

We won't dictate UK investment: FCA

By Nick Reeve | March 18, 2024

The Financial Conduct Authority (FCA) is to work with other regulators on an “ecosystem for UK investment” – but it will not dictate how schemes invest, its CEO says.

Speaking at an industry conference last week, Nikhil Rathi said a long-term focus on value for money could encourage more investment in productive assets, supporting economic growth.

Rathi quoted figures also cited by chancellor Jeremy Hunt that pension schemes invest 5% or less in UK assets – although some in the industry have disputed these figures.

At the start of this month, Hunt announced that he planned to require pension schemes to report their allocations to UK assets in an effort to increase investment in the economy.

He said the FCA would work with the Prudential Regulation Authority and the Pensions Regulator “to manage potential risks and support the development of a more positive ecosystem for UK investment”.

However, Rathi also emphasised: “It is not for us as regulators to direct how schemes invest, but we want to remove inappropriate barriers.”

Instead, he said that the industry needed to address areas such as cost, scale, cultural barriers and risk appetite when considering “productive finance” initiatives, as well as different ways to collaborate.

The UK allocation reporting requirements will form part of wider value for money reforms, according to the chancellor.

The value for money framework will be designed to “refocus” the industry away from simple fees and onto service quality and outcomes, Rathi said.

“The aim is to protect consumers from having their pension savings eroded by languishing in underperforming schemes,” he explained.

“The framework and focus on overall value encourage consideration of a broader range of asset classes, hopefully leading to diversification and better long-term risk-adjusted returns.”

Pot for life, CDC and consultant regulation

In his speech, Rathi also touched on several other policy issues, including the chancellor’s proposed lifetime provider or pot for life plan.

While he said the concept “could add simplicity”, he also said it would be a “profound change to the system”.

Collective defined contribution (CDC) schemes, too, presented a potential positive development for the pensions sector but was also complex and required careful implementation.

“CDC and the pension pot for life would need a clear delivery road map stretching over a decade,” Rathi said. “And once that map has been agreed, we will need a period of stability to focus on execution.”

However, he did not expand on this implied timeframe.

On consultants, Rathi reiterated the FCA’s desire to regulate consultants to ensure they are “incentivised to provide recommendations focused on long-term value”.



