Pensions Dashboards: Working together for the consumer

Consultation Response

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Hymans Robertson LLP

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Introduction

Hymans Robertson provides independent pensions, investments, benefits and risk consulting services, as well as data and technology solutions, to employers, trustees and financial services institutions.

We strongly support the Pensions Dashboard initiative. The proposed approach, as laid out in the consultation, acknowledges and effectively balances several considerations:

- Asserting good consumer outcomes as the primary purpose
- Providing enough direction to enable the industry-led delivery (e.g. data standards and security)
- The inclusion of state pension as a critical component of retirement income for most pensioners
- Enabling flexibility for consumers to benefit from industry innovation, through commercial dashboards and value-added services.

As independent consultants in long term savings, we have witnessed first-hand:

- The endemic lack of understanding and engagement that pervades society around retirement provision
- The difficulties that consumers face in assimilating their aggregate position, and the consequent challenge in deciding on an appropriate course of action
- The positive outcomes that emanate from providing an holistic view to the consumer, along with easily understood guidance on options and implications.

We welcome the opportunity to respond to the consultation.

Our industry-leading Guided Outcomes™ analytics technology has transformed thinking in the DC Pension market, evidencing the improvements possible when consumers are empowered to make positive changes in their retirement planning. We have expanded on our experience here in answer to your Question 15 below.

The remainder of this document considers the questions raised in the consultation paper.

Our details

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What category best describes you or your organisation?

Professional Advisers

1 Wider benefits of a dashboard

Question 1: What are the potential costs and benefits of dashboards for:
a) individuals or members?

The potential benefits to individuals are well-researched and described clearly in the consultation document. Consumers today face several challenges in providing appropriately for their income in retirement.

Consumers stand to benefit in two ways:

1) Lack of cumulative understanding is a significant barrier. Access to an aggregated position will provide first-order benefits by making the consumer's situation clear, with easy access to information on multiple pots.

   Our own experience suggests that a clear target, in itself, can motivate positive action. We would expect that the Dashboard launch will be accompanied by a marketing campaign to drive awareness. That again is likely to motivate engagement.

2) Effective support, guidance and/or advice around modest pension saving amounts is hard for consumers to find. The Dashboard will enable alternative commercial models for financial services firms to help them in more cost effective ways.

   It is important that regulators enable different commercial models to flourish for the benefit of consumers. Lack of clarity or too tight regulation will inhibit some of the development necessary for consumers to benefit in the long term.

We do not believe that individuals should have to pay for the Dashboard service. We believe charging would decimate participation.

In short, we see no costs and very material benefits for individuals and members.

b) your business (or different elements within it)?

We foresee both costs and benefits. As an administrator, we would expect non-trivial investment being required in order to integrate with the Dashboard ecosystem. However, seeing the Dashboard succeed will be a positive step and will help to create better financial futures for people, about which we are passionate.

2 Architecture, data and security

Question 2: Do you agree with
a) Our key findings on our proposed architectural elements?
If not please explain why

Yes. We support the proposed architectural approach, notably:

1. The ability to support multiple Dashboards, including a single, canonical, default Dashboard. This provides both a primary point of reference for consumers and the opportunity for industry innovation.

2. The explicit separation of User Interface ("Dashboard") from underlying services.

3. The requirement (para 127) that pension details should not pass through the Pension Finder Service. This is a sensible provision that excludes, by design, the risk that the PFS becomes a point of data aggregation and therefore a significant security target.

b) Our proposed architectural design principles?
If not please explain why.

Yes. Putting the consumer at the heart of the process is critical. Trust is a pivotal requirement in ensuring success of the Dashboard initiative. Understandability, control, consistency and security are pre-requisites to engendering trust.

We would suggest clarification of wording for para 142:

> *There should be no aggregation of the user's information (the storing of data) in any of the components in the dashboard's ecosystem other than by the pension scheme, or an Integrated Service Provider operating on behalf of the provider.*

We interpret this as meaning that member data can be aggregated *only in the scope of a single scheme*. We would support that interpretation and believe it consistent with the principle that pension data should not pass through the PFS.

An alternative interpretation would be that pension schemes and/or ISPs are permitted to aggregate data on multiple schemes for any given member – irrespective of whether the scheme/ISP was responsible for operating said scheme. That would not appear consistent with the aggregation principle applied to PFS or the access provisions in para 143.

Conversely, we would recommend clarity on dealing with returning users. Consider the scenario where a member accesses the Dashboard for the first time. Seven pensions are located through the PFS and presented to the user. It is likely that not all will be definitive matches, requiring some further qualification before confirming. In the strictest interpretation of para 143, that subsequent qualification would be lost when the member logged out. Upon the member re-visiting the Dashboard, the qualification process would need to be repeated. That will inevitably result in user frustration and possibly dropout.

