Written evidence submission
Pension Schemes Bill 2025 – Small Pot Consolidation

Submitted to:	House of Commons Public Bill Committee
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Re:	Pension Schemes Bill 2025 – Chapter 2, Part 2: Consolidation of Small Dormant Pension Pots

Executive Summary

The UK faces a small pensions crisis - 12.5 million small pots growing by 1 million annually, costing the industry £225 million per year (circa £18 per small pot) while trapping £4+ billion in member savings and costing the member between £6,300 and £15,000 when they retire in hard cash depending on the number of jobs held in their career.

The Bill's proposed consolidator framework creates unnecessary regulatory complexity while ignoring willing market participants and proven technology ready to solve this problem immediately. We propose an alternative that delivers tangible results within 18 months and a practical industry led solution that is scalable and sustainable to address all small dormant pots – existing and ongoing.

AI-powered small dormant pot sweeping that automatically transfers these small pots into members' existing larger pots, eliminating administrative burden for providers while improving outcomes for millions of savers - £700 to £1,000 per pot - back in the individuals pocket when they retire.

No new regulation. No government funding. No bureaucracy. Just proven technology solving a real problem.

The Problem is real and growing

12.5 million small pots exist today, growing by 1 million annually

- £225 million in annual administrative burden (DWP research and figures).
- £4+ billion AUM trapped in inefficient small pots (DWP research and figures).
- Members losing £700–£1,000 per pot when at-retirement due to fragmentation (DWP research and figures).
- Auto-enrolment research and assumptions based on data in 2008 assumed between 1 and 3 career moves for people working. Now the data is telling us that millennials will have circa 15 career moves and the average UK worker at least 6. No wonder traditional pension providers are bearing disproportionate costs they could not easily have predicted or designed their administrative systems to cope with let alone their operating model for the management of assets.

The root cause is simple - auto-enrolment was designed for stable, long-term employment. The reality is frequent job changes creating a trail of small, dormant pots that many systems and business processes cannot efficiently service.

Why the current Bill falls short

The proposed consolidator framework creates unnecessary complexity that will delay solutions while adding costs:

New regulatory burden: Building bureaucracy from scratch

- Creates entirely new "consolidator" entities requiring separate FCA authorisation for contract-based schemes.
- Establishes complex "small pots data platform operator" systems with undefined operational requirements.
- Introduces multiple layers of regulatory oversight when existing frameworks already govern pension transfers.
- Diverts TPR and FCA resources from existing priorities to create new authorisation processes
- Timeline: 2030 is the earliest the first consolidator could be operational.

Infrastructure duplication: Ignoring existing capacity

- Traditional providers have existing transfer capabilities with compliant processes and member communication but need to shed small pot administrative burden.
- Pensions Dashboards Programme has established secure data standards and APIs for member matching.
- New consolidators must build member communication systems, investment platforms, and regulatory reporting from scratch.
- Risk of creating "zombie" consolidators with insufficient scale to operate efficiently.

Commercial risk: Learning nothing from past failures

- Member Exchange initiative (2019-2023) failed to gain traction despite regulatory support and industry backing.
- New consolidators face identical challenges: limited member engagement, complex data matching, uncertain business models.
- Without guaranteed member flow, consolidators may adopt overly conservative approaches limiting innovation.
- Multiple consolidators competing for the same small pots could drive up acquisition costs.
- Unclear how consolidators will achieve sustainable economics on sub-£1,000 dormant small pots.

Fragmentation risk: Recreating the original problem

- Multiple consolidators could simply scatter small pots across different new entities rather than truly consolidating them.
- Members with multiple small pots might end up with pots spread across different consolidators.
- No mechanism ensures consolidators will themselves consolidate as they grow.

- Creates a new category of provider that members didn't choose and may not understand.

Market reality: Ignoring willing participants

- Traditional providers actively want to eliminate small pot costs - they are willing to pay for solutions to solve this problem.
- Advanced AI and data matching technology exists now and this is further enabled through Pensions Dashboards standards and infrastructure.
- Commercial operators are ready to solve their small pot problem between them with a utility that bridges the gap between providers who want to transfer small pots to the current incumbent providing the current pension for the member or the provider that has the largest dormant pot for the member.

The fundamental flaw: The Bill assumes the market lacks solutions when the reality is they just need a utility to provide a simple yet effective service between them for the benefit of the small pot holder.

Our solution: Smart Pot Sweeping between existing Pension Providers

The concept is elegantly simple: Use AI-powered matching to automatically transfer small pots into members' existing larger pots with existing regulated pension providers.

