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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
LONDON
SW1H 0ET

31 July 1986

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Dear Paul.

PERSONAL PENSIONS

Thank you for your letter of 16 July about prospects for an Autumn 1987 launch for personal pensions (PPs). As you know, I place the greatest importance on being able to meet this target. We now have the Social Security Act and it would be a tragedy if we were to miss an Autumn 1987 launch.

I am afraid I do not accept your argument that to advance the start date to Autumn 1987 would place undesirable extra pressures on pension providers.

I accept that you may be right about some sections of the pensions industry, but they are precisely the vested interests against whom we have had to battle so hard to get PPs off the ground. I would be very reluctant to accept that we should now let their self-interested opposition stand in our way. I am sure that the new pensions providers (such as the unit trusts and building societies) and many insurers would respond enthusiastically to an early start date. Certainly my informal soundings have revealed that providers likely to be active in the PP market are straining at the leash. I believe we should give them the opportunity.

Your other reservation concerns the state of readiness of the safeguards in the Financial Services Bill. I certainly want to see investor protection for personal pensions to be derived mainly from the Financial Services Bill framework. I applaud the efforts that you and Michael Howard are making in this respect and if there is anything further that we can do to help, I hope you will let me know.

E.R.

You say at the end of your letter: "We should therefore need to be very sure of the political benefits you suggest might flow from bringing the timetable forward before embarking on such a course." I would suggest that the advantages - political and otherwise - are overwhelming and I believe it is fair to say that that view has been supported in the correspondence following my earlier letter.

I would be most grateful if, in the light of this, you would take another look at the timetable for the Financial Services Bill safeguards to see if it really presents as insuperable a difficulty as your 16 July letter suggests.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Tebbit and David Young.

Yours ever
Norman

NORMAN FOWLER

SOCIAL SERVICES

REVIEW

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Secretary of State for Trade and Industry

16 July 1986

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services
Department of Health
and Social Security
Alexander Fleming House
Elephant & Castle
London SE1

NBPM

Dear Secretary of State,

PERSONAL PENSIONS

Thank you for your letter of 30 June; at flap I have also seen your letter of the same day to Nigel Lawson and his reply of 7 July.

My concern is with your wish to bring forward the operative date for personal pensions to Autumn 1987. The main operational concern is with the readiness of our investor protection regime, which is largely dependent upon the system set up by the Financial Services Bill. But we should, I think, also be alert to the interests of the pensions providers - both those bringing new personal pensions onto the market, and those having to adjust their occupational scheme rules to cater for the new requirements. I have considerable reservations about your proposal on both counts.

As far as the Financial Services Bill regime is concerned, there would be serious difficulties about bringing forward the introduction of personal pensions to the Autumn of 1987. Although we hope to transfer powers to the Securities Investment Board (SIB) early in 1987 and to complete the recognition of the self-regulatory organisations (SROs) by the middle of the year, the SROs will then have to recruit members and the SIB will need to consider applications for direct authorisation. In view of the very large numbers involved (estimated to be over 15,000), this process will inevitably take some time. Only when most of

1786
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BICENTENARY

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the applications have been decided can we bring into force the provision making it a criminal offence to carry on investment business without authorisation and only then will SIB's rules become binding. We expect the appointed day for this purpose to be some time in the second half of 1987 and it could well be not until towards the end of the year. The timing is not in our hands as it depends on the progress made by the SROs in preparing for recognition and on the progress of the authorisation process.

The Financial Services Bill's safeguards are essential to the proper functioning of the personal pension system. We shall be relying on the rules and authorisation requirements to ensure that only fit and proper persons are able to supply such pensions and that their conduct is subject to rules which are effectively enforced. I therefore do not believe that we can safely alter the planned date for introduction of personal pensions as you suggest.

Even were the Financial Services Bill timetable not a difficulty, we should need to think very carefully before imposing the considerable extra pressures this would place upon those providing and marketing personal pensions, and the managers of occupational pension schemes who will have to adjust their rules and funding to the new circumstances. Your letter recognises that you would be setting a tight timetable for pensions providers, who have of course now been working for six months against the Government's firmly announced timetable of April 1988. You will recall that one of the main points of industry's united response to the original Green Paper proposals was the paramount need to give adequate notice of changes in pensions systems, so that reliable and effective mechanisms could be devised to meet the consumer's needs. Bearing in mind that the industry will not have total security in its planning until the tax provisions are enacted in the 1987 Finance Bill, there must surely be a risk of quite a strong adverse reaction to your proposals from business interests. This could come not only from occupational pensions managers, but from those who appear to benefit most from the Government's new system, the personal pensions providers themselves. We should therefore need to be very sure of the political benefits you suggest might flow from bringing the timetable forward before embarking on such a course.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson and Norman Tebbit. In view of the implications of acceleration for business, I am also sending it, with a copy of your letters, to David Young.

Yours sincerely,

M.R. Gilbertson

pp PAUL CHANNON

[Approved by the Secretary of State and signed in his absence]

1786 1986 BOARD OF TRADE BICENTENARY

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SOCIAL SERVICES Review PTY