PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

PENSION SCHEMES BILL [*LORDS*]

First Sitting

Tuesday 7 February 2017

(Morning)

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PBC (Bill 125) 2016 - 2017

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not later than

Saturday 11 February 2017

The Committee consisted of the following Members:

Chairs: Ms Karen Buck, † Andrew Rosindell

† Black, Mhairi *(Paisley and Renfrewshire South)* (SNP)
† Blackford, Ian *(Ross, Skye and Lochaber)* (SNP)
† Brine, Steve *(Winchester)* (Con)
† Courts, Robert *(Witney)* (Con)
† Cunningham, Alex *(Stockton North)* (Lab)
† Davies, Chris *(Brecon and Radnorshire)* (Con)
† Elmore, Chris *(Ogmore)* (Lab/Co-op)
† Fovargue, Yvonne *(Makerfield)* (Lab)
Greenwood, Margaret *(Wirral West)* (Lab)
† Harrington, Richard *(Parliamentary Under-Secretary of State for Pensions)*
† Harris, Carolyn *(Swansea East)* (Lab)
† Heaton-Jones, Peter *(North Devon)* (Con)
† Knight, Julian *(Solihull)* (Con)
† Mackinlay, Craig *(South Thanet)* (Con)
† Mills, Nigel *(Amber Valley)* (Con)
† Smith, Royston *(Southampton, Itchen)* (Con)

Ben Williams, Clementine Brown, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 7 February 2017

(Morning)

[ANDREW ROSINDELL *in the Chair*]

Pension Schemes Bill [*Lords*]

9.25 am

The Chair: Before we begin line-by-line consideration, I have a few preliminary announcements. First, please switch electronic devices to silent. Tea and coffee are not allowed during sittings. Today, we will first consider the programme motion on the amendment paper; we will then consider a motion to enable the reporting of written evidence for publication. In view of the time available, I hope we can take these matters formally, without debate. I call the Minister to move the programme motion standing in his name.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25am on Tuesday 7 February meet—

(a) at 2.00pm on Tuesday 7 February;

(b) at 11.30am and 2.00pm on Thursday 9 February;

(c) at 9.25am and 2.00pm on Tuesday 21 February;

(2) the proceedings shall be taken in the following order: Clauses 1 to 32; Schedule 1; Clauses 33 to 38; Schedule 2; Clause 39; Schedule 3; Clauses 40 to 46; new Clauses; new Schedules; remaining proceedings on the Bill;

(3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00pm on Tuesday 21 February.—*(Richard Harrington.)*

Resolved,

That, subject to the decision of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Richard Harrington.)*

The Chair: We now begin line-by-line consideration of the Bill. The selection list for today's sitting is available in the room and on the website, showing how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or a similar issue. A Member who has put their name to the leading amendment in the group is called first; other Members are then free to catch my eye to speak on all or any of the amendments within that group. A Member may speak more than once in a single debate.

At the end of a debate on a group of amendments I shall call the Member who moved the leading amendment once again. Before they sit down, they will need to indicate whether they wish to withdraw the amendment or to seek a decision. If any Member wishes to press any other amendments or a new clause in a group to a vote, they need to let me know. I shall work on the assumption that the Minister wishes the Committee to reach a decision on all Government amendments if they are tabled.

Please note that decisions on amendments do not take place in the order they are debated, but in the order they appear on the amendment paper. In other words, debate occurs according to the selection and grouping lists; decisions are taken when we come to the clause that the amendment affects. I shall use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following the debates on the relevant amendments. I hope that explanation is helpful.

Clause 1

MASTER TRUST SCHEMES: DEFINITION

Alex Cunningham (Stockton North) (Lab): I beg to move amendment 22, in clause 1, page 1, line 9, leave out paragraphs (b) and (c).

To include in the scope of schemes included under the definition of Master Trust single employer trusts and those with connected employers.

The Chair: With this it will be convenient to discuss the following:

Amendment 32, in clause 1, page 1, line 12, at end insert—

'(1A) The definition of a Master Trust Scheme shall include such schemes that provide benefits to members who are self-employed in addition to those who are employed by others."

This amendment will ensure that master trust schemes that also allow self-employed members to join are within cover by the regulation introduced by this Bill.

Amendment 23, in clause 1, page 1, line 13, leave out subsection (2).

To clarify the protection provided under this Bill for non-money purchase benefits.

Alex Cunningham: It is a pleasure to serve under your chairmanship, Mr Rosindell, and I am sure it will continue to be so throughout this Committee stage.

Before I get into detail of Labour's first tabled amendments, 22 and 23, it might be helpful if I set out how we plan to approach Committee stage. As I said on Second Reading, we broadly support what the Bill seeks to do, but we have serious concerns about what the Bill does not seek to do, the issues in the pensions landscape that it fails to address, and the significant sections of policy detail pushed into secondary legislation.

I note that my new clause 5, which is designed to introduce pension credit for women born in the 1950s and whose retirement age has been accelerated, has not been selected. I say only that it is lamentable that the Bill is not broader. I am also concerned about the dependency on secondary legislation because the Government are not yet in a position to share the detail of their intentions. I know that not everything can be in the Bill, but the Constitution Committee wrote to the Government expressing strong concern about the lack of information provided in primary legislation. I hope that the Government will take the Select Committee's caution seriously and that we can ensure that in this case the primary legislation properly sets out the Government's intentions.

Amendment 22 raises the question why single-employer occupational schemes are excluded from the scope of the Bill and why connected employers are therefore effectively treated as a separate entity. As it stands, the Bill's provisions regulate neither single nor connected employer arrangements. We appreciate that a line must be drawn somewhere in attempting to develop a suitable regulatory framework in the face of a wide array of occupational pension arrangements. The amendment offers the Government the opportunity to clarify the bounds of their new regulatory environment and to justify their decision to draw the boundaries where they lie in the Bill. We want the parameters of the regulatory framework to be clear.

We accept that the master trust regime is focused on schemes with particular risks, but does there not have to be consistency across the piece? The definition of a master trust covers an array of different arrangements and there is nothing simple about it—getting my head around it has taken me some time. It can cover schemes set up by unregulated businesses as well as those set up by regulated businesses, such as insurance companies or investment managers. It can also cover what are described as "white label" master trusts, which are set up by a pension providers, with commercial or non-commercial partners being allowed to brand their sections of the trust. Others may have partnering arrangements with large employers whereby each employer gets its own section of the master trust but does not make any profit from it. Schemes that are included can be industrywide, can include two or more unassociated companies, and can be in the university, charitable and religious sectors. Given the broad range of different situations, on what basis do the Government believe that it is appropriate to draw the line to exclude single unconnected employer arrangements?

The probing amendment would also delete from the definition of a master trust the exclusion of those schemes that are to be used only by connected employers. In the debate in the other place, I believe the Minister clarified that when a single group employer takes on a non-associated one and it is intended that all will participate in the scheme, the scheme will then fall under the regime. Will the Government confirm that that remains the case?

It would also be good to have further clarification of what the position would be when a joint venture has run its course and the scheme reverts to being used only by connected employers. In that instance, how do the Government justify the juxtaposition of a connected group of employers being outside the scope of the Bill whereas another connected group of similar size but with just one small associated employer would presumably be inside it? The distinguishing line is very thin.

Do the Government envisage circumstances in which clause 41 would be used to bring within the scope of the Bill a single employer occupational pension scheme? Clearly, the Bill provides that power to the Secretary of State. In fact, the power set out in the Bill is very broad, so I look forward to the Minister's response on those issues.

I note that in amendment 32, the hon. Member for Amber Valley has sought to address the lack of access for self-employed people. I picked up that theme in new clause 4, which addresses both that and other groups currently excluded from master trust scheme membership. I look forward to the hon. Gentleman's speech.

Amendment 23 is a probing amendment to elicit clarification regarding what happens to non-money purchase benefits in master trusts. Clause 1(1)(a), taken together with other clauses, means that the Bill applies only to money purchase benefits provided through a master trust and excludes non-money purchase benefits. As I am sure the Minister is aware, the exclusion of non-money purchase benefits would mean that members' benefits provided by those schemes, including retirement products, are excluded from key protections in the Bill. That does not seem fair or sensible, given the Bill's intention to provide stronger protection for scheme members.

Master trusts currently provide a range of services both to employers under auto-enrolment and to individuals exercising pension freedoms. Those can include annuities, guaranteed drawdown and investment products, which include some form of guaranteed rate of return. One example could be when annuity payments are paid to the member while the annuity supporting those payments may be held as an asset of the scheme, rather than in the name of the member. Pension freedoms are beginning to transform the market radically for guaranteed income products, but pension savers will still have an appetite for some form of guaranteed product. The Bill will not apply to non-money purchase benefits, so it is unclear what happens to those benefits and, importantly, the assets backing them when a master trust fails.

In the other place, my noble Friend Baroness Drake raised an example of a trust that allows members to add in other savings and assets such as ISAs and property used for funding retirement. Everybody I meet acknowledges Baroness Drake to be a pensions expert in every sense. She believes that of the approximately 100 master trusts, only 59 are being used for auto-enrolment, with others having developed out of the pension freedom reforms.

Regulation should anticipate that master trusts will expand further into the decumulation market of retirement products. With that in mind, the exclusion of non-money purchase benefits from the primary legislation raises a number of questions. It is not clear what happens to the treatment of all non-money purchase benefits and the assets backing them in the event of a wind-up or other triggering event occurring. Will those members' benefits be protected against funding the costs of a triggering event? How and where will they be transferred on exit?

