



## RETIREMENT OUTCOMES REVIEW: INVESTMENT PATHWAYS AND OTHER PROPOSED CHANGES TO OUR RULES AND GUIDANCE

Issued 28 March 2019

ICAEW welcomes the opportunity to comment on the *Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance* published by FCA on 28 January 2019, a copy of which is available from this [link](#).

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## GENERAL COMMENTS

1. More measures are needed to encourage non-advised customers to make more active and better informed decisions on how their maturing defined contribution pension pots should be invested. We believe that investment pathways generally represents a positive development in this regard.
2. The proposals set out in the consultation seem sensible. However, we have identified a number of practical aspects that we believe will need further consideration moving forward.
3. More thought is required to consider how investment pathways will dovetail with financial guidance and generic advice so the consumers using investment pathway solutions will be able to make fully informed decisions on which specific pathway is most appropriate for their particular circumstances and risk appetite, which may change over time. Detailed guidance will be required to make it clearer where the regulatory boundaries fall, communicated in straightforward terms using practical case study examples. If such guidance is not forthcoming professional advisers that do not hold FCA authorisations are likely to be nervous to have conversations with clients to help explain in generic terms what investment pathways involves.
4. The introduction of investment pathways may also present challenges for regulated advisers who need to provide a personal recommendation that has to take into consideration an investment pathways solution. This could be problematic when customers hold investment pathways solution/s that were generated by a pathways process that did not incorporate a risk profiling and suitability process but that subsequently needs to be incorporated into a more comprehensive personal recommendation.
5. Customers are likely to hold a number of small pots which is likely to become more commonplace as auto-enrolment pots mature. Straightforward comparability tools will be required so that the respective investment pathways offered by different providers can be easily compared on a like-for-like basis, with access to cost-effective aggregation mechanisms and standardised pension dashboard.

## ANSWERS TO SPECIFIC QUESTIONS

***Question 1: Do you agree with our proposed rules on when a consumer must be offered investment pathways, including how consumers who enter drawdown in stages should be treated, and that those who take an UFPLS are not included?***

6. The proposed rules look generally sensible.

***Question 2: Do you agree with our proposal that all providers of drawdown to non-advised consumers should be covered by our requirements on investment pathways, including SIPP operators?***

7. Yes.

***Question 3: Do you agree with our proposed 4 objectives, and mandating all providers to use our prescribed wording when presenting these objectives?***

8. The 4 proposed objectives seem to have been well considered. We recognise the importance of consistency and simplicity and therefore the need for mandating, and the prescribed wording seems to be aligned to helping achieve the required outcomes.

***Question 4: Do you agree that providers should only be able to offer 1 pathways solution for each investment pathway objective?***

9. Yes.

**Question 5: Do you agree with our proposed rule requirements for the choice architecture, and do you agree that providers can offer investment pathways without giving the consumer a personal recommendation?**

10. Yes.

**Question 6: Do you agree with our proposed rule to prevent providers from offering the same pathways solution for all the objectives?**

11. Yes.

**Question 7: Do you agree with our proposed rules on labelling of pathways solutions?**

12. The approach seems sensible.

**Question 8: Do you agree with our proposed rules requiring larger providers to provide pathways solutions for at least 2 of the 4 objectives and to refer consumers to another provider's pathways solutions for any objectives where they don't provide a pathways solution?**

13. In general terms yes. However we are not a product provider and therefore cannot comment on the practicalities of this proposed solution.

**Question 9: Do you agree with our proposed easement for smaller providers, including our proposals for the operation and level of the threshold for qualifying for this easement?**

14. The approach seems reasonable.

**Question 10: Do you agree with our proposed approach to product governance for firms manufacturing pathways solutions used to provide investment pathways? Do you agree with our proposed approach for distributors?**

15. Consumers need straightforward solutions that are in their long-term best interests and which can generate confidence and trust that their long term best interests are being met. The proposed approach seems to represent a sensible way forward.

**Question 11: Do you agree with our proposed approach for ongoing information to consumers using investment pathways? Do we go far enough, or is there anything further that providers could do to ensure that consumers carefully consider their investment choice on a periodic basis?**

16. The proposals look sensible.

**Question 12: Do you agree with our proposed approach for the records providers should keep?**

17. Good record keeping is important and the proposals seem generally balanced.

**Question 13: Do you agree with our implementation timeline?**

18. We are not a product provider but at face value the implementation seems generally reasonable.

**Question 14: Do you agree with our proposals to ensure cash investment is an active choice?**

19. Yes.

**Question 15: Do you agree with our proposals on the warning about investment in cash that the non-advised consumer will get when they enter drawdown or transfer-in funds in drawdown to a new provider?**

20. Yes.

**Question 16: Do you agree with our proposals on the ongoing warning around investment in cash?**

21. Yes.

**Question 17: Do you agree with our proposed approach for the records providers should keep?**

22. The approach looks generally sensible.

**Question 18: Do you agree with our implementation timeline? In particular, do you agree with our view that these remedies should be implemented at the same time as investment pathways?**

23. Refer to our answer to Question 13. Yes we agree that the timelines should converge.

**Question 19: Do you agree that, in relation to their decumulation pensions, unless charges are built into the disclosed price of the product, consumers should receive information at least annually on all the actual charges they have paid, aggregated and expressed as a cash amount?**

24. Yes. Information needs to be consistent, clear and concise but information overload tends to be counter-productive. However, although the disclosure of costs seems relatively straightforward, anecdotal evidence suggests that consistency in interpretation of the rules around disclosure has become complicated and is presenting a significant issue for the industry.

**Question 20: Do you agree that our rules should require disclosure of transaction costs, but not specify how transaction costs should be calculated?**

25. Yes. Simplicity is important.

**Question 21: Do you agree that firms should disclose the adviser charges paid out of the product, or clarify that adviser charges are not included in the annual pension charges figure they disclose?**

26. Yes.

**Question 22: Do you agree with our implementation timeline?**

27. We are not a product provider but the timelines outlined in this CP seem to be generally reasonable.

**Question 23: Do you have any comments on our cost benefit analysis?**

28. The approach adopted is consistent with the FCA published approach and generally seems reasonable. However, we have a number of observations that, when taking into consideration the nervousness in the market, suggest that the analysis may underestimate the costs and timelines for implementation.

29. The approach to calculate potential costs has categorised some elements of the analysis (such as ongoing cash warnings) as ongoing BAU costs that don't need to be included - it may be prudent that they are.
30. The implementation costs for pathways may be overly tight. Firms may want external assurance that their sales processes do not stray into regulated advice and that solutions are sufficiently aligned to pathways, which may increase costs. This is particularly likely to affect firms that feel the need to introduce new aspects, such as telephony, to their sales channels. This may be influenced by recent regulatory intervention on non-advised sales channels, such as TRASP, which caused significant levels of redress to be due.