FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: contingent charging and other proposed changes

Consultation Paper
CP19/25***

July 2019

How to respond

We are asking for comments on this Consultation Paper (CP) by **Wednesday 30 October 2019**.

You can send them to us using the form on our website at: www.fca.org.uk/cp19-25-response-form

Or in writing to:
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How to navigate this document

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1 Summary

Why we are consulting

1.1 In 2015, the government's pension freedoms gave consumers with defined contribution (DC) pensions more flexibility in how and when they could access their savings. The government put in place a mandatory advice requirement to prevent members of defined benefit (DB) schemes transferring against their own best interests. DB pensions are extremely valuable as they offer guaranteed, inflation-proofed lifetime income for them and their spouse, which most consumers want in retirement. They also protect members from the longevity and investment risks to which members of DC schemes are exposed. However, significant numbers of DB scheme members have transferred to DC schemes. In our view, given the advantages of DB pensions, the proportion of consumers advised to transfer is too high and many of these transfers will not have been in consumers' best interests.

1.2 We are concerned that, despite our previous work, too many advisers are delivering poor advice, much of it driven by conflicts of interest in the way they are remunerated. In particular, the practice of contingent charging where advisers only get paid if a transfer proceeds creates an obvious conflict.

1.3 Most consumers are advised on a contingent charging basis. Our supervision work shows that 69% of consumers are advised to transfer despite our view that most customers would be best advised not to transfer. We estimate that the harm created by unsuitable DB transfer advice is up to £2bn each year.

1.4 We consider that we need to intervene in this market to protect consumers from harm by banning advisers from using contingent charging except for a small group of consumers who we consider are likely to benefit from a transfer.

1.5 There is also a significant conflict arising where clients sign up for an ongoing advice proposition. This can result in charges being paid throughout a 20 to 30-year retirement period. So we are also consulting on proposals to address the conflict of interest created by ongoing charges.

What we want to change

1.6 As well as addressing conflicts of interest in the way advisers get paid, we retain concerns about advisers' overall competence and their ability or willingness to give consumers the information they need to understand the implications of a transfer. So we are consulting on a package of measures to change how advisers manage and deliver pension transfer advice, particularly for DB to DC transfers. Our proposals are intended to reduce the number of consumers transferring when it is not in their best interests. We propose a package of measures to:

- reduce the scope for conflicts of interest by banning adviser charges that are only payable when a transfer or conversion is implemented
- reduce the scope for conflicts of interest by limiting firms' ability to recommend transfers that incur unnecessarily high ongoing adviser and product charges
- empower consumers to make better decisions by improving how charges are disclosed and requiring checks on consumers' understanding as part of the advice process
- enable advisers to give better quality advice and enhance professionalism by introducing continuing professional development specific to pension transfer advice
- establish new data collections from advice firms to improve our ability to regulate the sector
- amend technical areas of our rules and guidance to clarify and extend existing requirements

Who this applies to

1.7 This Consultation Paper (CP) will be of interest to firms providing advice on pension transfers from DB to DC schemes. It will also be relevant to stakeholders with an interest in pensions and retirement income, including:

- individuals and firms providing advice and information on safeguarded benefits more widely
- managers and operators of contract-based pension schemes and trust-based occupational schemes
- trade bodies representing financial services firms
- professional indemnity insurers
- administrators of pension schemes
- members of pension schemes
- consumer representative groups
- charities and other organisations with an interest in the ageing population and financial services

1.8 As we are making changes to the data we collect on professional indemnity insurance (PII), all firms that are required to complete Form E (PII self-certification) in the Retail Mediation Activities Return, or forms FSA031, FSA032 or FIN-APF, should read Chapter 7.

1.9 Consumers will also be affected by this CP. We welcome views from consumers on all of our proposals.

The wider context of this consultation

1.10 Since 2015, we have undertaken several thematic reviews of pension transfer advice from firms we considered to be potentially high risk in this market (see Chapter 2). These reviews found that only around 50% of pension transfer advice these selected firms gave was suitable. In late 2018, we undertook a market-wide data collection. Our analysis showed that 69% of all advice resulted in a recommendation to transfer. This is significantly higher than we expected given our view that for most consumers, transferring is not in their best interests. We estimate that if the levels of unsuitable advice found in our thematic reviews are replicated across the entire DB transfer advice market, the harm of unsuitable advice on DB transfers is in the range of £1.6bn to £2bn each year.