In the other place, the Minister suggested that there is already extensive regulation to ensure that members' non-money purchase benefits are protected. He called further regulation in this regard "unnecessary and disproportionate". It seems odd that in this instance the Minister seems intent on minimising duplication, yet the Government continue to require duplication of regulation in some cases around the separate legal entity. The boundary line of the legislation appears a little murkier.

We note that in Government amendment 20, Ministers have acknowledged the lack of clarity around money purchase benefits and non-money purchase benefits raised by my noble Friend Baroness Drake, but we are a little disappointed that the amendment does not seek to provide greater protection to non-money purchase benefits under mixed schemes. Instead, it merely clarifies that the Bill protects only money purchase benefits within a mixed scheme. That is deeply disappointing for us for the reasons I have just outlined. I therefore request that the Government confirm absolutely that members of master trusts providing them with non-money purchase benefits face no additional risk as a result of that gap.

Will all retirement products with an element of guarantee be covered by the Pension Protection Fund regime? Master trusts are not regulated by the Financial Conduct Authority, so where does the saver look for protection?

[Alex Cunningham]

Secondly, the continuity strategy required under clause 13 in the event of a wind-up will have to set out how the interests of members of a scheme in receipt of money purchase benefits are to be protected in a triggering event. Currently, it will not have to set out how members in receipt of non-money purchase benefits will be protected. Such a requirement would at least clarify what range of member benefits were in the master trust.

Will the master trust be required to set out how members with non-money purchase benefits will also be protected if a triggering event occurs? I am sure that the Minister will recognise these very genuine concerns and I look forward to his response.

Nigel Mills (Amber Valley) (Con): It is a pleasure to serve under your chairmanship, Mr Rosindell, and to follow the shadow Minister. My remarks will be in a similar spirit to his, trying to probe the Government on how exactly they see master trusts being used, how they see the pensions landscape and how the two will mesh.

Amendment 32, which stands in my name, relates to how we deal with self-employed people who may end up in a master trust. That starts out as a technical question—as the Minister may know, I like to ask technical questions of legislation to see whether he has read it all and can trace it all through, because these things can be chased around. Under the definition in the Bill, a master trust must be an occupational pension scheme, which takes us back to the Pension Schemes Act 1993. An occupational pension scheme has to provide benefits in respect of earners with a qualifying service in an employment—such schemes do not provide benefits to earners who are self-employed in that situation. Therefore, on a high-level reading, if a scheme is providing benefits for people who are self-employed, technically it should not be an occupational pension scheme.

I assume that the answer to that particularly technical point will be that if in a master trust there are 5 million people who are employed and there are 10,000 who are self-employed, it does not get suddenly blasted out of being an occupational pension scheme and out of the regulations and drop back into the personal pension scheme regulations. I assume that the National Employment Savings Trust, which I think already markets itself to the self-employed, will not somehow have a change in its regulatory position by serving a few self-employed people.

It is not hard to foresee that the landscape might change, and it is pretty clear that we would quite like the landscape to change quite dramatically. We have a big problem with the lack of pension provision among people who are self-employed and, sadly, that problem is going the wrong way. Auto-enrolment has enrolled millions more employed people than ever before in a pension, but over the course of this century the number of people who are self-employed and actively in a pension scheme has decreased from about 1.2 million in 2002-03 to 380,000—and that is as the number of people who are self-employed has risen to more than 3.5 million. That is going completely the wrong way. Far more people are self-employed, yet far fewer of them are saving in a pension. That is not a healthy situation for them and their prospects in retirement, and it is not a particularly healthy position for us, considering how people will be able to look after themselves when they reach that age.

It is pretty clear that we need to find solutions that encourage more self-employed people to save into a pension and to take the various tax advantages that that provides. Hopefully, when the Government conduct their auto-enrolment review later in the year, one issue they will look at is whether we can extend, tweak or amend auto-enrolment to get to those many millions of people who are self-employed. Let us be honest: probably quite a large number of them would like to be employed or think they are employed—or perhaps we think they are legally, in substance, employed, yet their non-employer is somehow tweaking the rules to treat them as self-employed. How do we get those people to realise that pension savings is important to them? How do we get them into a simple scheme that is easy to administer?

It looks like auto-enrolment master trusts are the obvious vehicle that could cope with the scale of several million more people, who are probably generally on relatively low earnings, joining a pension scheme. They have the infrastructure and it is not hard to see how self-employed people could self-manage such schemes via online portals. It looks like, as a matter of policy, we would quite like to encourage all the big master trusts out there to start taking people who are self-employed. I suspect we would like to find a way.

Ian Blackford (Ross, Skye and Lochaber) (SNP): The hon. Gentleman is making some important points that I fully subscribe to. As much as I welcome the Bill and its overall thrust, is this not perhaps a little bit of a missed opportunity? We could have made sure that the review of auto-enrolment came alongside it, which would have informed our present debate on how we deal with self-employed people, and indeed those under the earnings threshold. We want people to be investing in pensions for the long term.

9.45 am

Nigel Mills: I am grateful to the hon. Gentleman, and I can see the attraction of that. Given that we have effectively auto-enrolled millions of people into master trusts, I am not sure I would support a delay in the regulations coming into effect. We need the powers in the Bill available to ensure that the people we have strongly encouraged into the schemes have all the protections we think they ought to have. I suspect that the review of auto-enrolment will be long, and in some ways it will probably be difficult to work out the right balance to strike in increasing the level of savings without encouraging people to leave the schemes completely. I am not sure that waiting for a resolution of that issue would be a sensible idea.

May I raise another technical point about when a master trust scheme ends up with a large proportion of self-employed members, up to 10%, 20% or whatever percentage of the scheme? Will it have to change its regulatory position and move from being an occupational pension scheme to a personal pension scheme or some other sort? I accept that there is a lot of regulation of such schemes, which may not be the end of the world, but perhaps the Minister will set out how the Government are tackling the big self-employed pension gap, where many fewer people save much smaller amounts and end up with much smaller pension pots as they approach retirement. As our employment markets change, that will be a significant challenge for us as we try to make pensions effective for everyone in the country. I look forward to the Minister's remarks.

The Parliamentary Under-Secretary of State for Pensions (Richard Harrington): It is a pleasure to serve under your chairmanship, Mr Rosindell. I thank you for the clarification of the rules concerning hot beverages, with which I am happy to comply.

The attitude that the Opposition, the Scottish National party and all of us have taken towards the Bill is to discuss it widely among ourselves and to agree as much as we can, which is positive. Our disagreements are honourable, and no one is playing politics or at opposition for the sake of it. I wanted to make that clear, Mr Rosindell, because I have served on Bill Committees, as I am sure you have, where that has not been the case.

The Opposition amendments and those of my hon. Friend the Member for Amber Valley were tabled in the correct spirit. We had considered all the points in advance of the Bill being introduced and therefore in advance of the House of Lords proceedings and Second Reading in the Commons. Master trusts have been around for a long time, but they have grown exponentially in number over the past two years. The legislation is therefore a response not to a fundamental problem with master trusts, but to their exponential growth, pushed by auto-enrolment, and the industry seeing them as an area with a less stringent regulatory regime than other parts of the pension system. For example, insurance companies and personal pensions are regulated by the FCA under long-standing rules, and the non-master trust system is very different, because those trusts have one clear sponsoring employer and there are lots of rules and regulations under the Pensions Regulator.

The legislation is therefore meant to fill a gap. We are not filling the gap because of a disaster or problems that have arisen; we are trying to see what problems might arise. That has been the scope of discussions between the Government, Opposition and individuals, which has included some positive opposition in the other place. I hope that that will be true for most of our proceedings.

Opposition amendments 22 and 23 and the amendment of my hon. Friend the Member for Amber Valley seek to change the Bill's definition of a master trust. Amendment 22 would extend the definition to all schemes that offer money purchase benefits, which would include schemes used only by a single employer or by employers connected to each other. The proposal would extend the scope of the definition significantly and, therefore, of the authorisation regime disproportionately.

As the debate in the other place indicated, there is general acknowledgment that further regulation of master trusts is desirable and necessary. As I explained in my opening remarks, master trusts have developed into structures that are often very different from traditional occupational pension schemes offered by single employers or the more traditional group of connected corporate employers. They offer compelling benefits to employers and members. They spur competition in the market and allow for economies of scale, providing value for money. They are also an efficient solution for smaller employers for whom setting up an individual pension scheme for employees would be difficult, onerous, impractical and expensive.

We accept, however, that those qualities also bring about new risks. As I explained, those risks are less likely to be present in single employer or connected corporate defined contribution schemes. The authorisation regime is intended to address those risks. For example, in a single employer scheme—a traditional trust scheme—the employer is usually closely involved in the running of the scheme and has an active relationship with the trustees. In a master trust, the employer's participation is often largely limited to paying the employer contribution, which is probably the most important part. I do not take that lightly, but the responsibility for the running and administration of the trust is clearly different from a single trust for a single employer. Additionally, in a single employer scheme, the employers determine the terms of the scheme, whereas in a master trust it is done for them, with the person or organisation setting up the scheme doing it.

Those differences highlight why the purpose of the Bill is to require authorisation and provide member protection in respect of master trusts. The risks are specific to this kind of scheme and it is therefore important that the definition reflects such schemes and does not extend beyond them. The clause establishes the proper scope of the Bill and ensures that its regulation is proportionate to the issues arising.

