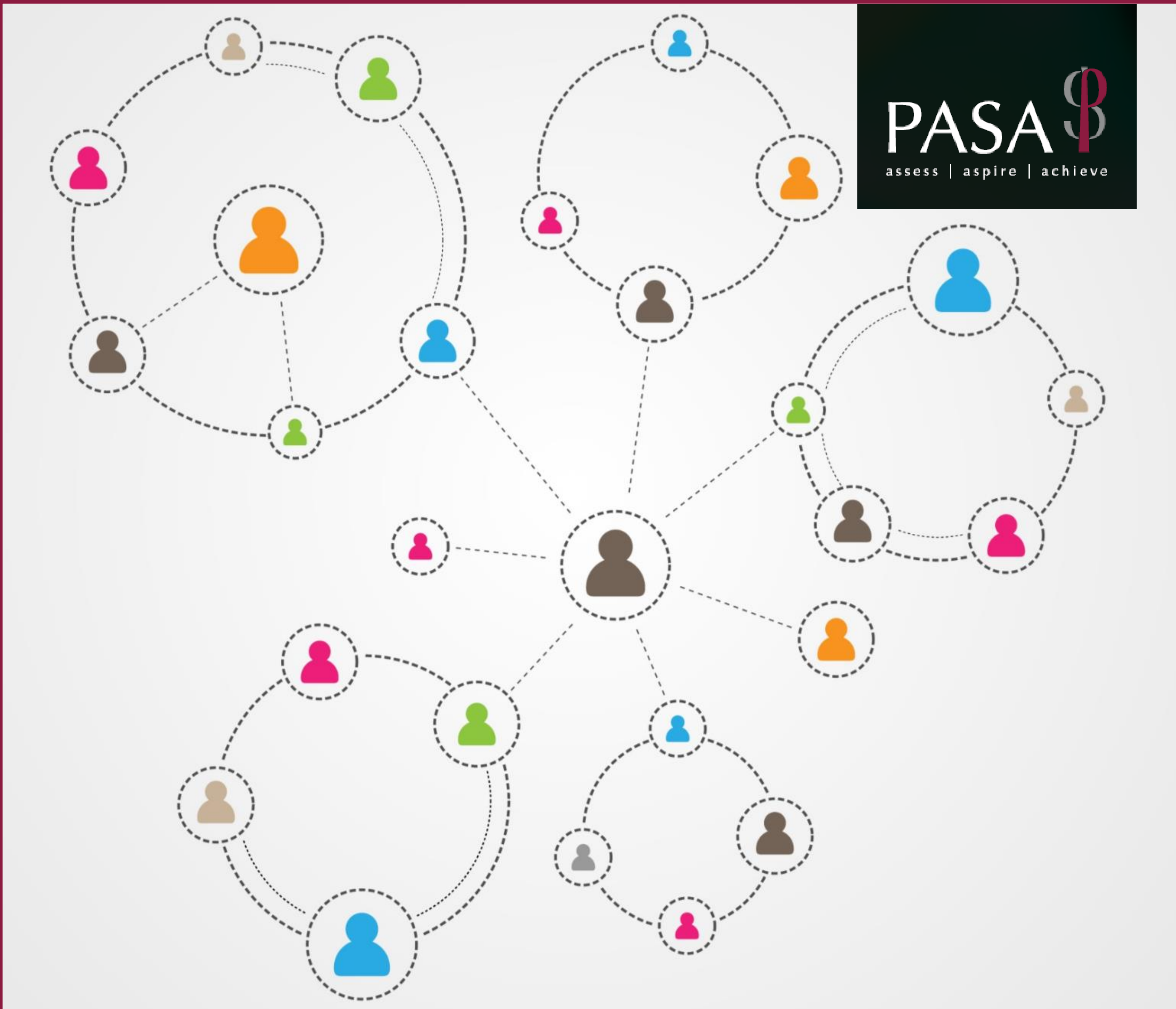

PASA Consultation Response

FCA Consultation – Pensions dashboards: proposed rules for pension providers CP22/3***

