Bravura Response

Looking to the future: Great member security and rebalancing risk

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Background

About the Bravura Solutions Group

Bravura is a global supplier of mission critical administration, record keeping and financial messaging systems to the financial services industry. Our solutions power some of the world's leading financial institutions, supporting more than 18 million end client accounts with over £3 trillion of assets under administration.

We are driven by our corporate purpose – to make our customers successful. We do this by developing innovative and cutting-edge software solutions that become the vital engines powering some of the world's largest institutions.

With over 30 years of experience, our next generation software solutions help clients:

- increase operational and cost efficiency.
- enhance their ability to innovate and grow.
- minimise their risk.
- enable them to provide an enhanced level of customer service.

We have a depth of expertise with a team of over 1,400 people in 16 offices across Australia, New Zealand, United Kingdom, Europe, Africa, India, and Asia, supporting our growing customer base.

The Bravura Group has extensive experience in the financial services technology sector, which is supported by its group of companies comprising of:

- Midwinter – provider of comprehensive financial planning and modelling software for the advice industry in Australia.
- Finocomp – specialist providers in registry-agnostic microservices.
- Delta Financial Systems - providers of technology for the complex pensions administration for SIPPs (Self Invested Personal Pensions) and SSASs (Small Self-Administered Schemes) in the UK.

Bravura welcomes the opportunity to respond to the DWP's Call for Evidence "Looking to the future: Great member security and rebalancing risk".

We are ardent supporters of Pensions modernisation in the UK, with exceptional experience and knowledge gleaned from our work with Pensions and Superannuation around the world, specifically in New Zealand and Australia, where we have supported the administration of their systems for decades. In the UK, we have developed our Dashboards Connect ISP solution for UK pension schemes and providers to meet their legislative requirements. We look forward to our future involvement with the DWP as the thoughts and regulations develop and we would be further delighted to lend additional thought leadership and experience to the Department throughout its policy development.

Executive Summary

Bravura is a provider of administration and automation systems to pensions, wealth, superannuation, life insurance, fund management and transfer agency markets in the UK, South Africa, Australia, and New Zealand. We therefore have a strong body of knowledge and experience of dealing with pensions and superannuation systems of those markets.

We have been operational in these markets for many years, and our systems support schemes and providers in all these geographies. This gives us an unparalleled level of experience and insight into the benefits and drawbacks of these systems.

In our response we discuss the current system which has built up over time, and how it emphasizes individual responsibility which has drawbacks for some savers, often leading to confusion and poor-value options. We know that many current providers within the industry as well as advisers and schemes may decry these changes and state that we are starting from different positions to other markets. Whilst we respect these positions and also request appropriate planning and design, we firmly believe that the UK can learn and adapt from overseas markets (each has its own problems, too – there is no 'perfect' model) to improve the current fragmented system that underserves so many savers and limits competition, innovation and the outcomes for many people.

We believe that technology can lift the burden and cost for employers and industry. The pensions industry has historically been glacial to adopt new technology and reform – as can be seen by Pensions Dashboards and the struggle to rectify data issues. A new customer-centric, technology-led approach can set the UK up for the next one hundred years.

We highlight the need for reform and consider the complexities of the existing employer-focused model whilst recognising the importance of not undermining employers that contribute significantly and provide excellent benefits to their employees.

Key points and considerations include the need for a gradual transition, leveraging the infrastructure of Pensions Dashboards, and achieving a more joined-up, secure, and automated system. We emphasise the importance of public education, standardised terminology, and alignment with HMRC for efficient contributions monitoring. We suggest licensed data brokers and clearing houses to improve data flows and reduce the burden on employers and industry.

We also address the potential of member-led lifetime provider models, emphasizing the importance of careful consideration, risk modelling, and avoiding hasty decisions. Advantages of a member-led lifetime provider model include a gradual implementation for testing and adjustment, while disadvantages include potential confusion and a lack of safeguards.

Timing and sequencing are crucial, and we call for a measured, proportionate, and well-governed approach. We suggest a clear roadmap for change, with an emphasis on completing ongoing programs, such as Pensions Dashboards, before implementing additional reforms. The sequence involves Small Pots, industry-wide mechanisms for secure transfers, and CDC integration, leading toward the ultimate goal of a "Pot for Life" model as part of a well-planned and phased approach.

We hope our answers are helpful and we would welcome the opportunity to discuss our thoughts, position, and experience further.

Call for Evidence Question Responses

Q1. What are the key considerations to take into account before deciding the process to implement a lifetime provider model and what elements would need to be in place?