1.11 The results of our thematic work have also affected the market for PII with PII providers raising premiums and increasing excesses for DB transfer advice. In February 2019, as part of our work on consumer protection, we raised the Financial Ombudsman Service (FOS) award limit from £150,000 to £350,000 for acts or omissions by firms from 1 April 2019. As a result, the PII market has taken a tougher stance: some advisory firms are now only able to obtain cover for limited numbers of DB transfers and some are unable to obtain PII cover at all. This may mean that the number of firms offering DB transfer advice may reduce in future. If these proposed measures are successful in reducing the proportion of unsuitable advice, this may be expected to reduce insurers' risks and premiums over time.

1.12 We know from our thematic work that some advice firms are failing to demonstrate competence in fact finding, risk profiling and needs assessments, with the worst of these firms acting as 'order takers'. We also know that most firms use charging models that create potential conflicts where the advisers' interests conflict with those of a client. This inadequate assessment of facts, risks and needs – as well as the 'order-taking' – is likely to reflect the underlying conflict of interest and consequent lack of desire to undertake thorough assessments and give suitable advice.

1.13 The Work and Pensions Committee (the Committee) has also expressed concerns about the use of contingent charging in DB to DC pension transfer advice. The WPC held its own inquiry into the practice of contingent charging and concluded that there were no good reasons not to ban it. Some of the responses to the Committee's inquiry also pointed to the longer-term conflict of interest created by ongoing charges over the course of a 20 to 30-year retirement when a consumer transfers from a DB to DC scheme.

1.14 We believe the current situation is unsustainable. Too many consumers are receiving unsuitable advice, resulting in too many consumers transferring when it is not in their best interests to do so. The high level of harm is not only damaging to consumers but to the advice market itself. As PII costs increase further, firms may raise the charge for undertaking advice rather than review the quality of advice they are giving. By carrying on giving unsuitable DB transfer business, despite higher excesses and exclusions, they increase the risk of their own failure. This, in turn, is likely to increase the liabilities falling to the Financial Services Compensation Scheme (FSCS). Higher FSCS levies are then borne by the rest of the industry.

Our key proposals

Addressing initial conflicts – contingent charging

1.15 To address initial conflicts of interest, we are proposing

- to ban contingent charging for DB pension transfers and conversions, except for specific groups of consumers with certain identifiable circumstances
- that in the minority of cases where contingent charging is permitted, advice firms will have to charge the same amount, in monetary terms, for advice to transfer as they charge when the advice is non-contingent

- a short form of advice that can result in a recommendation not to transfer that falls outside the proposed ban on contingent charging as we expect costs to be much lower. This should help maintain initial access to advice.

1.16 Further information is in Chapter 3.

Addressing ongoing conflicts

1.17 We are also strengthening our existing requirements that firms should consider an available workplace pension as a receiving scheme for a transfer. This will help to address the conflicts of interest created by ongoing advice charges as well as reduce the level of transfers involving unnecessarily complex solutions and high product charges. Further information is in Chapter 4.

Empowering consumers

1.18 We are proposing remedies that are intended to improve consumer engagement with the advice process. By improving disclosures of advice charges before the advice process starts, we will empower consumers to consider whether they want to incur the costs of advice and be more aware of potential adviser conflicts. Improved advice and product charges disclosures in suitability reports will make consumers better informed of the potential consequences of transferring or converting their pension. Before concluding the advice process, we are also proposing that advisers check that consumers have understood the benefits and risks of their proposed action. See Chapter 5 for information on these proposals.

Enabling advisers

1.19 We are consulting on requiring pension transfer specialists to complete 15 hours of continuing professional development (CPD) each year, on top of any other CPD they undertake (see Chapter 6).

Other proposals

1.20 We also propose to extend the range of data that we currently collect from advisers. Some of the data will be similar to the ad hoc market-wide data collection we undertook in 2018. Some of the data will give us more detail about the PII that firms have in place, such as whether firms have permissible policy excesses and exclusions. We are also proposing some technical amendments to our rules, including consulting on changes to the definition of a pension transfer.

Unintended consequences of our intervention

1.21 Our interventions on charging may result in some advisers withdrawing from the market and some consumers being unable to afford or access advice on whether to transfer. So, we expect the market for pension transfer advice to contract as a result of our interventions, at least in the short term. We have previously stated that we believe that most consumers would be best advised to keep the benefits offered by DB and other safeguarded benefit schemes but we recognise that for some people a transfer is suitable. In limited circumstances, firms will still be able to make a contingent charge. This is to reduce the risk of certain consumers who might benefit from a transfer being prevented from obtaining advice. Our proposals to collect more data from advice firms will enable us to monitor the capacity within the advice market.