Amendment 23 was clearly explained by the hon. Member for Stockton North. It would amend clause 1(2), which provides that the Bill's provisions apply to a master trust scheme only in so far as it provides money purchase benefits. That would mean that the provisions of the Bill would apply in relation to the scheme as a whole, and not just in relation to the parts of it that apply to money purchase benefits. Most master trusts will only provide money purchase benefits—that is the purpose of the vast majority of them—but it is fair to say that a number will provide money purchase and non-money purchase benefits. I agree with him that master trusts can do that legally and properly. It is not the norm but some do.

As I have already set out, the authorisation regime is intended specifically to address certain risks that apply to members in master trusts that relate to the structure and funding of such schemes. In particular, the Bill is focused on the risk around money purchase benefits, and we have been open about that. In answer to the hon. Gentleman, the Bill is focused in that way because there is already extensive regulation in relation to occupational pension schemes providing non-money purchase benefits—regulation already exists. Applying the authorisation regime to them would create duplication of regulation. He warned us about duplication, but the amendment would create duplication of regulation and add unnecessary costs and burdens to the running of those schemes, with little purpose in terms of protecting members, so far as we can see.

In addition, authorisation requirements are intentionally targeted at the risks relating to money purchase benefits. Conflict and confusion might arise if those requirements are applied across the board. For example, the provisions requiring the transfer of member benefits and wind-up

[Richard Harrington]

of a scheme might have a detrimental impact on members if applied in relation to non-money purchase benefits. It is important that the members of schemes with mixed benefits have the same standard of protection as members of schemes that only have money purchase benefits. That is why the authorisation regime applies to the money purchase aspect of such schemes. Extending authorisation to types of benefits for which it is not designed and where the risks do not arise in the same way would not be appropriate.

To answer a question asked by the hon. Member for Stockton North, I can confirm that the Government intend to include decumulation schemes—the decumulation products that he mentioned in his speech—in clause 41.

Alex Cunningham: I am particularly keen to understand further what the Minister means by the same protections being in place for non-money purchase benefits as for money purchase benefits.

Richard Harrington: As I explained before, the two are covered by separate regulation and separate rules. I do not see how combining the two together under the same regime would help to give protection.

Julian Knight (Solihull) (Con): Is not the truth that the two types of regulation will slot alongside each other? There will be a symbiotic relationship between money purchase and defined benefit.

Richard Harrington: My hon. Friend makes a good point. That is very common in other systems of regulation, sometimes to the chagrin of employers and people involved, but for many companies in other financial fields there are different systems of regulation for the different products they offer. That is not uncommon. As to what we must avoid, the hon. Member for Stockton North will accept that Governments must try to think how things work in practice, which is not to say that he has not considered it. However, we must have workshops of interested parties and consult widely. How things work in practice is important.

The end product for all hon. Members is predominantly consumer protection—the Bill is a consumer protection Bill. We have different views, but we are discussing the extent of consumer protection provided. I and my officials have considered Opposition amendments respectfully. They are not spurious and have been thought through. In fact, many were quite properly put to us—it is a democratic system—by groups such as the Association of British Insurers. They are not created out of thin air. However, we have had to think about whether in practice they will add to consumer protection. That is the test. Alternatively, will they just increase the regulatory burden? We have also been lobbied about that—again, quite legitimately—by those concerned. It is the Government's job to try to come up with something in the middle.

My hon. Friend the Member for Amber Valley, who tabled amendment 32, discussed self-employed people, and attempted to ensure that I have in fact read the Bill. I do not think I should have the arrogance to stand here if I had not, but it is perfectly proper that he should ask. I certainly accept that my hon. Friend, given his years of experience and attention to detail, has read it. I shall try to answer his general and specific points.

On the question of the role of self-employed people, not just in the master trust schemes but generally, my hon. Friend is correct to identify that the number of self-employed people has grown exponentially in the past 10 to 20 years, even more than in the days of the Turner commission, of which Baroness Drake was a member. She has been most helpful with the Bill. I acknowledge her role and that of Lord McKenzie in helping both the Opposition and the Government very constructively.

The commission perceived self-employed people as those with their own business, who, by implication, would have an accountant or, at least, an adviser or someone similar. My hon. Friend was saying that, with the big growth in self-employment over the period, the people in question are typically not very high earners. Like him, I make no comment as to whether they should be self-employed—the fact is that legally they are. They do not have an accountant and the things necessary for someone who is running a business and employing people despite being self-employed. They are at the moment outwith the auto-enrolment scheme. I know we are here to discuss that from a regulatory point of view but, as politicians, we also want those people to have pensions, because the House agrees that that is a good thing.

I want to answer the hon. Member, who is going to be cross with me again, for Loch—

Ian Blackford: Ross, Skye and Lochaber.

Richard Harrington: Have a little patience—I was going to say the hon. Member for Ross, Skye and Lochaber. Watford is much easier to pronounce, but I accept that he has a wonderful constituency that is very lucky to have him representing it. I have got it now.

The hon. Gentleman's point was about why the review is different in timing and scope to the Bill. The main reason is statutory. We were obliged by statute to have the review in 2017, which means it cannot report until the end of 2017. In fact, 2017 is too early because we do not have enough figures to see people's behaviour or habits since auto-enrolment came in. We are doing the review—it is being announced and will report—but we could not consider holding up this regulation until it came out.

10 am

I totally agree with my hon. Friend the Member for Amber Valley that self-employment really needs to be taken into consideration, because those people are predominantly the same as people who happen technically not to be self-employed; their requirements are just the same, although they are their own employer. At the moment that does not fit into the system, although I really hope that it will. I cannot be more specific than that, but we have that as one of the heads of the review and will look into it. I hope he will bear with me on that.

I can confirm that the definition of a master trust, as set out in the Bill, includes all schemes that have the characteristics set out in clause 1. That includes those with members who are self-employed in addition to members who are employed. My hon. Friend's amendment is therefore not necessary, although that is not to say that it is spurious or badly intended. I hope that I have clarified that his points are covered in the Bill, and that the amendment is therefore not, I respectfully believe, necessary. With those assurances and clarifications, I ask the hon. Member for Stockton North to withdraw his amendment, and my hon. Friend the Member for Amber Valley not to press his.

Alex Cunningham: I share the Minister's sentiment on our approach to this Bill and welcome the discussions we have had offline. Our main arguments about pensions are on other areas of policy, and certainly not this one.

I will briefly comment on the speech by the hon. Member for Amber Valley. There are ways to address the issues of auto-enrolment for the self-employed. Many people in the industry have shown me models, most of which Her Majesty's Revenue and Customs would have a role in delivering. The Minister accepted that the hon. Gentleman's amendment was not spurious; when we get to new clause 4, he and his colleagues might see the need to support it and bring it into the Bill to avoid any further delay in addressing the needs of such groups.

The Minister has addressed the points thoroughly, but anomalies remain. I referred to one group of connected employers outside the scope of the Bill, yet a similar group with just one associated employer would be included. We need more consideration from the Government on that. I am also concerned about the protection for members in single employer schemes. All the responsibility seems to lie with the employer. Where is the protection for the member? I have already alluded to the reliance on secondary legislation. I am concerned that there has to be secondary legislation.

Richard Harrington: I forgot to mention the hon. Gentleman's point about secondary legislation; if I may, I would like to use this opportunity to do so. I apologise for forgetting it; it was in my head, but other things were as well. There is a lot of secondary legislation in the Bill, because we want two things. First, we want to consult extensively with the industry, following publication of the Bill, on certain technical matters to do with how things will work. Secondly—this is very relevant—we have seen how things have changed in the past couple of years; master trusts have basically morphed from one thing to another. I am not saying that there is anything wrong with that; that is how industries develop, particularly in the area of financial services, which is very fast-moving. We want to retain the flexibility to change nuanced things as the industry changes, so that we are not finding further loopholes that we have to wait years for primary legislation to address. As hon. Members will be aware, the protections built into the regulations include the fact that in the first instance they will be affirmative, so there will be plenty of time for them to be discussed properly and correctly.

Alex Cunningham: I accept that explanation from the Minister. There are other areas destined for secondary legislation that we will seek to put into primary legislation and that it is probably more important to press him on. He has a tough job—the money purchase benefits and non-money purchase benefits in particular need further consideration—but I accept where he is coming from. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Richard Harrington: I beg to move amendment 1, in clause 1, page 1, line 17, leave out "and" and insert "to".

This amendment is consequential on amendment 20.

The Chair: With this it will be convenient to discuss Government amendment 20.

Richard Harrington: Amendments 1 and 20 will prevent what would have been an unintended effect of the Bill, for which I apologise. I am grateful to the other place for its scrutiny of the Bill, and particularly to Lord McKenzie—I have complimented him so many times in this sitting that I shall take my gratitude to him as read for the rest of our proceedings, but I really must thank him for bringing this matter to our attention. The amendments, which we indicated in the other place that we would table, will fix the issue that he pointed out. Without them, where a scheme has a mix of money purchase benefits and non-money purchase benefits, a funder would not be able to conduct activities in relation to the non-money purchase benefits. That was clearly not our intention, but it was the effect of the interaction of clauses 1(2) and 11. Amendments 1 and 20 will amend clauses 1 and 40 respectively to fix that.

Clause 1(2) provides that where a master trust scheme provides both money purchase benefits and non-money purchase benefits, the Bill's provisions will apply only to the money purchase benefits. Clause 11 requires the scheme funder to be set up as a separate legal entity that is defined, broadly, as a legal person whose only activities are in relation to the master trust. As a result of clause 1(2), for a scheme with mixed benefits, the reference to the master trust in clause 11 would cover only the money purchase elements, which could mean that schemes or scheme funders would have to be restructured for reasons that we did not intend.