We would highlight the criticality of para 144 (agreeing data standards). The Dashboard initiative will not be successful without an unambiguously defined data standard that is uniformly adopted and implemented without exception.

With these architectural design principles in place, standardised data access and security can be achieved, enabling greater innovation in the user experience.

3 Providing a complete picture

Question 3: Is a legislative framework that compels pension providers to participate the best way to deliver dashboards within a reasonable timeframe?

Yes. The evidence in para 96 & 97 (p24) of the consultation provides strong motivation for legislative compulsion. The time required for compliance - particularly for older schemes - should not, however, be under-estimated (ref. para 98). A phased approach, as outlined in paras 100 & 101, is appropriate.

We strongly believe that legislation will need to be used for the Dashboard to succeed. The Dashboard will only become fully valuable for consumers when they can be confident that it is returning all schemes.

Pension providers have data held in complex legacy arrangements. Providing access will not be straightforward and the commercial business case for enabling this will not always be strong. Legislation will ensure that this becomes a priority for all providers and drastically reduce the timescale before the Dashboard has credible data available to it.

Within the Public Sector all schemes should be included. There are over 15 million members so they should enjoy whatever benefits the Dashboards can offer. Within this question, the key phrase is “reasonable timeframe” as there are currently considerable pressures on those running and administering public sector arrangements.

Question 4: Do you agree that all Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP) should be exempt from compulsion, although they should be allowed to participate on a voluntary basis?

This is not an area of focus for our business so we have no comment.

Question 5: Are there other categories of pension scheme that should be made exempt, and if so, why? Implementing dashboards

No comment.

Question 6: Our expectation is that schemes such as Master Trusts will be able to supply data from 2019/20. Is this achievable? Are other scheme types in a position to supply data in this timeframe?

We agree that the larger Master Trusts should be the earliest adopters in supplying data to the Dashboard. It would be a mistake to view the Master Trust market as a homogenous group that faces similar challenges in meeting a deadline of 2019/20.

We would expect that the responses to this consultation will highlight a wide variance in Master Trusts’ ability to supply data across a meaningful number of customers in that timeframe.

Question 7: Do you agree that 3-4 years from the introduction of the first public facing dashboards is a reasonable timeframe for the majority of eligible schemes to be supplying their data to dashboards?

Yes. Any delay to participation risks consumer disengagement through lack of a cumulative position. However, any less than 3 years is likely to be challenging for old/large/complicated schemes. Systems development is generally planned at least 12 – 18 months in advance so it will take time for appropriate development resource to become available – and Dashboard will be competing with GMP Equalisation for resource.

Data cleansing work is time consuming and there is not unlimited resource available to do it (although it may be required for GMP Equalisation anyway).

For Public Sector schemes it will depend on what information is being submitted. 3-4 years is reasonable for annual benefit statement information but some Public Sector Schemes have raised concerns about including things like projections to normal retirement date. There should be sufficient lead in time to allow schemes to develop and test the processes by which they would provide data.

Question 8: Are there certain types of information that should not be allowed to feature on dashboards in order to safeguard consumers? If so, why? Are there any other similar risks surrounding information or functionality that should be taken account of by government?

The Government will need to monitor the development and usage of the Dashboard to identify security risks and protect consumers at all times. The risks are complex and techniques for exploiting such data are not only sophisticated but will also evolve.

Local Government Pension Schemes (LGPS) practitioners have raised a concern about including CETVs on the Dashboard. As the only Public Sector scheme that allows transfers out to personal arrangements, there is concern that these values may be taken out of context and encourage unwise transfers out.

As such we wouldn't be prescriptive here on what data could be considered safe or unsafe.

Question 9: Do you agree with a phased approach to building the dashboard service including, for example, that the project starts with a non-commercial dashboard and the service (information, functionality and multiple dashboards) is expanded over time?

Yes. We agree that establishing the non-commercial dashboard first can help build credibility, participation and trust. It also provides a pragmatic approach to validating and verifying the core infrastructure. We would again highlight the criticality of data standards.

Question 10: Do you agree that there should be only one Pension Finder Service? If not, how would you describe an alternative approach, what would be the benefits and risks of this model and how would any risks be mitigated?

Yes, for the reasons given in paras 126-128. Given the scope and purpose of the PFS we see little obvious benefit to consumers of alternative commercial PFS implementations. The aggregation risk vector identified is valid and the proposed mitigation approach well-considered. Whether one or multiple, the interface contract for the PFS should be formalised in the architecture. Doing so would enable alternative PFS implementations to be introduced at some later juncture should it become apparent/appropriate to provide choice.