Outcome we are seeking

1.22 We are aiming to protect consumers from poor outcomes when they consider transferring from safeguarded benefits to flexible benefits to access pension freedoms. Our remedies are directly linked to our operational objectives:

- Consumer protection: we are reinforcing the concept that consumers' best interests are the focus of suitable advice, by constraining firms' ability to give advice that is more likely to benefit firms than consumers.
- Market integrity: by reducing the scope for conflicts of interest and requiring ongoing learning by advisers, confidence in the advice sector should be improved.
- Competition: we expect our remedies to move the basis of competition in the market from one that is not working in the interests of consumers to one that focuses on the fee being charged and incentivises competition on the quality of advice.

Measuring success

1.23 Taken together with our previous work, the proposed remedies in this consultation should contribute to higher rates of suitable advice and a lower proportion of consumers giving up income from DB schemes.

Commencement of our proposals

1.24 Subject to the outcome of our consultation process, we propose that the rules and guidance should come into effect within the following timeframes after the final instrument is made by our Board:

Ban on contingent charging	Chapter 3	Within a week (with 3-month transition)
Carve out (from a ban on contingent charging)	Chapter 3	Within a week
Triage services	Chapter 3	Within a week
Abridged advice	Chapter 3	Within a week
Prioritising DC workplace pension schemes	Chapter 4	6 months
Initial charging disclosures	Chapter 5	6 months
Suitability reports: enhanced disclosures	Chapter 5	6 months
Checking customers understand the advice	Chapter 5	Within a week
CPD requirements	Chapter 6	Beginning of calendar year
RMA-M – pension transfer specialist advice	Chapter 7	6 months (reporting period begins within a week)
Data collected on PII within RMA-E – Professional indemnity insurance (PII)	Chapter 7	6 months
Pension transfer definition	Chapter 8	Within a week
Transfer Value Comparator	Chapter 8	6 months
Cashflow modelling	Chapter 8	6 months
Retirement annuity contracts	Chapter 8	Within a week
Estimated transfer values	Chapter 8	Within a week
Arranging a transfer	Chapter 8	Within a week

Q1: Do you have any comments on the intended commencement dates of our proposals or the draft Handbook text set out in Appendix 1?

Next steps

What you need to do

1.25 We want to know what you think of our proposals in this CP, including the draft Handbook text in Appendix 1 and the commencement dates for implementation. Please send us your comments by Wednesday 30 October 2019 as set out on page 2.

What we'll do next

1.26 We will consider the feedback we receive on this CP and publish our finalised Handbook text in a Policy Statement in the first quarter of 2020.

2 The wider context

The harm we are trying to address

2.1 As set out in our Business Plan and joint strategy with the Pensions Regulator (TPR), addressing the harm caused by unsuitable advice on pension transfers is a key priority for us.

2.2 DB pensions and other safeguarded benefits involving guaranteed income provide valuable benefits. Most consumers will be best advised to keep them. In 2015, the government introduced pension freedoms giving DC pension savers more flexibility in how they could access their pension savings. Since then, advice has been mandatory for consumers seeking to transfer out of DB schemes and other schemes with safeguarded benefits.

2.3 Subsequently, significant numbers of consumers with DB benefits have sought advice and been advised to transfer out of their scheme. Our supervisory work indicates that between the introduction of pension freedoms and September 2018, 69% of consumers receiving advice were advised to transfer. Given that most consumers will be best advised to keep their DB scheme, this is worryingly high and suggests that consumers may be receiving unsuitable pension transfer advice. This issue is not confined to a few firms – 60% of firms recommended that at least 75% of their clients should transfer.

2.4 We continue to take forward several workstreams to tackle this issue. Since 2015, we have carried out three thematic reviews (referred to as DB1, DB2 and DB3 in this paper) on higher-risk firms giving DB to DC transfer advice. We have consistently found that only around half the advice reviewed is suitable. We estimate that if the levels of unsuitable advice found in our thematic reviews are replicated across the entire market, the harm of unsuitable advice on DB transfers is in the range of £1.6bn to £2bn each year (see Annex 3, paragraph 17). We have also collected market-wide data on DB-DC pension transfer advice undertaken since April 2015 that will inform our next thematic review (referred to as DB4 in this paper). Apart from our thematic reviews, we have reviewed advice given to members of the British Steel Pension Scheme (BSPS) and investigated pension transfer advice as part of work on preventing scams.

2.5 We have also undertaken two consultations, CP17/16 and CP18/7, and published rules, in PS18/6 and PS18/20. The aim of our work was to improve the quality of advice given to consumers considering a pension transfer by setting out our expectations of firms giving pension transfer advice. In CP18/7, we also opened a discussion on the use of contingent charging.

