the following two questions:

- Do you provide more granular data to the 'improving transfers and re-registrations' initiative?
- Do you use electronic solutions, and if yes, which?

This would help to give the industry a sense of the overall timeliness of transfers, including those organisations who have not signed up to the initiative.

The group will not proceed with the Kite Mark proposal.

NEXT STEPS - ADDRESSING PROCESS IMPROVEMENT OPPORTUNITIES, CREATING COMMON INDUSTRY STANDARDS, AND INTRODUCING AN INDEPENDENT GOVERNANCE AND OVERSIGHT BODY

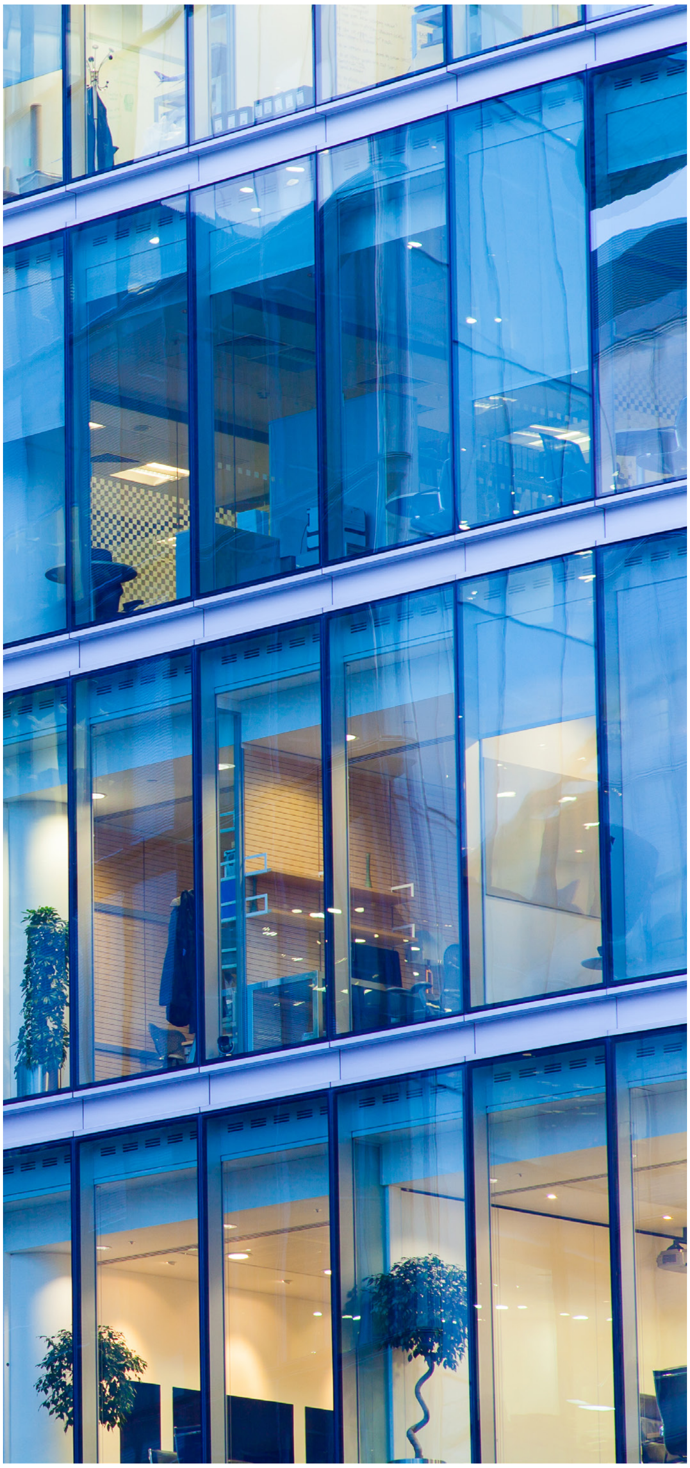
The group recognises the desire amongst respondents for a more collaborative approach across the sector to the funding, development, and maintenance of standards, which will be critical to delivering long-term improvements to transfers and re-registrations.

The issue of cross-industry standards governance is also being considered within the Pensions Dashboard Project and UK Fund Trading and Settlement initiative.

These cross-industry projects offer an opportunity to reconsider the current governance and structure of industry standards, as well as future cross-industry projects. However, there is a question regarding whether any multi-purpose standards and governance structure would be desirable and practical, and if so, which parts of the industry should be considered in scope.

Our view is that the Transfers and Re-registration Industry Group does not have the authority or the technical understanding of the various processes at present to make firm recommendations on this issue. Our sense from the responses is that it would be more appropriate to look to an existing organisation, or organisations, to take on these roles, rather than create a new organisation in an already crowded landscape.

However, the Group feels that any changes to these organisations would need to be led by the users (and funders) of these services themselves.



ANNEX A: SUMMARY OF RESPONDENTS

- 7IM
- Actuare
- Aegon
- AJ Bell
- Altus
- Aviva
- B & CE
- BNY Mellon
- Calastone
- Capita
- Curtis Banks
- DP Pensions
- Euroclear
- Fidelity
- FNZ
- Hargreaves Lansdown
- IFDS
- Interactive Investor
- Investec
- James Hay
- LGIM Workplace DC Pensions
- LGIM
- LV=
- Michael J Field Consulting Actuaries
- Old Mutual Wealth
- Origo
- Parmenion
- PensionBee
- Pershing
- PLSA
- Prudential
- Royal London
- SPP
- Standard Life
- TeX
- The Association of Pension Lawyers
- The Financial Services Consumer Panel
- The Pensions Advisory Service
- The Share Centre
- TISA
- Vanguard
- Yorspipp
- Zurich

In addition, we received one anonymous response to the consultation.