Amendment 20 will therefore add a further exception to the principle that the provisions of the Bill apply only to money purchase benefits, in addition to those already provided by clause 40, which we will consider later. The reference in clause 11(3) to the master trust will relate to the scheme as a whole, not just to the money purchase benefits. That will ensure that the scheme funder can engage in activities in relation to any part of the scheme.

Amendment 1 will make a minor consequential amendment to clause 1(2) to reflect the amendment to clause 40. The combined effect of the amendments will be to ensure that clause 11(3) works as intended for mixed benefits schemes.

Alex Cunningham: I inadvertently addressed the amendment in my first speech. We accept and welcome Government amendment 20, but we have not forgotten the issues that I raised earlier.

Amendment 1 agreed to.

Clause 1, as amended, ordered to stand part of the Bill.

Clause 2

Relevant public service pension schemes

Question proposed, That the clause stand part of the Bill.

Richard Harrington: Clause 2 defines a relevant public service pension scheme for the purpose of clause 1, which excludes relevant public service pension schemes from the definition of master trust. Clause 2 flows from clause 1.

The reasons that we require an authorisation regime in respect of master trusts include: the risks stemming from remoteness from the employer, which is one of the points I mentioned about the difference between an ordinary single employer trust and a master trust; potential for conflicts of interest; and the ease of set-up. The type of public service pension schemes that fall within that definition already have specific requirements and arrangements that mitigate those risks. For that reason, they are not included within the scope of the master trust authorisation regime.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

PROHIBITION ON OPERATING A SCHEME UNLESS AUTHORISED

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The success of auto-enrolment, which various Government and Opposition Members have already discussed, means that more people are saving into a private pension, and as I have explained, many of those are saving into master trust pension schemes. Master trust schemes are regulated by the Pensions Regulator and occupational pensions legislation. However, as I explained, that legislation was developed mainly with single employer pension schemes in mind. Master trust schemes have different structures and dynamics, so the Bill introduces a new authorisation regime for them. The market has grown very quickly, and we now have to respond to ensure that that part of the pension market develops in the right way.

The authorisation regime has been designed to address the specific risks that arise in master trust structures. The criteria for becoming authorised were developed in discussion with the industry, and the risks that they address include the kinds of risks that the FCA regulation addresses with regard to group personal pension schemes, which I mentioned before. At the moment, master trusts are outwith that kind of regulation, but master trust schemes have some similarities with those schemes.

The requirement to become authorised creates a barrier to entry to the master trust market, so rather than us waiting for things to go wrong, the interests of scheme members will be protected in a proactive manner, because new master trust schemes will be prohibited from taking on members until they have satisfied the regulator that they meet essential quality standards. Existing schemes will have to become authorised to continue operating in the market. New schemes will have to be newly authorised.

Introducing a requirement for authorisation is a proportionate response to the rapid development of master trusts, given the types of risks inherent in the structure of the schemes. Clause 3 prohibits a person—a "person" being an entity—from operating a master trust scheme, unless that scheme is authorised by the regulator, and so is the core and foundation of the whole authorisation regime.

The clause also sets out the consequences of breaking the prohibition. It is important that those consequences are clear and firm. If the regulator becomes aware that a scheme is operating without authorisation, clause 3 requires it to issue a notice to the trustees of that scheme, explaining that the scheme is not authorised. Such a notification—I am sure we will discuss the effects of this later—is a triggering event that requires the scheme's trustees to transfer the scheme's members out and wind up the scheme. The risk of being shut down by the regulator is a strong deterrent that will ensure that the authorisation regime is taken seriously. The clause also gives the regulator the power to issue a civil penalty if the prohibition has been broken. This will act as an additional deterrent to anyone who may seek to operate a master trust scheme without authorisation.

10.15 am

Finally, the clause defines the term "operates" for the purpose of this part of the Bill. A person operates a master trust scheme if that person accepts money from members or employers in relation to the scheme, or enters into an agreement with an employer that relates to the provision of pension savings for employees or other workers. The scheme is quite technical, but it is necessary because so much flows from it.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Clause 4

APPLICATION FOR AUTHORISATION

Alex Cunningham: I beg to move amendment 24, in clause 4, page 3, line 14, at end insert—

> "() the scheme's policies relating to systems and processes requirements as set out in regulations under section 12".

The application to the Pensions Regulator must include a member engagement strategy.

The Chair: With this it will be convenient to discuss amendment 25, in clause 4, page 3, line 15, at end insert—

> "() the scheme's member engagement strategy."

The application to the Pensions Regulator must include a member engagement strategy.

Alex Cunningham: The mantra for this Bill should be: "Members at the centre of everything we do." Communication and engagement is vital for trust in the system. It is good for business and good for members. Effective communication and engagement is an essential component in helping to implement improvement. Across all industries, transparency has never been more important to a successful business model, regardless of size. When it comes to employee engagement, this particular business practice is proven to be essential on a global scale, and what is seen as an essential tool for all manner of other business and industry areas, I see as equally essential for the pensions industry.

My noble Friend Lord McKenzie of Luton in the other House put the case very clearly and compellingly for master trusts to be required to have a full and effective member engagement strategy as part of the qualifying requirements for authorisation by the Pensions Regulator to operate as a master trust. In response to my noble Friend on Report, Lord Young of Cookham, replying on behalf of the Government, said:

"I can also confirm that the Government would intend—subject, of course, to consultation—to use the regulations under Clause 11 to ensure that the regulator specifically considers a scheme's systems and processes in relation to these important communication matters when deciding whether the scheme is run effectively."—[*Official Report, House of Lords,* 19 December 2016; Vol. 777, c. 1487.]

He went on to speak of wider communications, including how the review of auto-enrolment would include the engagement of individuals with workplace pension savings.

In an earlier written statement to the Commons, the Minister said that the review would include

"how engagement with individuals can be improved so that savers have a stronger sense of personal ownership and are better enabled to maximise savings."—[*Official Report*, 12 December 2016; Vol. 618, c. 38WS.]

That is all very grand, but there were no new clauses or amendments addressing the issue specifically when the Bill left the Lords, nor since. We could save time and add value to the communications process by requiring a member engagement strategy in the Bill.

Some will say that most people have no real interest in pensions, and that we could be placing all manner of costs on the industry for the few who do take pensions seriously. We should never discount the few who may be interested. Recent research by the accounting firm Price Bailey has revealed some interesting statistics in its 2016 report on public interest and awareness of workplace pension scheme arrangements and retirement options. A sample of 2,000 stakeholders were interviewed across the English regions, with a good split between male and female respondents, white-collar and blue-collar occupations and income bands. Nearly 75% of those interviewed had a total household income, before taxes, of £55,000 a year or less. I wish the people in my constituency had an average income of £55,000 a year. It is encouraging to note that only one person in nine—11%—said that they were not interested in pensions. That seems to lay the lie.

It is also encouraging that more than half—55%—of pension scheme members said that they take an active, regular interest in their pension savings and retirement planning, and I do not think we will be very surprised that within the 55 to 65 age bracket the proportion rises to about two thirds, with some 66% of people taking a real interest in their pension—I wonder why. The highest levels of engagement were among males, those with higher incomes—more than £55,000 a year—those in white-collar occupations and active scheme members.

Labour Members believe that the role of trustees is crucial in providing retirement education and helping to raise levels of member engagement. Regular communication, whether written, online or in person, is key to achieving that, with different techniques for different audiences. It is important that employers consider that when communicating with current and potential scheme members. We urge master trust employers and trustees to consider carefully their strategy for scheme member engagement. It should be made a legal requirement for them to produce and execute such a strategy. Putting some thought and effort into that now will undoubtedly prove beneficial to scheme members in the long run, and it need not be a tremendous financial burden on the industry, given that we are in a digital age. Nowadays, there is no excuse for failing to communicate effectively. Using social media to communicate means expanding a multi-channel communication strategy to encompass new channels. It used to be the counter, the telephone and, later, the website, but now we have the Twitter hashtag and the Facebook page—just some of the channels open for communication today.

Real engagement, however, is something else. It is about figuring out where people are already having conversations about which an organisation needs to be aware. It is about bringing information and dialogue to places where people want that dialogue to happen—their Facebook groups, their Twitter streams and the master trust intranet networks. Good communication and engagement over members' money and pension drawdown are prerequisites for a successful master trust.

Our amendments seek to ensure that as part of the defined-contribution code of practice, there is a requirement for the authorisation process principally to ensure that the application to the Pensions Regulator includes a member engagement strategy and a communication strategy. The Pensions Regulator's code of practice for DC pension schemes, published in July 2016, sets out the standards that pension trustees need to meet to comply with legislation. The code, which applies to all schemes offering money purchase benefits, is supported by a series of "how to" guides that provide more detail about how trustees can meet the standards in practice.

The Pensions Regulator has also produced a tool to help trustees to assess their scheme against the standards in the code so that they can identify areas requiring improvement. The DC code sets out a number of areas in which an understanding of members is key, particularly those of gauging members' views to inform the design of investment strategies and the assessment of value for members. The regulator suggests:

"Member nominated trustees in particular may be able to provide feedback, as might union representatives, other employee representatives or existing staff forums."

It is because of the valuable role that scheme members can play that we have tabled the amendments on scheme member trustees. We need to improve the Bill to make it more scheme member-friendly. The members are, after all, our main concern. I will return to member trustees later. It seems only sensible to require the master trust to demonstrate its engagement and communication strategies to the Pensions Regulator, who has an obligation to ensure that the trust complies with the DC code of conduct.