The UK pensions system has built up over a lengthy period of time, and during that period the industry and members have benefitted from the existing structure with (relatively) small changes over time. This has led to a current position where savers are, mainly, responsible for their own futures. There remains, however, a sizeable and important contribution from certain employers – over and above their legal minimums – who are parentalistic in their approach to their workers and as such any change to the current system will need to be cognizant of not destroying this value.

However, looking past these employers who do so much to add value to their employees' later lives, there remains a large cohort of savers who, for varying reasons, are disenfranchised with their savings vehicles and confused by unfamiliar communications from a range of disparate pensions firms. On top of this, these savers are often hit with poor value, or restricted choice options provided by their employer and either 1) ignore everything until they take a benefit; or 2) get schmoozed into consolidating pots into an arrangement that may, or may not, be suitable.

The government must be aware that under the current system - where employers choose and then review the suitability of pensions schemes - is often flawed and is seen as beneficial (or least effort/cheapest) for the employer, rather than what might be best for employees/savers.

This creates a market that may not be centred on the best interests of savers – indeed there is currently a provider that is offering their employers 'free payroll services' if they enrol their workers in the firm's scheme. This cannot be in the interest of the saver and shows how firms currently use differing tactics to woo new employers.

We need to understand that the current employer-focussed model suits many of the current and dominant players in the pensions markets – for instance:

a. master trusts and life/investment companies who only currently have to sell and market to a range of EBCs, advisers and direct to employers
b. master trusts and life/investment companies can make it expensive or time consuming for an employer to change providers resulting in a homogenous market that is slow to innovate
c. EBCs exist to consult around pension provider choice and are compensated appropriately
d. Financial advisers often provide scheme selection advice services to some SME businesses

There are many others, too, who make money from this complexity. Our current system has been created by a series of policy and economic changes, and as such has not been designed with efficiency or the modern world in mind. This proposal is the opportunity to recast the pensions savings system for the next century, based on what society needs today and, in the future, retaining the best features and benefits from the past century, whilst evolving to deliver for the future.

Balancing the changes and ensuring the new system is efficient, lean, and modern, whilst at the same time not undermining those employers that go the extra mile, will be the most critical areas to consider.

Q2. What are the alternative viable mass market vehicles, including CDC, that can provide security for members while spreading risk, and address the transition into a pension income?

CDC is an interesting model that we are watching closely. At this point we have no further comment on this question.

Q3. What are the other considerations and building blocks that need to be in place before moving to a single lifetime provider, including any transitional arrangements?

There needs to be a continuous arc of pension reforms to get to this proposed position (pot for life), and within a calm, measured, but dedicated timeline. In particular, the complex infrastructure being put into place for pensions dashboards must be harnessed to ensure no duplication of data feeds for small pots or a pot for life; the dashboards infrastructure will be safe, secure, and is long term, therefore adaptations to include different API services should be achievable at a far lesser cost than procuring new technology.

The existing system must be more joined up, secure and automated; we believe that Pensions Dashboards sets the UK on the path to this. We can see from the likes of Australia and New Zealand, that digital messaging is essential for the data to be connected and for good outcomes.

This automation must include secure and scam-proof same day transfers, or at least similar to banking, a 7-day switch. Other industries have achieved this, so pensions must too.

A system to determine relative employer-chosen/sponsored scheme quality is required to allow DB, CARE, CDC, and quality DC schemes to continue and admit new members by default. Where a new employee joins with a pre-chosen provider that is of lesser quality then the default should be to put the employee into the better scheme – the member could then decide to transfer to the new scheme, maintain the current two-pot option or to decline entry to the new scheme and request the employer contribute to their chosen provider.

The UK public need to have greater information about pensions, and before a systemic change, MaPS or another similar public body should have a medium to long term remit to educate the public about pensions. Concurrently, and as part of the move to a one pot system, a new set of verbiage and nomenclature should be agreed that all DC schemes and CDC schemes should comply with – currently there are too many words, phrases and acronyms that have the same or similar meanings – there should be a 'plain English' approach to pensions that providers sign up to and apply standard terminology. This will help with a MaPS education remit. We can see from Australia and New Zealand that centralising around terminology has allowed better understanding, conversations, and engagement.

Connections into HMRC for digital tax should be aligned to allow for faster and more accurate contributions monitoring of employers by the Regulator(s) – a simple review of NINO and employer payroll reference will allow for TPR to undertake their enforcement duty far more efficiently than at present. This would also enable HMRC to more efficiently, and in near-real-time deal with Relief at Source (tax relief) which is being looked at for digitalisation, which could be an added benefit.