2.6 As well as the joint strategy with TPR, we have also agreed a joint protocol with TPR and the Pensions Advisory Service, now part of the Money and Pensions Service (MAPS). The joint protocol sets out how we will all intervene earlier to provide an increased level of support to trustees and scheme members if there's uncertainty about the future of a DB pension scheme.

2.7 Unsuitable pension transfer advice has wider implications for the market. If consumers suffer harm because of a firm's act or omission, firms should compensate them for those losses. The harm created by pension transfers can be significant. Earlier this year, we made rules to increase the award limit that can be awarded by the FOS from £150,000 to £350,000, for acts or omissions from 1 April 2019. We consider this should result in around 500 consumers each year receiving higher award payments, including those who transferred out of DB schemes unnecessarily.

2.8 Not all consumers recognise that they may have received unsuitable advice and for some, this will only become evident some years into the future. Only a small proportion of consumers currently make a claim for unsuitable advice. But the industry expects this to increase as Claims Management Companies take more of an interest in this area. Although PII should largely cover any claims, this depends on firms having in place PII cover that complies with regulatory requirements.

2.9 PII premiums have risen in recent months. This may be because insurers have recognised that some firms may be giving unsuitable advice. Premiums have also risen in response to the increase in the award limit that the FOS can offer. Some firms are unable to find cover for future DB transfer advice, reducing capacity in the market.

2.10 We recognise that the proposals in this CP are likely to reduce the number of advisory firms active in the market, as well as access to advice, at least in the short-term. We hope that insurers, through their underwriting processes, will become better able to identify firms that may be at lower or higher risk of providing unsuitable advice. By reducing the potential for harm, as well as improving the professionalism of the industry, all firms remaining in the market should benefit from lower PII costs which, in the long term, should improve competition.

2.11 The Committee held an inquiry into pension freedom and choice that included consideration of the poor advice given to some members of the BSPS. In its subsequent report on BSPS, the Committee recommended a ban on contingent charging, describing it as 'a charging model that only rewards advisers for recommending a particular course of action'. It also noted that many of those receiving unsuitable advice were unaware of ongoing adviser fees or that they were invested in high-risk investments with high management charges. It reiterated its call for a ban following an inquiry into the way firms charge for pension transfer advice.

2.12 Following the Committee's inquiry into BSPS, TPR appointed Caroline Rookes to undertake an independent review of the communications to members of the BSPS restructuring exercise. We have worked with TPR and MAPS to address the recommendations made in the Rookes report. In autumn 2018, we published a joint strategy with TPR that included details of where we intend to work more closely on many pensions issues, including pension transfers.

How the harm we are trying to address links to our objectives

Consumer protection

2.13 We consider that banning contingent charging protects consumers by reducing the likelihood of biased advice to transfer or convert their DB pensions. Similarly, we are strengthening our rules to include an expectation that a considerable number of transfers can be made suitably into a workplace pension scheme. In these schemes, the need for ongoing advice is reduced and product charges are typically lower. This will reduce the bias in relation to ongoing charges.

2.14 We consider that our proposals requiring advisers to undertake mandatory CPD will increase their knowledge. This should improve the quality of the advice they give consumers.

2.15 Our proposals on specific disclosures at the front of a suitability report will improve the transparency of costs for consumers. This should help them make a more-informed decision about whether to transfer.

Market integrity

2.16 A lack of trust in advisers undermines the integrity of the advice market. We believe distrust in the quality of pension transfer advice is growing. We have serious concerns about how advisers charge for the advice. Breaking the link between payment for the advice and the outcome of the advice should improve trust in advisers.

Competition

2.17 We expect the market for pension transfer advice to contract, and potentially consolidate, as a result of our interventions, at least in the short-term. This is due to demand-side contraction resulting from better information and supply-side contraction from the ban on contingent charging and potential exit of some firms in the market. We think our proposals will enhance competition on both the level of fees, which will now be clearer to consumers, and the quality of advice, which will be subject to fewer conflicts of interest.

Wider effects of this consultation

Access to advice

2.18 Our proposals could result in fewer consumers being able to access advice. Some consumers may be unable or unwilling to pay up-front for advice if a fee applies, irrespective of the outcome of that advice. For that reason, we have introduced an exemption to the ban on contingent charging for the benefit of a small group of consumers who have specific circumstances that mean they are likely to benefit from transferring. We know that this will not capture all customers who may be best advised to transfer. But we think that these remaining customers will be small in number, not least given that most consumers are best advised to keep their existing scheme benefits. We think that some of the more numerically significant members of this group will also be more likely to afford to pay for advice, for example, if they are structuring their assets to reduce inheritance tax. Some consumers will be unwilling to pay for advice because they rationally consider that the cost, when presented to them more visibly, is greater than the likely value to them. These consumers will be beneficiaries of our intervention.