The Bill sets out a requirement for the latest accounts, business plan and continuity strategy, yet it has nothing on issues that would ensure that the scheme met the required standards on member engagement and communication. There is no point authorising a master trust if it has poor communication and engagement with its members. The chances of members engaging with the issues that affect them can be greatly improved by communicating with them in the most effective way. That is the thrust of our amendments. We need to see members at the very heart of the process.

Master trusts will grow over time to cover millions of members and billions of pounds of assets under management. They will underpin the very success of

[Alex Cunningham]

the auto-enrolment policy and rebuild a long-term pension-saving system. The principle of an obligation on master trusts to have a clear strategy for engaging with scheme members should not be left to ministerial discretion or future consultation. We want to ensure that master trusts are at the leading edge of communication and engagement, and hope that the Minister will not just remain open to the idea, but will do something about it in this Bill. I look forward to his comments.

Ian Blackford: It is a pleasure to serve under your chairmanship, Mr Rosindell. I will be brief. Those of us who want to encourage pension saving, as we all do in this room, should encourage as much member engagement as is possible. That is the right thing to do to ensure that we have as much transparency as possible. It is perhaps relevant not just to this amendment, but to others, that the issue of members being trustees is important. We must recognise that we are talking about assets belonging to the plan holders and take into account the fact that a number of master trusts are also profit making. It is important that that process of transparency is open to members of the scheme and that there is full engagement by members, with members being part of the board of trustees and having effective training. We happily support that.

Craig Mackinlay (South Thanet) (Con): I am delighted to serve under your chairmanship, Mr Rosindell. I will probably say something more about my opposition to member trustees, which would be a step very much in the wrong direction, and I fear that the amendment tabled by the hon. Member for Stockton North would do that, but in a different way.

I agree entirely that the regulations under clause 12 will be subject to the Secretary of State's involvement in laying out those regulations in due course, and under clause 13 the continuity strategy—what that might mean and what regulations we may expect are fairly well laid out—but I am afraid that, to my mind, "member engagement strategy" is wording that is rather too loose. If we encouraged such a strategy, I would like to see in any amendment what that might involve and an expectation of what we may see in regulations from the Secretary of State. I would not want a perfectly good scheme to fail because of an interpretation that might mean lots of different things to different people. My member engagement strategy might be rather different from that of the hon. Gentleman, so I will not support the amendment.

Richard Harrington: I would like to make a general point, which the hon. Member for Ross, Skye and Lochaber also made and which was agreed by everyone: we are all in favour of more people getting involved in their pension scheme. For many years, it became clear, particularly under defined-benefit schemes, that people had other things to think about for most of their life and that they thought their employer would take care of their pension, whether in the public sector or in a defined-benefit scheme. It was not that they could not care less, but they thought that as long as they paid their bit they did not have much to worry about.

The general point—it is not specifically a regulatory point for the Bill—is that the general policy of this Government, the previous one and, I am sure, all future Governments will be to make people far more aware of their pensions because they are predominantly defined-contribution schemes. People must know and be able to calculate their pension, but perhaps the old boring statement sent out every so often is not the way to do that. We hope that apps and other systems will mean people are a lot more aware of it.

The general point of people being a lot more knowledgeable about their pension arrangements is taken as read and my responsibility and role is to help to promote that through communications, advertising, technological changes and so on. However, that is separate from the regulatory point. It underlines what everyone in this room really wants.

On the regulatory point in the amendments tabled by the hon. Member for Stockton North, I share his view of the theoretical constituents in the Price Bailey report. I do not think many of my constituents have £55,000 a year either, but the report makes some good points. We are here to discuss the amendments specifically. You are being patient, Mr Rosindell, but I wanted to make that more general point.

10.30 am

The explanatory statement provided with the amendments states that their purpose is to require that the application for authorisation to the Pensions Regulator must include a member engagement strategy. That is where I differ from the Opposition. We both want the same thing, but I would argue that amendment 24 would not have that effect. It would mean that schemes were obliged to create policies on systems and processes and submit those as part of an application for authorisation. I will speak to each amendment in turn.

Amendment 24 is broad and it would add to the information that must be submitted as part of the application. It points to the regulations made under clause 12, which deal with the requirement for master trusts to have adequate systems and processes. The Bill provides that those regulations may cover certain areas, such as processes for risk management and resource planning, and that the regulator must take those into account in deciding whether the requirements are met.

The Bill requires that, to be authorised, a scheme must satisfy the regulator that its systems and processes are sufficient to ensure the effective running of the scheme. The amendment would create a new requirement for those running schemes, which would have to develop a policy on those matters, as well as meet the requirements under clause 12. It is not clear to me, though, how placing that additional requirement on the industry would necessarily increase protection for the members of the master trust schemes or the provision of information on those matters to the regulator.

Julian Knight: I am in clear agreement here: although the engagement strategy sounds worthy and laudable in many respects, that phrase is open to interpretation. All I can see it doing is creating a whole new industry—extra costs—and opening up the potential for legal challenges down the line, in a way similar to what happened with Equitable Life. As the Minister will remember, the Government issued certain brochures through the Financial Services Authority that became the basis of action further down the line.

Richard Harrington: My hon. Friend makes a good point and I agree with him. It is important, though, that the regulator has enough information to be able to assess whether schemes have adequate systems and processes. The regulator can require the information; it needs to make the assessment. It is in the interests of any applicant to give the regulator the information it requires to make the assessment. The regulator is very active in this: it is two way, not just one way. The regulator may require different things from very big schemes that are well established than from small, newer schemes. That is what regulators do, and they have to have that discretion.

It should also be noted that clause 4 contains a regulation-making power to allow the Secretary of State—that is, the Government—to set out further information that is to be included in an application. That is why we gave a specific commitment to use the regulations under clause 12 to ensure that those matters are taken into account when considering a system's application for authorisation. If you will allow, Mr Rosindell, I would like to repeat that commitment. The Bill allows the regulator to take into account the systems and processes relating to communications and engagement when assessing the adequacy of a scheme's systems and processes more broadly.

Alex Cunningham: I am concerned that auto-enrolled into pension schemes are millions of people who have no communications whatever from the organisations handling their money. What is the Minister saying the regulations cover that will ensure those people are communicated with?

Richard Harrington: That is up to the regulator. If the hon. Gentleman bears with me, I will get to that particular point. If he is not then satisfied, I will willingly give way.

Member engagement is a challenge in pensions both legally—that is, what should people know?—and in terms of getting them engaged in a general sense. It would be unacceptable to have a hugely expensive exercise writing tens of thousands of letters that may or may not be read, but which would confuse people. However, we accept that it is important that the members get the right communications.

A situation such as the hon. Gentleman mentioned, in which members get absolutely nothing, which the regulator would find unacceptable, would not be at all acceptable for two reasons. The first is the general point that I mentioned about getting people engaged and understanding their pension and everything that goes with it. We have all received these communications. Probably, the hon. Member for Ross, Skye and Lochaber will have always looked at his pension statements, but a lot of us have received them—very comprehensive ones, in many cases—and just put them at the bottom of the desk drawer, in the hope of reading them sometime. I hope that the hon. Gentleman is not offended by that comment; it was meant to be complimentary.

Ian Blackford: I shudder to think that the Minister would ever offend me, at least willingly. The regulator has a very important role to play—I think we all understand that—but there is also the fact that the trustees are responsible to the scheme members, and it is important that we ensure that trustees recognise the responsibilities they have. No one is talking about bringing in a cumbersome system that will be costly. This is about ensuring that the members have that relationship with the trustees. It is important that the trustees are answerable to the scheme members, not least because of the profit-making capability that some trusts have.

Richard Harrington: The hon. Gentleman is right, and this is not just a question of communication as in a formality—communication if there is a problem. We will be speaking to those points later. This is a point about communication and making sure that people know what they have, in the same way as a bank communicates, now mainly by the internet, so that people—

Carolyn Harris (Swansea East) (Lab): Will the Minister give way?

Richard Harrington: I will finish answering the previous intervention and then of course I will happily give way. The two points about communications are correct, and after the hon. Lady has intervened, I will do my best to go into the other point.

Carolyn Harris: The Minister, in a private conversation, said that I would find it difficult to mention this subject, but he has kindly given me an opening. We have to learn lessons from the experience of the WASPI women—the Women Against State Pension Inequality Campaign—and we cannot go forward and experience the same inability to engage as we are experiencing now, so this scheme must ensure that communication is sufficient to attract all people.

Richard Harrington: I smile, but not out of disrespect for the hon. Lady—quite the contrary. I knew that she would manage to bring in her favourite subject and I am grateful for the indulgence of the Chair in not declaring it out of scope, because she makes a relevant point. I nearly said "you", Mr Rosindell. You would probably make it as well, if you were invited to speak on the subject.

The communication point that the hon. Lady raises has to do with the state pension. Generally, things have moved on dramatically—not just from a regulatory point of view, but with communication generally. We just have to look at the state pension side—before you rule us out of scope, Mr Rosindell. Millions of people look on the internet every year to see what the position is with their state pension. The same will apply—to bring us within scope—to private pensions. The younger generation of people do not just wait for something to come. They are aware the whole time; they see the information on their pay packet. My younger son started work after graduation in September. They sign up for the pension, it is explained and they are interested. They think it is years away, obviously, but they are interested. That is why I do not take the communication point lightly, and I will do my best now to talk in more detail about it.

