Ros Altmann: Revolution is about to hit financial services

The Consumer Duty could help the industry rise to the pensions challenge

By **Ros Altmann** | 27th June 2022 11:00 am

By end-July, the FCA will unveil final rules for the industry's new Consumer Duty, to improve standards of care for retail customers. Providers and advisers take note. This will be a regulatory paradigm shift from reactive 'tick-box' approaches.

We will move towards a new proactive regime for ensuring customer needs are being met, starting in April 2023.

The new Duty's over-arching consumer principle is that firms 'must act to deliver good outcomes for retail clients', taking 'all reasonable steps to avoid foreseeable harm to customers', acting in good faith and enabling customers to pursue their financial objectives.

The specific outcomes which must be delivered are good communications, product design, customer service and well-priced products or services offering good value.

> " This is a significant step up from current SMCR rules, moving from taking 'reasonable' steps to fulfil their responsibilities, to taking 'all reasonable steps' to avoid customer detriment.

Evidence of good advice

The Regulator will require documentation demonstrating how products, services and communications offer good value outcomes for clients, including justification for trail commissions, ongoing charges, choice of particular product and provider.

> " Reviewing internal governance processes, measuring and tracking customer outcomes and service levels, improving complaints handling processes and transfer efficiency are likely to be required.

The new Consumer Duty rules will apply to advisers and even to providers who do not have a direct relationship with end-consumers, if their offerings can affect customer outcomes, or performance of products and services.

Effects on retirement planning?

The introduction of pension freedoms swept away the inflexible pre-2016 rules, providing tremendous opportunities to improve long-term customer outcomes.

Now, however, pension withdrawal products could be designed to better fit today's lifestyles, recognising that people have multiple pension pots, significant health differentials and retire gradually or work longer.

Unfortunately, there is a dearth of innovative decumulation products and services.

Still the same old choice between annuity or drawdown, with 'innovations' such as 'Flexi-Access' drawdown to replace capped and flexible drawdown or 'UFPLS' – Uncrystallised Fund Pensions Lump Sum' instead of tax-free cash plus annuities.

> Is this really the best we can do?

The new freedoms offer opportunities for modernising pensions. My last column called for new mass-market accumulation products, beyond lifestyling or target date. We also need new decumulation approaches.

Independent advisers can tailor-make and monitor clients' retirement income strategies and investment options, ensuring they do not take money out too soon.

> Most sixty-somethings who are still working may achieve best outcomes by leaving their pension intact and even contributing more.

Pensions are generally the last money people should spend – using ISAs, other savings or downsizing property first. But what about the mass-market?

How about multi-asset diversified products offering fixed 3-4% percent withdrawals, with good risk-adjusted long-term return expectations.

Or splitting pension funds into four separate parts, starting when the customer stops working. Taking the tax-free cash for their 60s, while leaving the rest for their 70s, 80s and 90s, invested for higher expected returns over 20 – 30 years – moving away from traditional thinking that retirement funds should just invest in cash or low-return assets.

Alternatively, part of the fund might buy life insurance, perhaps with an early payout if the person needed money for care or annuities can be purchased around age 80, when the mortality cross-subsidy offers better value.

> Such reforms could ensure pensions last longer and also address the care crisis.

The new Consumer Duty could help the industry rise to the challenge of devising new, flexible approaches to take advantage of pension freedoms properly.

Financial advisers can help clients directly, but mass-market customers are not being well-served yet and all involved may need to revisit their approaches.

Ros Altmann is a former pensions minister

By **Ros Altmann** | 27th June 2022 11:00 am