April 2022

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Kim Gubler (Board Sponsor)	**PASA Board Director**
Rob Dodson (Chair)	**ITM Limited**
Maurice Titley	**ITM Limited**
Emma Barry	**ITM Limited**
Chris Connelly	**Equiniti**
Richard Smith	**Independent**
Chris Batts	**MyCSP**
Geraldine Brassett	**Capita**
Phillip Cork	**AON**
Ian Dack	**Mercer**
Nick Green	**Criterion**
Karl Lidgley	**Hymans Robertson LLP**
Ian McQuade	**Muse Advisory**
Francesca Parnell	**Allen & Overy LLP**
David Rich	**Hub Consultants**
Andrew Short	**Capita**
Angela Bell	**TPR Observer**
Amy Regler	**West Midlands Pension Fund**
Climate Mupfiga	**Intellica**
Simon Rawson	**Evolve**

1. Introduction – About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide and assess administration standards.

PASA acts as a focal point and engages with industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential Accreditation practices allowing benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA focuses on three core activities.

1. Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers
2. Publishing Guidance to support those standards
3. Being an independent Accreditation body, assessing the achievement of good standards by schemes

There's no organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, savers and regulators.

About PASA Accreditation

PASA Accreditation is open to all corporate members of PASA (DB, DC, trust-based and contract-based schemes).

PASA Accreditation is granted following an independent evaluation and assessment process, which includes on-site visits and the review of documentation to evidence controls, procedures, process, staff development and contractual positions with clients.

Full details on PASA can be found by visiting www.pasa-uk.com

Response to questions

Q1: Do you think that our proposals for connection are proportionate and deliverable? Please provide evidence in support of your answer.

In presenting PASA's response to these questions, we refer you to PASA's response to the **separate DWP consultation** which further elaborates some of the themes and responses below.

The implementation proposals are ambitious for FCA-regulated schemes but not unachievable, although we do think the staging timetable should be staggered in the same way the DWP has proposed for occupational schemes. We need to be pragmatic about the deliverability of the dashboards staging objectives. We've focused our response on whether the technological, operational and technical resources are available and can be utilised to support schemes in achieving the staging timelines set out. We have assumed the legal and liability framework and core development of the ecosystem itself will be readily available to support the staging deadlines.

Most of the c 28m personal pension entitlements are proposed to be onboarded by June 2023. This will be across a wider range of providers and platforms, including some products administered by third party administrators (TPAs) such as bulk purchase deferred annuities. There may be a need to stagger the onboarding of cohorts like this. For example, bulk purchase deferred annuities are administered in a similar fashion to a book of occupational defined benefit schemes, so an onboarding date comparable to a DB scheme of the same size as a particular book of deferred annuities would be one proposal - the earliest date would therefore be 30 November 2023. We would suggest providers are allowed to treat smaller legacy books of deferred annuities as separate 'schemes' and hence have a later staging date for these - noting the overall provider or TPA will have connected other books well beforehand.

In order to onboard FCA-Regulated schemes to the pension dashboards ecosystem by June 2023 there are still important challenges to overcome – both at scheme-level and on the ecosystem and providers' ability to support onboarding, testing and connecting. At a scheme level, the requirements in respect of value data are undecided, and, depending on the decisions within the final regulations, could take longer than the staging window to overcome. In particular, calculations and value data are not always stored in an accessible format for providers to re-use for dashboards. We go into further detail about this in later questions within our response.

It's anticipated a fair portion of providers will connect to the ecosystem via a third party integration provider - or ISP. Where providers are using an ISP, the connection with the dashboards ecosystem will have already been established. In this case, providers will still need to carry out some work to prepare their data and re-format where necessary into dashboard standards. However, we anticipate the work required by schemes will be reduced. This increases the feasibility of the regulations demands on schemes and providers.

The FCA consultation paper highlights providers with under 1,000 members and reliant on an ISP will have until October 2024 to connect. The logic for this decision is unclear. It's our expectation ISPs will have an established connection with the ecosystem well ahead of this date. A fair portion of schemes and administrators have indicated they will look to an ISP in order to connect and therefore the market will be in an established position to support them. It may be more logical to anticipate those schemes who intend to connect directly may require more time, with those using a third party being able to onboard earlier.

One area which is unclear for FCA-regulated schemes and providers is the intended staging timeline for deferred buyout policies and further clarity is needed in this area. There's been debate in the industry since the consultation was launched suggesting there's already a different staging profile intended for these. Although the FCA proposal does not seem to imply this to us.

Q2: If you are a pension provider, what challenges do you anticipate facing in meeting the implementation deadline?