How it works

1. **Identify small dormant pots** (<£1,000) across participating providers.
2. **Match members** using existing standards in place (Pensions Dashboards Programme data standards & APIs) and modern advanced AI pattern matching methods.
3. **Locate larger active pots** within the same member's pension portfolio.
4. **Execute automatic transfers** from the small pot (<£1,000) with one pension provider to the larger pot with another pension provider and update the member of the transfer and the benefits to them, including their opt-out rights.
5. **Audit and report** all activity through fully compliant systems.

Phase 1 scope: Proving the infrastructure

Focus: Demonstrate the technology and process with willing participants

- Partner with 3-4 major providers eager to address small pot costs.
- Process 50,000+ consolidations in the first phase (18 months).
- Prove AI matching accuracy, scalability and transfer efficiency.
- Prove member communications process, scalability and efficiency.
- Generate £3.75M+ in cost savings just with the first testing of 50,000 small pots across 3 – 4 partners.
  For example, a small pot of £320 with 0.4% AMC generates £1.28 per year in fees but costs circa £18 per year to administer resulting in an average annual loss of £16.72 per small pot for one year.
  (note - assume £15 in cost per small pot per year and a minimum of 5 years for the pot to be held by the pension provider. In reality, small dormant pension pots could be held by the provider for the entire accumulation period of the member – between 1 and 44 years)
- No government funding required—providers contribute towards a successful transfer - a charge of circa 2 years annual cost could be charged per successful transfer due to the scalable and efficient process possible to address the small pot challenge.

What we're NOT doing in Phase 1:

- Processing orphaned pots with no other home – these can remain for phase 1 with the incumbent pension provider.
- Creating a new consolidator entity – the aim of this venture is to not need a new consolidator entity but instead to leverage the current incumbent pension providers and their participation in the Small Pots Club.
- Building complex fallback mechanisms for the outliers we discover through running 50,000 small pension pots in the highly automated and secure process set up to scale consolidation of small dormant pots.

Small pots that cannot be matched simply remain with existing providers until Phase 2 expansion.

Why this works better

For Providers

- **Immediate cost relief:** Reduce £3.75M of small pot burden with phase 1 and a limited run of 50,000 small pots in the first 18 months of operation. Secures the proof points and roadmap to move this programme on to addressing the remaining 12.5 million small pots costing pension providers £225 million each year (DWP analysis).
- **No new regulation:** Works within existing frameworks.
- **Proven ROI:** Clear cost-benefit from day one.

For Members

- **Better outcomes:** Pots consolidated into their larger pension pots achieves efficiency and better outcomes – estimated very conservatively at between £700 and £1000 per consolidated small pot. Given the estimate for the average UK worker is 9 jobs in their career and for younger generations (millennials) it is estimated to be 15 jobs this will give people between £6,300 and £15,000 when they retire that they would not have had if hadn't addresses the small pot challenge.
- **Full protection:** 30-day notification, opt-out rights, audit trails.
- **No disruption:** Seamless process using existing pension rights.

For Government

- **Market-led solution:** No public funding or new bureaucracy required.
- **Regulatory alignment:** Uses existing FCA Consumer Duty and TPR frameworks.
- **Scalable foundation:** Proves infrastructure for future expansion.

Technical foundation: Built for trust

Our solution leverages proven infrastructure:

- **Pensions Dashboards Programme standards** for secure member matching.
- **Existing provider APIs** for seamless data exchange.
- **AI-powered verification** to ensure accurate transfers.
- **Fully compliant audit systems** for full transparency.
- **GDPR-compliant processes** protecting member data.

This isn't experimental technology—it's applying proven systems to solve a specific problem.

Consumer protection at the core

Comprehensive safeguards ensure member protection:

- 30-day advance notification before any transfer.
- Clear opt-out process at any point.
- Full audit trail for every transaction.
- Annual transparency reports to TPR.
- Support for vulnerable members and non-digital users.
- Translated materials for diverse communities.

Proposed legislative amendment

We propose adding this simple clause to Chapter 2, Part 2:

"Where a deferred defined contribution pension pot held by an authorised provider is valued at less than £1,000, and the member has an alternative, larger active defined contribution pot within a UK-registered pension scheme, the provider may automatically transfer the small pot into the larger pot, subject to member notification and right of opt-out, where such transfer is between one UK-registered pension provider and another."

This provides legislative clarity without creating new regulatory frameworks.

The path forward

Phase 1 proves the concept. Future phases can expand to provide a scalable and highly automated small dormant pot consolidation service.

The beauty of this approach is its simplicity -> use existing technology, willing participants, and proven consumer protections to solve a real problem immediately.

Rather than building new infrastructure from scratch, we can demonstrate measurable results within 18 months while laying the foundation for broader industry transformation.

The small pot problem has a solution. It's time to implement it.

Contact Information

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Detailed technical specifications, financial modelling, and implementation timelines available upon request.