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Response to FCA's Improving the quality of pension transfer advice consultation CP18/07

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Response to FCA consultation paper CP18/07: Improving the Quality of Pension Transfer Advice

1 Executive Summary

We are supportive of the FCA's efforts to improve the quality of pension transfer advice in the post pension freedoms environment.

Individuals considering a transfer should have access to high quality, non-conflicted advice, greater clarity on costs and certainty around who is ultimately taking responsibility for that advice.

Improving the quality of transfer advice should lead to an improvement in confidence in this market with members, companies and trustees of defined benefit pension schemes.

From this greater confidence more companies and trustees would then be in a position to support members with their retirement planning, including facilitating access to financial advice. If the cost barriers of DB members finding their own financial advice were removed, improved member engagement would result. If members were engaged and receiving good quality advice they will take better informed decisions that will be in their best interests. In other words, better member outcomes – something we have been strongly advocating for many years.

Although we are not able to speak for financial advisory firms, we believe that greater clarity for them is a good thing. Over time, we would expect that this will have a positive impact on the quality of financial advice available for individuals within this market.

2 Consultation Response

Q1 Do you agree with the proposed changes to the qualification for a PTS? If not, how would you suggest we amend it?

Yes, we agree with the proposed changes to the qualification for a PTS.

Q2: Do you agree with our proposed arrangements for the transition period?

To improve member outcomes in a time of significant demand for transfer value advice, we'd like to see this change implemented as soon as is practical and before October 2020.

Q3: Do you agree with the proposed changes to the exam qualification standard, ApEx 21? If not how would you suggest we amend it

Given the significant change to the pension landscape introduced by the Pension Freedoms we are supportive of these proposals.

Q4: Do you agree with the proposed changes to the pension transfer definition? Please indicate if you consider there are any other consequences that have not been identified.

No specific comments.

Q5: Do you agree with our proposed guidance for advisers working together? If not how should we amend it?

We are highly supportive of providing transparency to consumers on roles and responsibilities under the two adviser model. Although the additional Handbook guidance might be helpful, we are not sure it is necessary given the existing guidance makes it clear advisers should not be advising on pension transfer values without already taking the factors set out in 4.17 fully into account.

Q6 Do you have any comments on our explanation for advising self-investors?

No specific comments.

Q7: Do you agree with our proposed guidance on triage? If not, how could we approach it differently?

We are supportive of providing further clarity on the role of triage services.

We think quality triage services (in particularly services supported with technology) will have an increased and valuable role to play in educating and informing members and advisers. Such services can help reduce the costs of delivering advice and are an ideal way to protect members' interests.

There are already a number of online tools available to offer this education for members, helping them to decide whether to go down the advice route. Through the member being able to answer a few broad questions they can assist the member in deciding whether further advice is needed. It protects members as it identifies those for whom advice is not suitable and prevents them wasting both time and money in seeking unnecessary advice. This is also to the advantage of advisory firms as they are not spending time and resources on people for whom there is no benefit.

By extending the guidance proposed in this consultation, the FCA could provide even greater clarity, for all parties, about the boundaries for this type of triage tool. For example, at what point would it be seen that paying for the service would be necessary?

It would be helpful for guidance to consider not only those consumers who decide to seek financial advice having gone through a triage process, but also those who decide to remain in their DB scheme. For example, could an educational process that results in members not engaging in advice ever be viewed as advice itself? Some assurance in this area would be helpful.

The role of triage services will become even more important if contingent pricing is restricted or banned.

Q8: Do you agree with our proposed guidance on assessing attitude to transfer or convert risk?
Yes, we are supportive.

There is currently a narrowness in the way in which risk assessment is conducted by some advisers, in the context of transferring to a drawdown arrangement. Those advisers offering quality advice around transfers are already assessing member's attitude to important aspects such as the loss of guarantees and introduction of longevity risk.

However, typical, non-transfer advisory processes (for example, focused on drawdown advice for DC pension pots) tend to focus attitude to risk assessments on short-term investment risk, which could provide an incomplete picture. In this context the proposed guidelines seem broadly sensible and necessary.

By providing clear guidance it will encourage tools that incorporate a more comprehensive view of risk for customers considering a move from a guaranteed DB to a more flexible DC arrangement. Items listed in 5.6 need to be captured and documented by advisers considering these transfers.

In addition, we expect DB sponsor insolvency risk is currently a factor driving 'attitude to transfer risk' and further guidance for advisers in how they can consider this risk in the overall advice process would be helpful. We raised a similar point in our response to CP17/16.

Q9: Do you agree with our proposals to modify the Handbook rules and guidance in respect of suitability report and the advice confirmation?
Yes

Q10: Do you agree with our proposal on pension increase assumptions?
We believe Black Scholes pricing would provide a better estimate for these assumptions which would also be more consistent with the assumptions used to determine the DB pension transfer value. However, the approach proposed appears reasonable.

Q11: Do you think that contingent charging increases the likelihood of unsuitable advice? If so, can your provide any evidence to support intervening in the way pension transfer advice is charged, or would another approach be more effective?
We expect that it does, but this is speculative.

We believe the FCA is in the best place, based on supervisory reviews undertaken as well as evidence from the British Steel case, to be able to determine this.

Q12: If we proceeded to restrict the way in which pension transfer advice can be charged, do you have views on how this should be implemented? In particular how could we avoid different forms of restriction from being 'gamed'?
We welcome the proposal for the industry to have an informed debate on contingent charging.

Contingent charging can be used to allow consumers to access financial advice that they might not otherwise be able to afford. However, there are obvious dangers that, in its crudest form, some advisers will only get paid if

they recommend a transfer. Commercial incentives are not necessarily restricted to advice fees at the point of transfer. A number of the larger 'vertically integrated' retail advisory firms giving specialist DB to DC advice also provide ongoing services such as continuing advice, investment funds and platform administration. The conflicts associated with promoting these services will also need to be managed carefully.

This issue therefore needs full debate with real focus on how the availability, costs and quality of advice (and ongoing services, post transfer) will be impacted if contingent charging is banned. There must be a balanced approach. There could be alternatives which provide member protection, such as the sponsor providing a triage service paid at a minimal fee which would provide an income for an adviser, rather than a contingent fee.

Q13: How would different forms of restriction on pension charging impact consumers and firms? Are there any ways in which we would mitigate any negative impact? For example, to address concerns about reduced access to advice (due to increased advice costs for consumer who do not transfer), could we require firms to 'signpost' consumers to internal or external guidance/triage services, including the Pensions Advisory Service?

No specific comments.

Q14: Do you have any comments on our cost benefit analysis?

No specific comments.

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