PASA is not representative of a single provider, however, the Pension Dashboards Working Group has gathered a variety of industry views. Broadly providers are concerned about some key areas:

Data accessibility

Some providers use multiple systems, with the data required for dashboards spread across them. This poses challenges in collating all relevant data, ensuring its quality, and reformatting in a way which suits dashboards' standards.

Data quality

The data held by providers could have been supplied via an employer some time ago. Because of this, the quality of the data may have deteriorated over time, which will pose a challenge for matching. It's crucial schemes take data quality seriously and carry out data analysis and validation as soon as possible. Older Group Personal Pensions and Stakeholder policies are likely to pose a greater challenge.

Availability of value data

Although providers readily calculate the value data required in most cases, this isn't always stored in an accessible way. Many providers use a calculation engine for benefit statements which sits outside of the core pension administration system. Values are often calculated for statements, and used for printing, but aren't always written back to admin systems. In these cases, schemes face a difficult decision – to adapt the calculation process to store relevant value data or to recalculate values just for dashboards. Costs, resources and system provider availability could have an impact on meeting implementation deadlines. In addition to this, providers will be making changes to calculation engines following the conclusion of the FRC consultation into changes to SMPI projections, which will need to be carried out in addition to any work to make the data more available, along with providing the data for pensions dashboards (which includes both accrued and projected values to be expressed as annual incomes).

Developing own ecosystem connections

Where providers choose to connect to the ecosystem directly, there will be additional hurdles. Providers will require sufficient time ahead of their staging deadline to implement and thoroughly test their connection. We're assuming the ecosystem will be able to support providers prior to their staging deadlines as this will be vital in ensuring the deadlines are met.

Q3: Do you think that our proposals for finding and matching are proportionate and deliverable? Please provide evidence in support of your answer.

The proposals provide welcome detail on how the data matching process is envisaged to work, including how 'possible matches' can be resolved. However, there's still an understatement of the core challenge of carrying out data matching without the benefit of a unique identifier to support it. We discussed this further in PASA's response to Question 1 of the DWP Consultation. Of the successful pensions dashboards roll outs we are aware of in other European countries, most of them had the benefit of a unique identifier. The exception to this is the Netherlands which originally used a matching approach along the lines proposed in the UK but ended up creating and maintaining additional data sets matching individuals to pensions.

While the data items required for matching don't exceed those a scheme could already hold, the data held will often be incomplete and/or out of date. Poor data quality will therefore be the biggest hindrance to effective data matching.

Liability for mismatches - and 'missed' matches

Providers need to be careful of the matching criteria they choose to use, ensuring a mindful balance between adhering to dashboard regulations and data protection regulations. The liability model in respect of data matching is still unclear, and greater clarity would support providers in taking a pragmatic approach.

A matching approach can work in the UK, however some of the statements in the consultation document present an unrealistic picture of the matching problem. It's overly ambitious to suggest it may be solvable by simply being diligent, choosing suitable criteria, and referring to emerging guidance - we've responded further on this point in PASA's response to the DWP consultation.

For example, the draft amendment to COBS states providers must "determine the criteria to use for the pensions dashboard matching process, (1) having regard to pension dashboard guidance on matching; and (2) taking into account: (a) the nature and quality of the pensions dashboard find data held by the firm; and (b) the firm's preferred approach to preventing data breaches."

This makes it clear providers are required to balance their own need to comply with existing Data Protection duties, ensuring they don't disclose data to the wrong person, with their new duty within these regulations to match and return an individual's data to them. It's up to schemes to set their own criteria to use for matching as set out in Regulation 22 (1). These regulations put the burden of judgement squarely on providers to make the call as data controllers, but their administrators and other advisers will need to provide the advice needed. Selecting match criteria, and possible match criteria, will require analysis and professional advice for most if not all providers, and they will need to be monitored and refined over time.

Annex C of the DWP consultation confirms TPR will consult on its compliance and enforcement policy setting out its proposed approach to regulating provider's compliance with dashboard duties. It's unclear whether the FCA intends to provide similar guidance, or whether the ICO plan to publish a detailed statement on its stance on this issue so providers can clearly understand where to set the bar on the appropriate level of matching criteria and their risk adversity. It's vital clarity is provided on this issue so providers can understand their liability for not finding or for mis-matching and thus causing a data breach.

