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Your Ref:
Our Ref: EJT
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Re: Amending TM1 for revised contracting out provisions: consultation paper

I am responding on behalf of The Co-operative Financial Services (CFS) to the above paper.

CFS is part of The Co-operative Group, the UK's largest consumer co-operative. It is the group of businesses that includes The Co-operative Insurance, The Co-operative Investments and The Co-operative Bank, including **smile**. Through The Co-operative Bank we offer a range of financial products, including current accounts, savings accounts, credit cards, mortgages and loans. The Co-operative Insurance offers a variety of insurance products (including life assurance, motor and home) and The Co-operative Investments products including unit trusts, investments bonds and pensions.

Proposed TM1 changes for April 2009

Given the proposed wider review of TM1 we would strongly question both the need and timing of the proposed changes for April 2009. From a system implementation perspective the timing is far from ideal. Although at face value the proposed changes may appear simple, there will inevitably need to be regression testing of systems which are both time consuming and costly and which take time to mobilise

Preferred approach for April 2009

Our strong preference would be for no system changes for April 2009 given the forthcoming wider review of TM1 and the short timescales to amend systems. We believe that the concern about rebates possibly stopping from 2012 and the introduction of the flat upper accrual point can be adequately addressed by the inclusion with statements of an industry factsheet which explains the possible removal of future rebates. The factsheet could also manage customer expectations by mentioning that future statements are likely to change because of changes to the state second pension and as a result of other changes to regulations which cover the content of statements.

We suggest that this factsheet is produced jointly by DWP and FSA as an update to the current SMPI factsheet.

If changes are made in April 2009 then there is a risk that values on statements could reduce and then change again as a result of the wider review of TM1 being undertaken during 2009. We think it is better from both a customer's perspective and also from a provider's perspective to make the change once only following extensive consultation, customer research and more certainty about the Government's intentions.

Assumptions about future rebates

If a change is absolutely required for 6th April 2009 and we would strongly question this, then our preference would be to assume that no further rebates are received i.e. the alternative option that you have mentioned in paragraph 2.3. This is an easier message to explain to customers than to have to explain why future rebates are assumed only up to 2012. It also avoids the system update required to amend the UEL to the flat UAP and to remove future rebates from 2012. In addition, if the abolition date is amended from 2012 in the future then an update to systems would not be required under this approach. This reduces the potential for customer confusion and avoids system maintenance costs.

In paragraph 2.4, you state that "the interests of the recipients of the illustrations are best served if the illustrations reflect the available information about the likely payment of rebates" but how do you know that this is the case without carrying out customer research?. It is easy to fall in the trap of second guessing what customers will think about a change.

Communication to customers

Assuming a change to the rebates is made for April then the communication to explain the change to customers is key. This needs to be very clear and limit the potential number of queries or complaints received from customers as a result of a sharp fall in illustration retirement values as a result of assuming no or fewer rebates are received. It is likely that without a clear explanation of what is happening, customers may incorrectly believe that the fall in value is something to do with the current market turmoil. We suggest that a factsheet produced by DWP & FSA would be needed to provide an independent assurance to customers about the value of their policies.

We hope that you find our response to the consultation helpful and very much look forward to providing input into the forthcoming wider review of TM1.

In Summary

1. Make no changes to the April 2009 calculations (neither relating to the introduction of the Upper Accrual Point nor relating to cessation of future rebate contributions) but instead supplement the statement with a leaflet.
2. Undertake a full review during 2009 and that review should include the merits of whether to include future rebates and if so what key assumptions should be included.
3. Any change in approach should be supported by consumer research.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Hurley', written in a cursive style.

Danny Hurley
Head of Pensions