We have mentioned the automatic enrolment review. That is critical—this is not just a way of sidetracking the point—because it will consider how individuals

[Richard Harrington]

engage with their workplace pension scheme and how that can be developed so that members are better able to understand and maximise their savings. That is probably the most relevant change that we have to try to bring about—we as a Government are going to do this, but I am sure that any Government would—to get people really involved. We have appointed an external advisory board, including members that represent consumer interests as well as pension provider representation. We will lay a report before Parliament before the end of 2017. The relevant point, to bring us back to the Bill—you have been very patient, Mr Rosindell—is that it will take into account these findings. We will take them into account when considering the regulations under clause 12—that is the relevant clause—which I referred to a moment ago.

Nigel Mills: I did try to warn the Minister about this sort of question. The very first line of this clause says:

"The trustees of a Master Trust scheme may apply to the Pensions Regulator for authorisation."

Will he explain why that does not say "must apply"? We do not envisage any master trusts that are not obliged to register. Is it because they can form themselves, and before they start operating they have to apply, or does he expect them to be formed only after they have been authorised?

Richard Harrington: Master trusts may apply. Exactly. My hon. Friend's point is correct, but if they wish to be in a master trust in the market, they must apply. If they do not, they may say, "We've looked at this regulation, we call ourselves a master trust now, which we are, but the regulatory hurdles are not for us so we'll leave the market." We had to leave the flexibility in, and maybe many will. I do not know. Maybe entities will say, "It's not for us, we are going to do it another way," given the regulations, an extra burden of regulation or a different type of regulation, but if they are to be a master trust—if they are to continue as one—the "may" effectively becomes a "must", because they have to apply and regulate. We had to leave the possibility in. It may not happen, but I think some of the smaller ones will find that it is not for them. I hope I have answered that question satisfactorily. I hope, too, that I have said enough to reassure the Committee. The Government sympathise with the intention of the amendment. We take member engagement seriously. There is no simple answer.

The Bill is about protecting those people saving in master trust schemes by addressing the key risks that arise in this type of scheme. While member engagement is important, I do not believe that the Opposition have made an effective case that these issues constitute a key risk that needs to be addressed through setting out explicit requirements in primary legislation. That is the critical point. We will consider the area further as we go through the AE review, and we will develop and consult on the regulations under clause 12. As I have explained generally on the regulations, there will be time for both Houses to go through them. On that basis, I kindly invite the hon. Member for Stockton North to withdraw his amendment.

Alex Cunningham: First, I congratulate my hon. Friend the Member for Swansea East on her particular skill in introducing the word "WASPI" to each and every debate that I have ever been involved in. I pay tribute to her for the tremendous work that she does. She chairs the WASPI all-party parliamentary group. I know that it is at the centre of her heart, and the Minister was probably just waiting for the word to come up today. I congratulate her on all the work that she does.

It is the members' money, and they should be told what is happening with it and how it is being invested. They should also have an opportunity, as the Minister says, for two-way communication, and be able to influence that as well. The hon. Members for South Thanet and for Solihull agree that we should have good communication. They talked about loose wording, but communication is central to everything that we do in society these days. We have seen how failure to communicate has perhaps resulted in some of the things that have happened in recent times, such as the decision for us to leave the EU. Did we actually communicate the real messages, the proper messages? It is important in relation to pensions that we communicate the full message to the people whose money we are dealing with.

We will debate trustees later in our consideration of the Bill, but my attitude is, why should there not be member trustees when it is the members who bear all the risk when it comes to these investments?

The Minister talked of the various regulations that could be put in place and used the phrase, "That is up to the regulator." It is not good enough to leave those matters to the regulator. We need to provide guidance for the regulator.

The Minister is fond of his secondary legislation. I suggest that within that secondary legislation he could lay down some guidance, which the regulator could then use on the issue. The Opposition feel strongly about communications. For that reason, I will press amendment 24 to a vote.

10.45 am

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 1]

AYES

Black, Mhairi
Blackford, Ian
Cunningham, Alex
Elmore, Chris
Fovargue, Yvonne
Harris, Carolyn

NOES

Brine, Steve
Courts, Robert
Davies, Chris
Harrington, Richard
Heaton-Jones, Peter
Knight, Julian
Mackinlay, Craig
Mills, Nigel
Smith, Royston

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The clause allows the trustees of a master trust scheme to apply to the Pensions Regulator for authorisation and sets out details about the content of applications and the application process. The clause provides that an application must include certain key information: the scheme's latest accounts, the latest accounts of each scheme funder, the scheme's business plan and the scheme's continuity strategy. That information must be provided so that the regulator can assess whether it is satisfied that the scheme meets the authorisation criteria, which we will discuss when we deal with later clauses. The clause also allows the regulator to take any other information into account when considering an application.

As I have said, the master trusts market is still developing and we believe that it will develop further as it responds to the new requirements in the Bill, so the clause allows the Secretary of State to make regulations setting out further information that must be included in an application so that changes can be accounted for and the application process remains robust. The Government also intend to charge schemes a one-off application fee, which will be payable to the regulator at the point of application. It might be necessary to vary that fee, depending on factors such as the number of schemes that apply for authorisation and the resources required to process applications, so the clause allows the Secretary of State to retain flexibility by specifying that detail in regulations.

There must be a clause to allow applications for authorisation to be made, so I ask the Committee to support the clause.

Question put and agreed to.

Clause 4 accordingly ordered to stand part of the Bill.

Clause 5

Decision on application

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The clause sets out the procedure that the regulator must follow when it receives an application for authorisation from a master trust scheme. I draw the Committee's attention to the precise wording of subsection (1), which states that the regulator

"must decide whether it is satisfied that the scheme meets the authorisation criteria."

That is important, because it places the emphasis on the scheme seeking authorisation to demonstrate that it meets the required standards. If the regulator is not satisfied that it does, it will not grant authorisation.

It is important to ensure that a well run, high-quality scheme is not unduly held up by the requirement to become authorised, so the clause requires the regulator to make a decision on an application within six months of receiving it. That is important in other areas of regulation; I know from my constituency work that many other industries complain that regulators take too long and hold them up when they want to comply. The six months is therefore a very good thing.

The clause is vital because it introduces the authorisation criteria. They are: first, that the persons involved in the scheme are fit and proper persons; secondly, that the scheme is financially sustainable; thirdly, that each scheme funder meets certain requirements; fourthly, that the systems and processes used in running the scheme are sufficient to ensure it is run effectively; and finally, that the scheme has an adequate continuity strategy. As I said previously, the criteria were designed to address the key risks for these types of scheme. They relate to the risks that members of other types of pension scheme are already protected from. The criteria are set out in further detail later in the Bill, and I am happy to discuss them when we come to those clauses.

Question put and agreed to.

Clause 5 accordingly ordered to stand part of the Bill.

Clause 6

Referral to Tribunal of refusal to grant authorisation

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The clause provides for the appeal rights if the Pensions Regulator refuses to grant authorisation, which I mentioned in the context of the previous clause, to a master trust scheme. The decision to refuse an application for authorisation, and thus to prevent a master trust scheme from operating in the market, is clearly a decision that the regulator cannot take lightly. It is right that the people who are directly affected by such a decision have recourse to appeal against it, should they wish to do so.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

Fit and proper persons requirement

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The clause introduces the first of the five authorisation criteria that I mentioned previously. It means that, when authorising a master trust scheme, the Pensions Regulator must be satisfied that those involved in the scheme are fit and proper persons. The structure of the master trust scheme means that it is no longer the members' employers who set up the scheme or appoint the trustees. That changes the key relationship and the influences on the running of the scheme. Some master trusts are set up as a commercial enterprise and resemble something more akin to a conventional financial services product, but without being subject to the same regulatory requirements. It is therefore only right that we introduce the requirement of being fit and proper—fitness and propriety—in respect of those setting up and running master trusts.

The clause lists the key people whom the regulator must assess as fit and proper to act in their capacity in relation to the scheme. They include the trustees, the scheme funder and the scheme strategist. That list can be extended under regulations. Again, we do not want a situation in which an entity can create another entity without our being able to opine on whether they are fit and proper people to do it.

The clause also gives the regulator the power to assess a person who promotes or markets the scheme. Regulations can specify further individuals acting in a particular capacity whom the regulator may assess to determine whether they are fit and proper for that role.

Craig Mackinlay: On the point about the person who promotes or markets the scheme, a lone employer or an employer thinking about his options, whether it be the National Employers Saving Trust or another master trust, may ask his independent financial adviser to consider which scheme is suitable for his business. How would the Pensions Regulator get involved with subsection(3)(a)—

"a person who promotes or markets the scheme"?

The subsection includes the word "may". I am concerned that we may be putting regulatory requirements on IFAs who are already duly authorised under the FCA and may be caught under this clause. Was that the Minister's intention?

Richard Harrington: No, I confirm that that was not the Minister's intention at all. As we get through the regulations for this Bill, it is precisely that kind of case that we need to take into consideration, and there may be others. An IFA, of course, would be regulated and deemed to be a fit and proper person by the FCA. I am not very familiar with those rules, because they are outside my area of responsibility, but I think that they are pretty stringent and that they might be directly comparable to those under the Pensions Regulator. However, it is a fair point. In fact, most companies in the position to which my hon. Friend refers usually have to go to a professional adviser to be able to make that decision, because they have neither the time nor the experience to make the decision themselves, unless they are a very large company with suitable employees.

The regulation-making powers are needed to respond to developments in the market where the structures of master trusts might evolve to include other functions. There is a regulation-making power that enables regulations to specify matters that the regulator must take into account when assessing whether someone is a fit and proper person. As with other provisions in the Bill, we intend to work closely with industry, regulators and Her Majesty's Revenue and Customs in developing these regulations, as well as conducting formal consultation.