Equality and diversity considerations

2.19 We have considered the equality and diversity issues that may arise from our proposals.

2.20 Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules.

2.21 In the meantime, we welcome your input to this consultation on this.

3 Addressing initial conflicts – contingent charging

3.1 In this chapter, we set out our proposals for addressing conflicts of interest in adviser charging models for initial advice, including a ban on contingent charging, subject to certain exceptions.

3.2 Given the implications of a ban, this chapter also addresses other ways advisers can help consumers by setting out proposals for a short-form advice process ('abridged advice') as well as further guidance on triage services.

Ban on contingent charging

Background

Building on our previous discussion

3.3 In PS18/20, we provided feedback to discussion questions in CP18/7 on whether we should intervene in adviser charging models, particularly the use of contingent charging. In its purest form, this is a charging arrangement where an adviser is only paid if a transfer takes place, irrespective of whether the charge is specified in monetary terms or percentage terms. The alternative to a contingent charging model is where the same amount is charged for advice, regardless of whether a transfer takes place or not. Many firms use hybrid contingent models that include some degree of contingent charging. For example, they may charge a modest amount for a report but an additional amount for carrying out the transaction if it goes ahead. Respondents' views were typically polarised in favour of and against a ban on contingent charging.

3.4 The comments acknowledged the complexities and interlinked issues that needed to be worked through and considered. As a result, and because of the significance of this issue to all stakeholders in the market, in PS18/20 we said we needed to analyse further the issues. This would draw on our supervision work and would consider related workstreams such as follow-up work on the Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR). As we acknowledged in CP18/7, it was also clear that any further changes to our rules on charging may have wider implications for the advice market and for consumers, for instance on the supply of advice.

3.5 The responses also confirmed our initial thoughts that a causal link between contingent charging and unsuitability is very difficult to prove statistically. This is because it is not easy to identify whether contingent charging is the cause/driver of poor advice or whether other issues, such as ongoing charges, are more contributory. As a result, we have spent a significant amount of time assessing the possible impacts of intervening. This includes further reviewing the responses to our discussion questions in CP18/7 as well as the responses to the Committee's call for evidence (see paragraph 3.8). We have also been considering the potential consumer outcomes of a ban on access to advice, including the trade-offs between an outright ban and allowing some groups of consumers to continue to be charged on a contingent basis.

3.6 In the feedback to CP18/7, respondents also told us that the way the Value Added Tax (VAT) exemption on product intermediation works might be driving the use of contingent charging models. This is because firms believed that where the advice is not to transfer, there is no product intermediation and so a chargeable fee would be subject to VAT. We clarified the situation with HMRC. HMRC has told us that the VAT status of transfer advice does not depend on whether the advice is to transfer or not transfer. Instead, it depends on whether the service provided includes negotiation on financial securities. This can apply whether or not the advice is to transfer, but does not automatically apply in either case. So the onus remains on firms to satisfy themselves (in line with the tax manual) that they are complying with tax requirements. This means that, despite what firms have told us, the VAT exemption is not a driver to charge on a contingent basis going forward.

Work and Pensions Committee

3.7 In early January 2019, the Committee, which has previously called for a ban on contingent charging, also held an inquiry into the practice of contingent charging. The Committee has subsequently told us that it received "no submissions which provide compelling empirical evidence that contingent charging … does not result in some independent financial advisers being incentivised to give bad advice, nor that there were suitable checks and balances in place to prevent this".

3.8 The Committee said that much of the feedback to its inquiry 'linked contingent charging to unsuitable advice and bad outcomes, but does not fully tackle the complexities of contingent charging or how to avoid unintended harm, particularly to vulnerable customers'. The Committee also stated that many submissions also highlighted that contingent charging is not the only financial incentive that may lead independent financial advisers to give bad advice – an obvious example of this is ongoing fees following a pension transfer.

Our ongoing work

3.9 The findings from our market-wide data collection have intensified our concerns about charging models. In particular, the conversion rate (the proportion of advice where the client was advised to transfer) of 69% is higher than we would have expected, given our position that most consumers will be best advised not to transfer. The high percentage of recommendations to transfer across the market suggests a strong bias to recommend a transfer. Since 2015, 162,047 consumers have been advised to transfer. If the results of our thematic reviews (see paragraph 2.4) were replicated market-wide, we would only expect around half of that advice to be suitable, with the remainder being unclear or unsuitable. Advice is rated unclear when there is insufficient information on the file to assess whether the advice was suitable or unsuitable.