Data brokers or clearing houses (indeed, they can be plural, as in other markets around the world) should be licenced (similar to ISPs for pensions dashboards) and therefore can work with existing systems to interact seamlessly and improve the data flows. Very little more information would be required than the current system mandates, just improved real-time processing and error-checking. Payroll providers, data brokers and clearing houses can take much of the burden from employers here.

To summarise, we think there needs to be solutions and mechanisms for the following:

1. More integrated pensions data system between providers, payrolls, employers, and government
2. Clarity on what types and quality of pensions savings schemes and products are eligible to be included in/out of a pot for life assessment
3. Data brokers/clearing houses and associated systems to allow 'choice'
4. Public education and awareness, in common plain language
5. Pensions dashboards should be complete
6. Small pots consolidation should be in place

Q4. What are the advantages and disadvantages of moving to a member-led lifetime provider model prior to considering introducing a default lifetime provider model?

The movement of the UK pensions savings system from the fragmented system that currently exists to something more modern, transparent, explainable and that relies on modern technology, choice, education and is fit for the next hundred years requires careful consideration and appropriate risk-modelling. No changes should be decided without fully thought-through considerations as we do not want to throw the good out with the bad.

To apply an analogy – whilst we want to do a 'supermarket sweep' of all the good and constructive ideas globally, we need to ensure that any prized inflatable, oversized bananas are suitable for both the current starting position of the UK pensions system and are appropriate for the future. This may mean tailoring, redefining, and applying a UK innovative slant on our new vision for pensions 2040.

The current system leaves many people feeling disenfranchised, and of the opinion that pensions are somebody else's problem. Whilst some savers are lucky enough to be in DB schemes or schemes that are very generous, where this adage (somebody else's problem) arguably still holds, there are a mighty cohort of younger savers - such as those in SMEs, or those in more casual/gig economy role - that are not being adequately looked after.

We therefore have cohorts of people who want to manage their money and choose their provider. Currently the system prevents them from asking their employer to contribute to their provider of choice – there is almost no other area of society that individuals are restricted from taking control of their finances in such a way.

A steppingstone to allow these members to make an active choice has certain advantages and disadvantages, there are likely many more than we have listed below, but these are areas for consideration:

Potential Advantages

1. Employers only have to make changes for a relatively small number of employees
2. A soft-launch allows new processes and procedures to bed-in with lower numbers
3. Infrastructure can be further tested in the 'real world' and altered if needed without affecting all savers
4. Enables those who feel most frustrated and restricted to make their elections
5. Allows a longer change timeline for schemes, providers and employers

Potential Disadvantages:

1. Not all safeguards may be in place for these members
2. There may be confusion and/or frustration (for employers, members, providers) if communications are not clear or processes are not straightforward
3. Systems and infrastructure may not be fully in place
4. Contributions could be lost or misdirected
5. Providers and employers may not comply/find ways to sludge the process

Q5. What is the right timing and sequencing of these potential changes? Which part would best be implemented first and why, or should any be implemented concurrently?

Other countries have shown that the changes noted above are not implemented overnight; and neither should any change to the UK system. It must be measured, proportionate and well governed.

Changes to the pensions system currently in-play or in-flight should continue but should also be cognizant of the desire to move to a 'pot for life' model over time – i.e. be future proof. This should ensure that any systemic changes made by these programmes are suitably implemented to ensure little to no friction with any changes that may be made following discussions around the pot for life model.

One thing that should be made clear is that the industry can think about more than one change at once, but the Government must be aware that knee-jerk changes can throw off course best made plans. Therefore a clear roadmap for change "pensions 2040" should be developed and honed over time – this will give industry and all its players (providers, schemes, advisers, regulators, government bodies, etc) the ability to plan, resource, and design their businesses and departments to deliver these important changes for society.

In looking at ordering. Clearly the Pensions Dashboards programme (current phase) must be allowed to complete, and focus maintained. This is an essential part of making pensions more visible to consumers and improving their engagement for taking charge of their future savings and wealth.

Following Dashboards, the VFM and Small Pots work can be implemented (note the deliberate use of the word "implemented", design, planning and policy can work alongside dashboards rollout – organisational resources for planning and delivery are different).

Alongside Small Pots, there needs to be an industry-wide mechanism for transfers, which is secure and scam-proof (as per response to Q1). This should come relatively early as it will enhance security and transparency of the system, and this can be enhanced as data brokers and clearing houses come online.

CDC should naturally dovetail into the above as schemes come online.

The 'Pot for Life' reforms should be able to be slid alongside the Small Pots work as an extension to the functions, and therefore within the arc of changes proposed or slated for the medium to long term.

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