Possible match responses

We've erred on the side of caution and have assumed, while the objective of dashboards is to ensure savers are able to find 'lost' pensions, preventing data breaches takes priority. However, this means the process for possible matches needs to be robust and effective at plugging the inevitable gaps in matching.

We have some concerns around matching and possible matches within the timeframe of 5 seconds as set out by the PDP. Where a 'clean' match –limited data items are used and matched exactly – is identified, the 5 second rule seem reasonable and feasible. However, when we account for 'fuzzy' searches, where similar or very close matches may be found, or partial matches, where certain data items match but others do not, the 5-second timeframe for responding with a possible match response may be difficult to achieve and will inevitably result in a trade-off between the robustness of the possible match testing and the speed of response.

The friction between compliance with data protection legislation (avoiding a data breach) and compliance with dashboard regulations (supporting savers to find their pensions) is a difficult reality for providers (as mentioned above in our comments on liability). There's no easy way to create a risk-free matching process, or a set of matching criteria which fits every provider. The consultation sets out a process whereby a possible match may be upgraded to a match made by the providers administration team.

Q4: Do you think that our proposals for returning view data are proportionate and deliverable? Please provide evidence in support of your answer.

'View data' is considered to relate to pension values data and administrative data in relation to dashboards. In general, this will not pose a significant challenge for most providers for the majority of policyholders. There are exceptions, in particular in respect of pension values data.

Pension values data, such as SMPI projections, are calculated for most policyholders. However, it's not always stored within an administration system in a format which is accessible to provide directly to dashboards. Because of this, for some providers, adaptions to the calculation process, potential admin system or external calculation engine will be necessary in order to meet these requirements. Providers which need to make changes may be reliant on a third party and this could impact the feasibility of providing value data at the staging date. Providers, or relevant third parties, will also need to be making the changes to comply with the changes to SMPI projections defined in the current FRC consultation.

As noted in our response to Question 1, any defined benefit policies such as deferred annuities have the same considerations as for occupational defined benefit schemes. Some of these books of business will be a result of recent buy-out activity, while others will be much older. Many of these providers won't currently provide an accrued entitlement on an annual basis for policy holders within these books in the way required for pensions dashboards, and we have covered these concerns in detail in our response to the DWP consultation. For this reason, we are supportive of a simplified approach to calculating defined benefit accrued entitlements being made available to providers, as referred to in the DWP consultation.

For smaller providers, it may be difficult to provide signposting to some administrative data where the information is not currently held on a provider website. This is not a major obstacle, however when factored in with other upgrades and development work, this may not be achievable by staging dates.

Response times and missing pension values

Another aspect covered in detail in our DWP consultation response is the proposed response times for when pension values data is not immediately available when the saver makes a pensions dashboard request. We refer you to our responses to Question 17 and Question 18 in our DWP response, which are summarised as:

- Where pension value data is returned immediately it will likely be pre-calculated by providers

- In some cases, flags will be used to identify the pension value presented is not the 'full story'. For example, where complex underpins might apply which are not taken account of in standard projections. We understand the nature of these flags, and the circumstances in which they can be used, will be developed in the relevant standards. Flexibility in this area will be key to ensuring the highest percentage of pension values can be returned immediately

- Where pension values are not available immediately, it will likely be for a good reason. Either inherent complexity requiring a manual review, or more commonly an issue with underlying data. Often these issues won't be able to be overcome in 3 or 10 days as proposed in section 5.17 of the consultation document - for example, missing data may need to be obtained from an employer

- A better way of regulating the provision of pension values will be for the FCA (or TPR as appropriate) to require reporting on:
  - the coverage of pension values provided
  - the use of flags to identify pension values which aren't the full story
  - identify where providers are falling short of industry benchmarks, which will become clearer during the early stages of onboarding

- If individuals request quotations off the back of a dashboard request, the usual service levels and rules around them should continue to apply, and the outputs of these requests (i.e. the specific accrued and projected benefits) should then make their way back to pension dashboards