3.10 Some commentators have suggested that some consumers seeking advice, such as those with higher transfer values, are more likely to be suitable candidates for a transfer. Although the average transfer value of those seeking advice was higher than the transfer values quoted to other members (see Annex 3, paragraph 14), we do not believe that higher transfer values should automatically result in transfers being more suitable. Our thematic reviews show failings across all levels of transfer value.

3.11 Analysis of the files we have collected as part of our thematic work shows the frequent coincidence of contingent charging and advice to transfer as contingent charging has been the most common charging model and most consumers were advised to transfer. But it is not practicable to prove a single cause of unsuitable advice in a statistically robust way. For example, in our DB3 thematic review, we know that some firms state they charge on a non-contingent basis, but do not collect the non-contingent charge where the advice is not to transfer. If they never collect such charges from consumers they advise not to transfer, the charge is effectively contingent, even where it may not be recorded in that way. Further, the use of partial contingent charging models means that there are different degrees of conflict to analyse. We also know that unsuitable advice is found in firms using all varieties of charging models, but there are other potential causes of poor advice that could explain these.

3.12 Based on our file review work and reported figures, firms are charging 2%-3% of the transfer value on a contingent basis. On an average transfer value of £350,000, this results in contingent charges of £7,000-£10,500, whereas those who do not transfer pay significantly less, and often nothing at all. This creates a cross-subsidy between those who transfer and those who do not. On the other hand, consumers who take advice from firms that charge non-contingently typically pay £2,500-£3,500. Our estimate of the harm (see paragraph 2.4) does not include the losses incurred by those who may be may be paying too much for advice.

3.13 Those who oppose a ban state that consumers should not have to pay for advice to do nothing. However, in our view, suitable advice not to transfer is valuable as it demonstrates the value of their membership of a DB scheme and protects them from a poor outcome.

3.14 It's not uncommon for professional bodies to prevent contingent charging where a professional has a vested interest in the outcome of the advice given. For example, an actuary who acts or may act as an expert witness in a legal matter must not agree to be remunerated if their fee is linked in any way to the outcome of the legal matter. The Courts and Tribunals Judiciary has issued its own guidance that an expert's duty to the court overrides any obligation to the person instructing or paying them. Some professions permit contingent fees in certain circumstances, such as 'no win, no fee' legal cases but the matter is usually decided by a third party rather than by the professional themselves.

3.15 In summary, it is difficult to prove a clear link between contingent charging and unsuitable advice. But contingent charging creates an obvious conflict and an obvious incentive to give unsuitable advice. Moreover, in contingent charging models, the charge is essentially opaque as consumers may not easily see how much they are paying. We consider that consumers who are required to pay an upfront charge are more likely to think twice before taking advice to transfer. This is likely to reduce the number of consumers exposed to unsuitable advice. On the other hand, we are conscious that, if we ban contingent charging, there may be consumers who would benefit from a transfer who are unable or unwilling to pay for advice.

3.16 Our proposals below seek to strike an appropriate balance between addressing the conflicts created by contingent charging while avoiding unintended consequences in terms of access to advice. In Chapter 4, we set out proposals to mitigate the conflicts created by ongoing advice.

Proposals

3.17 We think that the best way to reduce the scope for conflicts of interest and the potential harm caused by unsuitable advice is to ban contingent charging. This will require firms to charge the same amount for advice on pension transfers and conversions, irrespective of whether the advice results in a recommendation to transfer or not to transfer. This also has the benefit of placing a value on advice not to transfer, and removes cross-subsidies between consumers in the interest of obtaining better outcomes. While the focus to date has been on pension transfers, we consider that it is reasonable to extrapolate the harm arising from pension transfers to those small number of pension conversion cases that take place each year. These also involve clients giving up safeguarded benefits and the potential conflicts of interest we have identified also apply to conversions.