The clause also gives the regulator a discretion to take into account other matters as it considers appropriate when carrying out the fit and proper person test, including matters related to a person connected to the person being assessed. That will give the regulator the flexibility to ensure that it can be fully satisfied that the criteria for a fit and proper person have been met and not avoided on technicalities.

The fit and proper person criteria are a key part of the new regime for master trusts. They relate to the competence and propriety of those responsible for the pension savings of thousands workers.

Nigel Mills: Will the Minister confirm that he expects this to be a high bar; that he wants people to be able to show that they are knowledgeable, competent and have the training to be a trustee and run a pension scheme, and not just that they can pass a check that they have no criminal convictions for fraud? They have to show positively that they can run these pension schemes well, not just that there is no historical evidence that they cannot.

Richard Harrington: I can absolutely confirm that for my hon. Friend. I hope that he will agree that the fit and proper person test is quite well established across different regulatory regimes. By definition, it has to allow a certain subjectivity, because otherwise it becomes the low-level box-ticking that he fears. Having discussed this with the Pensions Regulator—both the chief executive and other people—I know that this would never happen under its regime. I hope that most people would not regard the fit and proper person test as the kind of thing to which my hon. Friend refers, but he makes a sensible point.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

Clause 8

Financial sustainability requirement

Ian Blackford: I beg to move amendment 33, in clause 8, page 5, line 39, after "scheme" insert "or scheme funder".

The financial sustainability of the scheme funder must be taken into account when assessing a Master Trust scheme's financial sustainability.

Amendment 33, which stands in my name and that of my hon. Friend the Member for Paisley and Renfrewshire South, seeks to ensure that the financial stability of the scheme fund is taken into account when the regulator is assessing the financial stability of the scheme funder. A number of insurance companies have told us that they already hold a very significant amount of capital under the European regulatory framework for insurance solvency. In this case, it seems unnecessary for insurers to be required to hold separate or additional capital on top of this in order to meet their new obligations as master trust providers under the Bill.

It would be helpful to know more from the Government on the restrictions on the use of member funds to meet costs, which need to be more clearly defined. We have also heard from the Association of Pension Lawyers, which has called for clarity on the policy intentions behind the clause and for the detail to be fleshed out. It would be appropriate for the Government to take the opportunity to do that today.

11 am

Richard Harrington: The amendment proposes a change in the requirements for the financial sustainability of the master trust in clause 8. The clause, in conjunction with other provisions in the Bill, requires that the Pensions Regulator must be satisfied that the master trust has sufficient financial resources. The amendment proposes that it is the scheme or scheme funder that must have those resources, rather than the master trust. I absolutely sympathise with what I think is the intent behind the amendment—security for members—but I differ with the hon. Gentleman because I believe that the clause already achieves that end. The amendment is therefore unnecessary. I will explain why.

Clause 8 already sets out the two elements of the financial sustainability requirement: schemes must have a sound business strategy and sufficient financial resources to meet both their operating costs and costs following a triggering event, such as those of winding up in the event of scheme closure. The financial sustainability requirement is intended to mitigate the risk of a master trust being set up with inadequate planning and insufficient financial resources—that is its whole purpose. When the regulator assesses whether the scheme meets the requirement, it must take into account certain matters that will be specified in regulations, and our intention is that the regulations will include how the resources to cover the costs mentioned by the hon. Gentleman must be held. The scheme therefore includes a scheme funder.

We are considering options for the regulations and will consult on them. Among those we will want to explore are holding the resources in escrow or as a guarantee, or other robust financial commitments. What the regulator will expect will differ greatly depending on the size of the company, varying from a massive multinational undertaking to a comparatively small one. It might involve a solicitor's client account or an escrow system. We want to consult on the options to get them absolutely right.

Also, we can use the regulations to specify whether the resources could be held either by the scheme or elsewhere, such as with the funder. However, if they are held elsewhere, our intention is that there must be clear commitment and availability of the funds in a range of circumstances. We would not want the money to be held by the funder rather than by the scheme if there were not sufficient protections or commitments in the event of the funder's insolvency; the money must be readily available to do the job in whatever circumstances. There are different circumstances and that is the kind of item that regulators consider in other areas of financial regulation.

It is absolutely fair to say that the key risk for members is the financial sustainability of the scheme, so we have focused the requirement on the scheme, but the Bill and the regulation-making powers enable a variety of ways for the scheme to meet the requirements. That approach will allow us to take account of the variety of arrangements already in place in the market, and enable future innovation.

The key outcome we want to achieve, and therefore what we have reflected in the Bill, is that it is the scheme that must have the resources available to it. The scheme's business plan and accounts and the scheme funder's accounts will form the basis of the regulator's assessment. The scheme funder's accounts will provide the regulator with information about the funder's solvency and the security of any commitment to provide funds to the scheme.

The clause also provides the Secretary of State with a power to prescribe matters that the regulator must take into account when assessing the scheme's financial sustainability. Such matters may include, for example, the risk of the scheme funder's insolvency; whether the scheme funder is subject to any prudential capital requirements imposed by a different regulator, which we have discussed for insurance companies and other types of company; and the terms and repayment periods of any loan funding relied on to meet the scheme's running costs.

To conclude, clause 8 requires the regulator to be satisfied that the master trust has sufficient resources to meet the financial sustainability requirement. The scheme funder's financial position and its financial arrangements with the master trust will form a key part of the regulator's assessment. I therefore urge the hon. Gentleman to withdraw his amendment.

Ian Blackford: I will not detain the Committee longer than absolutely necessary. I am relatively satisfied with the Minister's response, particularly in the light of ongoing consultation, and on that basis I will not press the amendment to a vote just now. However, there are obviously some remaining concerns about insurance companies, particularly under the obligations, and I would like those to be highlighted today. We will move on for now. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 8 ordered to stand part of the Bill.

Clause 9

Scheme funder of last resort

Question proposed, That the clause stand part of the Bill.

Richard Harrington: The clause was introduced by the Opposition in the other place. It is intended to require the Government to make provision for a scheme funder of last resort, which would take effect if a master trust had insufficient resources to meet the costs of complying with duties arising from a triggering event and the costs of continuing to run the scheme for a further prescribed period.

Since the clause's introduction, I have reflected a lot on how it would work. I have had formal and informal discussions with Members of the other place and have met officials, in the presence of the Opposition spokesman, the hon. Member for Stockton North, to discuss this subject. I have concluded that it is unnecessary to place such an additional requirement on the Government, and I will do my best to persuade the Committee of that view.

I think that we all agree that the Bill's primary purpose is, quite simply, to bring in safeguards and controls for employers and employees who have opted to save through a master trust pension scheme. The Bill includes new powers for the Pensions Regulator, which will be responsible for the effective operation of a new authorisation and monitoring regime for master trusts. Schemes that do not meet or maintain the specified standards simply will not be allowed to operate. We have just discussed two of the authorisation criteria; as I explained, clause 7 sets out the requirements that those involved in a scheme must meet to be considered fit and proper persons, and clause 8 describes the financial sustainability requirements that will apply to master trusts. The remaining criteria—the business plan requirement, the scheme funder requirements, the systems and processes requirements and the continuity strategy requirement—are dealt with by clauses 10 to 13.

The Bill's later clauses define the events that, when experienced by a scheme, will trigger a series of specified actions and additional requirements that must be undertaken by the scheme and the regulator. The nature of such events may mean that a scheme is operating under increased risk. Those additional requirements will ensure that increased scrutiny and controls are put in place until the new risk has been dealt with and nullified, or the scheme is wound up in an orderly manner and the interests of employers and members are successfully transferred out to a new scheme.

[Richard Harrington]

In addition to the new regulatory framework, the regulator is working closely with individual master trust schemes. That work provides us with insight into the scale of current risk, which the clause has been designed to guard against, and may be followed by the publication of new supporting data by the regulator. In addition, the indications are that market forces are operating effectively prior to the new regulatory regime coming into force. For example, some master trusts have left the market and transferred their members without issue.

As I have explained in previous debates, it is very attractive for existing successful master trusts—the vast majority of them—to take on members from smaller master trusts that might appear to be failing in their administration, since that allows them to add members without adding very much to their costs. I realise that is commercial rather than structural, but I believe that will happen, as it has in other regulated areas of financial services. New, larger schemes are also now entering the market. Such schemes are on a sound financial footing and will actively seek to increase their market share. All that further supports our belief that the risk of scheme members being left stranded is absolutely minimal.

Hon. Members might continue to be concerned that, were a master trust to fail, the members of that scheme might be left stranded. I perfectly understand their thinking, but we consider the risk to be negligible. However, we recognise that we cannot completely rule it out, which is also recognised by the pensions industry. We are currently working with the Pensions and Lifetime Savings Association, which is exploring establishing a panel of "white knights." That panel would aim to guarantee that, if a master trust was required by the regulator to leave the market, the affected master trust scheme members would be transferred to a new scheme. That happens all the time in other regulated fields of the financial services market.

I believe, after consideration, that as drafted clause 9 does not work as intended. If I may expand on that, a couple of illustrations might help. The clause does not contain a power, such as a regulation-making power, enabling the Secretary of State to make further provisions relating to the scheme. That would include provisions relating to the scheme's procedure and operations. The clause provides that the Secretary of State should consider only the resources held by a master trust and not the scheme funder.

