Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Advising on pension transfers (CP17/16, PS18/6)

Lead regulator: FCA

Date of assessment: November 2018

Commencement date: 1 October 2018

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

Defined Benefit (DB) pensions, and other safeguarded benefits providing guaranteed pension income, give valuable benefit. Most consumers will be best advised to keep them. But the pensions environment is changing, particularly since the introduction of the pension freedoms in 2015 which gave consumers more options to access their pension savings. As a result, there is increased demand for pension transfer advice. Given this, we have focused recently on our rules which are designed to ensure that consumers receive suitable pension transfer advice.

The FCA has rules which govern advice given to consumers on the transfer of safeguarded benefits. Transferring from such a pension, to one without any safeguards, is an important decision for consumers to take and historically has been unlikely to be in their best interests in most cases.

In June 2017, the FCA issued a consultation (CP17/16) which set out proposals to update our rules and requirements. The new framework was set out in PS18/6, published in March 2018. Most of the proposals came into effect in March 2018 and have been covered in a previous Impact Assessment. This assessment only covers the changes to the analysis of the client's options that came into effect on 1 October 2018. As this falls in a separate reporting period they were not considered in the previous Impact Assessment. Note that other changes set out in PS18/6, relating to revaluation assumptions for pensions, come into force in this period of assessment (6 April 2019).

The new analysis to support advice involves giving consumers a clearer explanation of the costs of replacing the benefits they would be giving up, using an Appropriate Pension Transfer Analysis (APTA) and a mandatory Transfer Value Comparator (TVC). The value is expressed in monetary terms which we expect will be easier for the client to understand than the previous methodology, where a % “critical yield” was calculated.

Which type of business will be affected? How many are estimated to be affected?

Financial advisory firms advising on pension transfers. There are around 2,500 firms who employ Pension Transfer Specialists (PTSs) and 5,000 individuals with PTS qualifications who are assumed to be active.[1]

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2018	2018	10	-0.6m	0.1m	0.5m

Please set out the impact to business clearly with a breakdown of costs and benefits

- In the cost-benefit analysis (CBA) set out in CP17/16 we estimated that the additional costs would be incurred at the outset and would relate to software costs. Most firms use third party software to perform the analysis. We have based our cost estimates on information from providers on the costs of changing their systems. We have also assumed that there are 10-12 systems on the market that will need to be updated. The estimates received from providers include all aspects of changes including familiarisation costs.
- In the CBA we assumed that one off costs of £50,000 per system for software providers will be passed on to regulated firms who advise in this area, and who use third party software, in terms of higher fees. The derivation of these estimates is set out in CP17/16, and we outlined in PS18/6 that we had carefully considered the responses on the published CBA and considered the estimates to be a fair assessment of the impact of the proposed change. Based on discussions with advice firms, we consider that there will not be any additional ongoing costs arising once the new processes and software are in place.
- Note that other changes set out in PS18/6, relating to revaluation assumptions for pensions, come into force in this period of assessment (6 April 2019). We do not think that these impose significant costs on industry, so are not considered in this assessment. The change we have made is to update the assumptions that must be made about future inflationary increases. This will involve some modest software changes and a small amount of user testing, but that cost will be minor.
- We consider that the benefits to consumers of these changes outweigh the extra costs to firms. An explanation of these benefits is provided in our published CBA. However, these benefits are not considered under the Enterprise Act.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

Link to first Consultation Paper - https://www.fca.org.uk/publication/consultation/cp17-16.pdf
Link to Policy Statement - https://www.fca.org.uk/publication/policy/ps18-06.pdf

[1] from data held on the Financial Services Register