3.18 We are not proposing to extend this to other types of investment advice or other types of advice on safeguarded benefits that do not require advice to be given or checked by a pension transfer specialist (PTS). The same degree of harm is not present in other markets and we consider that specific demand-side weaknesses in the DB to DC market warrant this approach. In particular, we base our proposals on the premise that consumers in this market:

- are not seeking advice voluntarily, as they do in other advice markets, but are only taking advice because it is required before they can transact, and many consumers will consider this a 'grudge purchase'
- lack knowledge about the benefits and risks of both the DB scheme benefits that they hold and about the DC pension they may transfer to (see paragraph 5.16)
- misunderstand that, in most cases, unlike investment advice, the right outcome will be not to transact (ie not to transfer)
- are time-restricted, due to the three-month guarantee period on the transfer value, which increases the likelihood of poor decision-making on an irreversible and complex transaction

3.19 The requirement will incorporate all related and associated charges such as advice on where any transferred funds will be invested and implementation charges. To prevent gaming the ban, it will also apply across two-adviser models where one adviser advises on the transfer and another on where the fund might be transferred. No client should pay an additional amount to transfer, including if they are an insistent client. We recognise that this results in a small cross-subsidy between those who do not transfer and those who transfer, as there is a genuine administration cost associated with transferring. But the level of the cross-subsidy is likely to be significantly less than the current cross-subsidies created by contingent charging (see paragraph 3.12). Furthermore, we do not consider that the cost of PII is a valid reason to differentiate the charges. Consumers should not have to pay an adviser more in the event that the advice they have just received is unsuitable. As explained below (see paragraphs 3.59-3.68), we propose to implement an abridged advice process to enable consumers for whom a transfer is not suitable to receive lower cost advice.

3.20 We intend that our policy should discourage higher-risk firms from operating in this market. If firms believe they need to charge more for advice to transfer, due to the risk of it being unsuitable, they should be reconsidering whether they are competent to provide suitable pension transfer advice at all. Firms should also note that we have discussed our view of suitable advice with the FOS and we consider that our approach to considering suitability is consistent.

3.21 We propose to put safeguards in place so that the ban on contingent charging is not undermined. Firms will have to set up their fee arrangements in a way that does not result in contingent charging in practice, for example by collecting fees only from those that transfer. To avoid gaming, we will restrict how firms can set their charges for advice on pension transfers and conversions and ongoing advice. Our draft rules say that firms should:

- Not offset charges for advice on pension transfers and conversions against any other work they undertake for the client.
- Not charge less in total for advice on pension transfers and conversions than if they provided and transacted investment advice for the same size of (non-pension transfer or conversion) investment. This is to prevent firms from gaming the ban by charging a token fee for initial advice. We consider that advice on pension transfers and conversions is generally more complex than other investment advice, and so should typically cost the same or more than other investment advice.
- Limit any subsequent ongoing adviser charges on funds that are transferred. They should do this so that the ongoing advice charges are no greater than if the funds had not been the subject of a DB pension transfer. This, together with the floor on initial advice charges above, is to limit the opportunity for cross-subsidies between initial and ongoing advice on transfers.
- Charge for advice where any services related to full advice have been undertaken such as the appropriate pension transfer analysis and transfer value comparator.

Mitigating restrictions on access to advice: carve-out

3.22 To mitigate the effect of the interventions on those who cannot afford advice, we have identified groups of customers for whom a transfer or conversion is likely to be in their best interests, due to specific personal circumstances. We propose to exempt them from the ban. Our draft rules set out that these include those who have a specific illness or condition resulting in a materially shortened life expectancy and those who may be facing serious financial hardship such as losing their home, for instance due to not being able to make mortgage payments.

3.23 We are proposing that, where a firm wishes to rely on the carve-out in relation to a client, a firm must satisfy itself that the requirements for serious ill-health or serious financial hardship are met in relation to a client. For serious ill-health, this includes obtaining evidence from a registered medical practitioner that the client has a medical condition that means that their life expectancy is likely to be lower than age 75. For serious financial hardship, this includes obtaining evidence about the client's financial situation, for example evidence that the client is regularly unable to meet mortgage repayments or rent, or utility bills.

3.24 These groups of consumers may continue to be charged on a contingent basis. Firms will be responsible for identifying individuals who fall within these groups. In some cases, firms may find this out during an initial triage conversation or in the early stages of the advice process (including abridged advice – see paragraphs 3.59-3.68). Having identified a client who falls within one of the groups, if the adviser wishes to apply the carve-out, it should be made clear to the client before the advice process continues.

3.25 We have considered limiting the carve-out further for those with insufficient funds to pay for advice. As assessing affordability is likely to be complex, subjective and open to wide interpretation, we consider it is not appropriate to do this.

3.26 We have also considered whether we should extend the carve-out to those facing difficult decisions due to a scheme restructuring. In this situation, the benefits offered by the Pension Protection Fund (PPF) may also be relevant. We have previously made rules requiring advisers to represent the benefits of the PPF fairly having found that the PPF benefits were often underplayed. Despite the reduction in benefits once a scheme enters the PPF, over a lifetime, the losses incurred will typically be less than charges levied in the event of a transfer. So we think that retaining a conflict of interest by enabling contingent charging to be used in these circumstances is not appropriate.

