CURTIS BANKS

PROPOSED REVISION TO - AS TM1 V5.1

CONSULTATION RESPONSE

NOVEMBER 2023

1. Do you agree with the proposed change to accumulation rate for volatility group 1 (from 1% p.a. to 2% p.a.)? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.

Given the market conditions that exist at this moment in time and the outlook for the short-to-medium term, there is merit in the argument to move the return for group 1 higher, as this group mainly consists of cash and money market funds. However, it must be borne in mind that an individual holds a pension for life, and the accumulation phase (and therefore the duration of a SMPI projection) can last up to 50 years. Even the best forward-looking analysis cannot foresee major economic shocks such as the 2007 financial crash, and the 2020 coronavirus-led market changes, and therefore we see little merit in changing the basis of long-term projections based on short-to-medium term analysis.

2. Do you agree with not amending the accumulation rate for volatility group 4? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.

As we mentioned in our response to the then-proposed AS TM1 v5.0 changes in April 2022, the highest accumulation rate as set out in the consultation paper is 7%. However, the FCA's Conduct of Business Sourcebook (COBS 13 Annex 2) states that a mid growth rate of no greater than 5% is to be used in projections. The two are directly at odds with each other, which leads to customer confusion, and inconsistency in reading across the values from key features illustrations vs SMPIs. In a post-consumer duty world, the FRC's continued insistence on using rates at odds with those of the FCA, makes providers' responsibilities for Customer Understanding more difficult to achieve.

3. Do you have any other comments on the proposed accumulation rates as set out above?

Our major concern with the FRC's v5.1 consultation lies in volatility group 3. As an open architecture SIPP provider which does not manufacture or operate any investments, following lengthy discussions with industry bodies and direct discussions with the FRC in 2022 and 2023 around the use of default volatility groups, the majority of investments held in our SIPPs fall into group 3.

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This presents our customers with clear consistency between SMPI and non-SMPI illustrations, as far as is currently possible under the different FRC and FCA regimes. Under the current rules, on each illustration type they can see that their assets are assumed to grow at 5%.

If this proposed change goes ahead, we can demonstrate the difference in final fund values, based on a client within our target markets of £300k and £400k, over a term of 14 years. We also include a comparison based on a lower fund value of £200k.

Start fund value £400k: Non-SMPI end value £443k, SMPI end value £478k. Difference = 7.9% higher.

Start fund value £300k: Non-SMPI end value £330k, SMPI end value £356k. Difference = 7.9% higher.

Start fund value £200k: Non-SMPI end value £217k, SMPI end value £235k. Difference = 8.5% higher.

Thus it can be seen that the trend is for SMPIs to project an end fund value that is around 8% higher than the equivalent non-SMPI value, if this proposed change goes ahead.

We cannot see how this promotes clarity of information to the customer. In the post-consumer duty world, we would argue that this change could actually promote foreseeable customer harm, due to the final fund values being inflated in SMPIs and leading the customer into a false sense of security regarding their financial position in retirement.

Curtis Banks' view is that consistency needs to be key in all illustrations that the customer sees. Otherwise trust in providers, and in pensions in general, is eroded. Accepting that the FRC will not change its view on the different inflation rates, will it at least accept the point that increasing the growth rate for volatility group 3 above the maximum growth rate allowed by the FCA, has the potential to cause foreseeable customer harm?

4. Do you agree with the proposed effective date of 6 April 2024?

Having only introduced the new AS TM1 rules on 30 September 2023, to then change them only 6 months later will lead providers to need to communicate again with their customers and advisers about further changes. This raises questions as to the validity of the projections, potentially eroding trust in the pensions industry as a whole. We do understand the need for regular reviews, and the need to switch back to April reviews, but a bedding-in period of 18 months should have been allowed for post-introduction of the new TM1 rules, not 6 months.

5. Do you agree with our impact assessment? Please give reasons for your response, and estimates of costs where possible.

Linking in with question 4, given the FRC aims to publish any revisions to TM1 by 15 February 2024, with an implementation date of 6 April 2024, this does not allow a significant period of time for providers to update systems (and potentially needing to consult with technology providers) on any required changes. Whilst we appreciate changes to rates can only be consulted on late in the year to allow you to consider 30 September data, this timeline gives the FRC over two months to provide final

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clarity on any potential revisions, which will only exacerbate an already condensed timeline for providers to make any changes. We question whether the FRC could aim to publish their final rates any sooner than 15 February each year.

Aside from our above point, our main challenge on impact is how the FRC can measure the potentially-resulting customer detriment as highlighted in our response to question 3?