Given the imprecise nature of the clause, I am concerned that it could lead to perverse behaviour, with schemes shifting funds about, knowing that the taxpayer will pick up the bill. We are also concerned that, given the clause's lack of clarity regarding funding of a Government-backed scheme of last resort, stable master trust schemes might be concerned that they are at risk of paying for failing master trusts and, as a result, opt to leave the market. For the reasons outlined, I call for the clause not to stand part of the Bill.

Alex Cunningham: I had hoped that I would not need to prepare a speech on this matter, other than to welcome clause 9, but I am disappointed that we find ourselves defending a new clause added to the Bill by our colleagues in the other place, particularly as the Minister has opted to take it out altogether, with limited alternative provision to protect the members of master trusts who are failed by their trustees.

I am grateful to the Minister for the time he has taken to discuss these matters one to one with me and with colleagues in the other place. There remains tremendous uncertainty about exactly what happens if the worst comes to the worst and there is no organisation to pick up the pieces, whether that be a small trust that fails to make the grade under the legislation, or a large trust that could fail in years to come.

The Minister referred to his panel of "white knights." I was trying to envisage a group of white knights on large chargers heading through the City to help people out.

Richard Harrington: I should reiterate that it is not my panel of white knights; it is that of the Pensions and Lifetime Savings Association, which is a large and well respected trade body, as the hon. Gentleman certainly knows.

Alex Cunningham: I accept that correction. I am sure the Minister would look grand dressed as a white knight. The fact is that no white knight actually exists.

The clause has a key purpose to protect the pensions pots of ordinary people from being raided in the event of a master trust failing. That is something that would certainly not be the fault of the workers up and down the country who are faithfully paying into a pot; a pot that, although welcome at retirement, is likely to be relatively small. If the Government succeed in removing the clause from the Bill, they will be responsible for not providing a safety net if a master trust fails and workers end up losing their hard-earned cash.

It is not enough for the Government to argue that a failing scheme will always be successfully transferred. They instead must ensure that a funder of last resort is identified in the Bill. The Government argue that there is no need for a funder of last resort because the procedures laid out in the Bill will prevent it from reaching that far. Industry experts across the board insist that a funder of last resort or equivalent is needed. The chair of the Standard Life master trust has called for the Government to be the funder of last resort

"because it's their policy foul-ups that have allowed the proliferation of unsustainable master trusts".

I do not know if there has been a foul-up or not. I believe that the growth in master trusts and in auto-enrolment is actually a very positive thing. The chair also commented that Government funding was unlikely and that a levy on the employers should be imposed instead, as it is the employers who have chosen the master trust and therefore they should bear more risk. That could make them think twice about getting involved with less than honourable trusts.

11.15 am

There are options in regard to who or what the funder of last resort could be, such as those I have just outlined, but it is the duty of the Secretary of State to make provisions to ensure that there is one. Does the Minister consider the Government to be a viable funder of last resort, or does he believe that it would be more effective for the employers to be levied? Smaller trusts suggest that NEST should have a role here, but I suppose they would say that, given that they have seen the benefits that NEST has had that they have not enjoyed. There are of course commercial issues there as well.

I assure the Minister that somebody will have to pay if something does go wrong, and that is better decided sooner rather than later. The Minister could cut this part of the debate short by giving a cast-iron guarantee that no one who has had their savings invested in a master trust pension pot will see their pot diminished because the trust has failed, but he has already acknowledged in his speech that he cannot do that. Will he put the Treasury's money where his mouth is and say that if his own proposals to protect the owner of the pension pot do prove inadequate, they will make the cash available to make good any losses?

There may be an argument that this is not just a straightforward, black-and-white matter, and I agree, because it will be red lines on the pension pot statement if we do not act. None of us really knows the full extent of what is going to happen when the provisions of the Bill come into force. I agree with the predictions that some master trusts will fail to clear the necessary barriers to continue. Indeed, I understand that work is already under way in the industry in recognition of that, to ensure the right thing happens for most pension savers, but—it is a cliché—we do not know what we do not know and there may be failing trusts that might not have sufficient resources to wind up and we must ensure that members' pots are 100% protected. There is simply no guarantee that another trust will choose to pick up one that is failing. Why would they? What obligation do they have? Why would it be in their interests to do so? I ask the Minister what happens when no other trust wants to pick up one that has failed. There is no guarantee in place.

That is why there needs to be a funder of last resort. We must predict what could possibly happen, even if there is only the slightest chance of it happening, and ensure that we have a protection plan in place. We cannot simply hope that another trust will pick it up; instead we must intervene now to ensure a back-up plan to the back-up plan. The Government must prepare for the worst-case scenario, and nothing I have seen so far convinces me that Ministers are doing so.

What would the role of the Pensions Regulator be in the event of a failure? There are high risks, with high immediate costs associated with those risks, and somebody will have to pick up the pieces. Will it be the Pensions Regulator? Will it have the resources to do so? We must remember that history dictates that there are always possibilities of large-scale failure with anything related to financial services.

Julian Knight: The hon. Gentleman is making some interesting points. Surely the point of the legislation is to ensure that, on start-up and on an ongoing basis, the fund and the pension scheme are sustainable. That is the job of the Pensions Regulator. He also mentioned the return of the entire capital. Even in the Pension Protection Fund, it is still only 90% return on capital.

Alex Cunningham: Yes, it is the responsibility of the regulator to ensure that whatever trusts are set up are stable and ready to go. My point is that, as we have seen, whether we are talking about defined-benefit schemes just looking at the failure of the banks in recent years, there is always an opportunity for catastrophic failure in our master trusts, with perhaps 1 million or 2 million members. I am not convinced that there is provision to protect their interests. Lord Freud referred to this clause as a sledgehammer to crack a nut, considering all the mitigations against the risk that are already in the Bill, but what if those mitigations are not enough?

Again, will the Minister provide the Committee, and people all over this country, with a 100% assurance that the Bill without this clause is enough to protect members? Will he guarantee that no master trust will be in a situation whereby it has failed and has insufficient resources to meet costs? I believe—he has already said it, and I have said it as well—that he cannot guarantee that 100%, which is why the clause needs to stand part of the Bill. By seeking to remove it, the Government continue to go back to the argument that there are enough conditions in the Bill without the clause, such as the Pensions Regulator needing to be satisfied that the master trust has sufficient financial resources to comply with its continuity strategy. There are too many unknown factors out there in master trust world for us to know that for certain.

How can we encourage ordinary, hard-working people to save for retirement and put their trust in a scheme that their company bosses have picked for them when the Government are consciously acting against the clause that could be the safety net? We have seen all manner of pension schemes get into trouble and pensioners have been the losers, so we need systems to be much more robust. Workers need to be confident and assured that the money they have faithfully put aside is given the greatest possible protection.

Another mitigation in the Bill that the Government use to support their argument that the clause is not needed is the regulation of our record management, which will be regularly monitored.

Yvonne Fovargue (Makerfield) (Lab): If the clause is not needed, why not put it in to give people that extra confidence? People have an historically low opinion of financial institutions, trusts and banks, so surely any extra insurance that will encourage people to have confidence is worth putting in.

Alex Cunningham: My hon. Friend is correct. People want to know that everything is 100% safe. I know that the Minister said that we can never guarantee 100% safety, but we are talking about some of our society's most financially vulnerable people who are investing relatively small amounts of money in their master trust. They are not going to get a tremendous pension—nothing like what a Member of Parliament receives—but they want to know that their small pot will actually mean something for them. That is why we must have those protections.

We were talking about regularly monitored business. How regular—every three months, every two years, every five years?—and what type of monitoring? Can the Government say for certain that, by the time the regulator has identified a problem with record management, it will still be within the timeframe to resolve the issue without a funder of last resort?

[Alex Cunningham]

The Government argue that the Bill already achieves what clause 9 is trying to achieve, but I must question the real reason why they do not want it in the Bill. If they support the idea of master trusts having regulations in place to avoid a disastrous situation if one failed, why will they not just support the clause? If they are so sure that it would never reach the stage of needing a funder of last resort, what is their opposition to including the clause just to ensure that, in a worst-case scenario when things do not go to plan, there is extra protection in place? Unless, of course, they are ideologically opposed to the concept of a funder of last resort. It would be a safety net; a guarantee from the Government that they will need to do everything in their power to protect workers' retirement funds. If that is the case, I am disappointed that the Government do not believe that it is their duty to step in when business fails and that they would leave innocent people paying the price.

One argument that the Government Lords kept repeating was that, in the event of regulatory failure and a trust not having the means to finance a wind-up, it will not be members that will have to pay the price, but the Government have yet to tell us who it will be. When a number of master trusts and pension experts are calling for there to be a funder of last resort, why are the Government not listening? We have heard a lot of words in the other place and here today, but we have seen not action. Verbal assurance is not good enough when we are talking about people's livelihoods in older age. We need action and robust legislation to ensure that we take every precaution. In the absence of greater clarity about the Government's insistence that the Bill already addresses areas raised in this debate, it is vital that clause 9 is not removed. We should be covering every base in order to say confidently that we have taken every possible measure to protect members' money 100%.

Ian Blackford: I think we all understand that the pension pots themselves are not at risk from the mechanisms we are talking about; it is about the funding of the master trusts. My appeal to the Government is that we have to find a solution to this that will give trust to those who are investing, so that they know that the master trusts themselves will be secure, whether that is from the definition of a funder of last resort, or from particular powers that the regulator has to make sure that, in the event of a trust failure, those assets can be managed in the interests of the fund holder. There is an element of risk—albeit a relatively small one—and we have to try to see whether we can close that down. In the absence of another solution, the Government should think about this clause remaining part of the Bill for now.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.