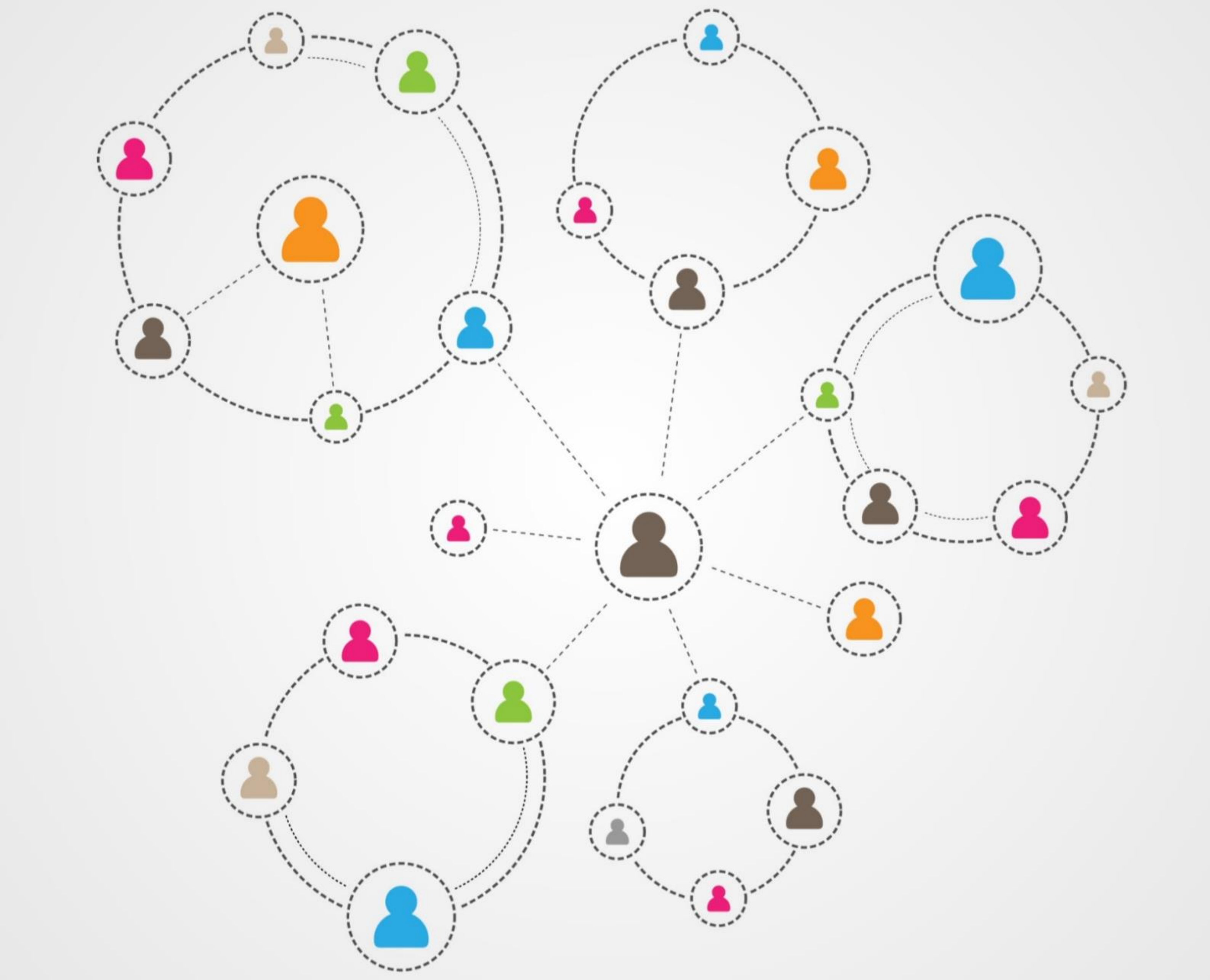
Q5: Do the proposals set out above deliver the right balance between the needs of consumers and industry burden? If not, how might a better balance be achieved?

For FCA-regulated schemes, the proposals set the right balance between the needs of delivering a positive user experience for consumers, against the burden to industry. This is subject to our comments in response to Q4 on response times and missing values which are key to managing the industry burden. Despite the challenges, it's clear from user research value data is a vital component to dashboards success, and although it's one of the most burdensome requirements, it's generally worthwhile.

We feel additional clarity around messaging is required for buyout policies to support consumers in understanding the benefit.

Q6: Do you have any comments on our cost benefit analysis in Annex 2?

No comments



Get in touch:

info@pasa-uk.com

www.pasa-uk.com

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Company number: 6597097