4 Protecting the consumer

Question 11: Our assumption is that information and functionality will be covered by existing regulation. Do you agree and if not, what are the additional activities that are not covered?

We agree that, in principle, the GDPR provides a solid underpinning for the data protection required. We would suggest a more systematic review once the architecture has been confirmed. The value of data generally is increasingly understood with a concomitant rise in agents who seek to exploit it (whether legally or otherwise). Pensions data represents significant financial assets and therefore is particularly attractive to a variety of parties. A specialist assessment of the potential risks, and coverage provided by existing legislation, would therefore seem proportionate.

An appropriate mechanism for ensuring data consistency and uniform compliance will also be required.

5 Accessing dashboard services

Question 12: Do people with protected characteristics, or any customers in vulnerable circumstances, have particular needs for accessing and using dashboard services that should be catered for?

See our response to question 8.

6 Governance

Question 13: The Department has proposed a governance structure which it believes will facilitate industry to develop and deliver a dashboard. Do you agree with this approach? If not, what, if anything, is missing or what workable alternative would you propose which meets the principles set out in this report?

We agree with the approach outlined. The pensions industry already has experience in defining and complying with standards through the Origo standards[1]. More generally, Open Banking has shown that a combined government/industry initiative can be successful.

[1] https://standardsandgroups.origo.com/OurServices/Standards/Standards.aspx

7 Costs and funding

Question 14: What is the fairest way of ensuring that those organisations who stand to gain most from dashboard services pay and what is the best mechanism for achieving this?

There will be many organisations that incur substantial costs in making data available to the Dashboard without any equivalent commercial upside.

It is not obvious how any cost sharing model can be developed that fairly apportions dashboard costs across the industry based on those organisations that are benefiting most from its development.

Within Public Sector schemes, the potential cost of implementing dashboards is a major concern. There is arguably no organisation that stands to gain as members benefit. For the unfunded schemes, the funding for any additional dashboard related activity will ultimately come from departmental budgets. Police and Firefighters' schemes have been quite vocal about their fear that any additional cost will fall directly on front line budgets.

8 General

Question 15: Do you have any other comments on the proposed delivery model and consumer offer?

We would note the following:

1. There is a significant challenge in delivering a successful user experience that drives better outcomes. The consultation puts the consumer at the heart of the process and, as noted previously, we strongly support that principle. Realising a User Experience that delivers on that goal is not to be underestimated. A central question is what the user should see. Our own experience indicates:

    a. Illustrating "pot" values – i.e. the value of each pension – is at best confusing, at worst detrimental to good outcomes. For many people, pension valuations will seem like large sums of money. That can drive at least 2 misconceptions (1) "£100,000! I'm doing great!" or (2) "£100,000! I'll take it all now".

    b. Illustrating projected income, with a representative comparison to current earnings, is much more tangible and indicative of reality.

    c. Projections need to be in terms of today's money to be meaningful

    d. Projection methodology is critical and must be consistently applied across all schemes.

    e. Most consumers do not understand the difference between "Defined Contribution" (money purchase) and "Defined Benefit" (final salary) schemes, nor why it matters.

    f. The decision on what to show will significantly impact the data that needs to be supplied by schemes and/or ISPs.

    We would strongly recommend that consideration is given to this question in finalising the Dashboard specification. We would also note that consistency with existing standards must be considered, such as Statutory Money Purchase Illustrations (SMPI).

    We would be happy to discuss this point further with you should it be of interest.

2. The criticality of data consistency and uniformity as well as security and protection. This is evidenced in the user research (para 80 p21). Para 113(g) notes the importance of data standards whilst para 113(h) advocates the need for flexibility. Whilst we agree the latter can be useful, it must always be in the interests of the consumer. We would strongly suggest a core, minimal, mandatory data set that must be provided in all cases. That dataset should be derived from that required to provide meaningful value to the consumer as noted above.

3. We would note the potential to create a commercial marketplace, accessed via the default dashboard. Doing so could present the consumer with facilitated choice should they wish to move beyond the capabilities of the default dashboard.

4. We understand that the Open Banking initiative is considering extension into standards for long term savings. We would note the importance of avoiding the creation of two separate, incompatible standards.

5. We would urge clarity that revocation of consent must not involve obtuse, obfuscated processes – nor loss of basic functionality (para 143 p32). We would suggest specifically that revocation of consent should not require the consumer to contact the relevant entity outside the Dashboard ecosystem (para 146 p32).