3.27 The groups we have selected are deliberately restricted to prevent the carve-out being used to avoid the general requirement to charge on a non-contingent basis. So, for example, it will not be possible to include a smoker in the carve-out unless they have been specifically diagnosed with an illness or condition which carries a reduced life expectancy. Similarly, a family history of health issues will not be sufficient evidence. We have proposed guidance to clarify this restriction. So, in practice, we only expect a minority of clients to qualify for the carve-out, based on our supervisory work.

3.28 Our proposals for abridged advice (see paragraph 3.59-3.68) should also help to mitigate access-to-advice issues. In addition, our rules do not prevent firms from allowing consumers to pay in instalments over a 12-month period.

3.29 We do not believe that consumers who pay for advice to transfer on a contingent basis, as part of the carve-out, should pay more for advice to transfer than other consumers, especially as some consumers within the carve-out may be vulnerable consumers. Such an approach would also perpetuate cross-subsidies between consumers. So we propose that consumers caught by the carve-out who subsequently transfer pay the same amount as if they had not been within its scope. We do not consider that the work in identifying or advising this group warrants a different approach. Those who do not subsequently transfer may be charged a lower amount, potentially nil.

3.30 We know that we cannot completely address the issue of access to advice and that our proposals may result in some consumers who would benefit from a transfer or conversion being unable or unwilling to pay for advice. The purpose of the carve-out is to reduce this number as much as we can without undermining the effectiveness of our proposed intervention. We consider the number of customers affected by inability to pay for advice, even in instalments, is likely to be low for those who are most suited to a transfer. On balance, we consider that the potential harm to this group of customers is outweighed by the potential benefit to customers who are not tempted into transfers that are based on poor, conflicted advice, but against their own interests. We propose that the carve-out will also apply to advice in relation to conversions. We intend to monitor the use of the carve-out through our proposed data collection from firms to check that it is working as intended (see Chapter 7).

Employer funded advice

3.31 Our proposed ban on contingent charging will also extend to cases where an employer is paying for pension transfer advice or pension conversion advice for members. We are proposing a new Handbook definition of "employer funded pension advice charge" as part of this change.

Commencement date

3.32 We propose that the ban on contingent charging should come into effect within a week of our Board making the final instrument. We are proposing transitional arrangements to cover circumstances where a firm has issued an engagement letter to a client prior to this date which sets out their terms of business and the fact that they will be charged on a contingent basis.

Q2: Do you agree that a ban on contingent charging is likely to be effective in reducing the numbers of consumers receiving unsuitable advice? If not, how would you suggest we effectively reduce the numbers of consumers receiving unsuitable advice? Do you think we should address the conflict of interest issues differently?

Q3: Do you agree that the way in which we have set out the ban should be effective and adequately reduces scope for gaming? If not, how should we amend it?

Q4: Do you agree with the scope of the proposed carve-out and our proposals for monitoring its use? If not, how would you change it?

Options we have decided to rule out

3.33 We have considered some alternatives to banning contingent charging, given the risk that contingent charging reduces access to advice. These include, but are not limited to, other suggestions made by the Committee. For the reasons set out below, we are not consulting on taking these forward.

Price capping

3.34 One option would be to set a monetary price cap on the level of charges that could be levied via contingent charging. For example, we could prevent firms from charging more than £3,000 where they use contingent charging. This would limit the extent of the conflict inherent in contingent charging. It would also have less impact on access to advice than banning contingent charging, although it may still result in some firms choosing to leave the market.

3.35 A price cap would not entirely remove the inherent conflict of interest within contingent charging. In addition, as firms might level up so that they charge at the level of the cap, knowing where to set a cap is difficult. A price cap would need to incorporate all the charges of related services, such as advising on where the funds might be invested if a transfer took place and implementation charges.

Q5: Do you agree with our decision not to propose a price cap? If not, how could the shortcomings of a price cap be overcome?

Improving conflicts management accountability

3.36 Another option we have considered is to have more prescriptive systems and controls requirements for managing conflicts of interest. For example, we could require firms using contingent charging, whether in full or in part, to demonstrate to a significantly higher degree why a transfer will objectively be in the best interests of the customer in all circumstances. Alternatively, we could impose additional obligations on Senior Managers (under the Senior Managers and Certification Regime) or collect additional data from firms using any form of contingent charging.

3.37 We do not consider these options appropriate for the following reasons. Under our existing requirements on managing conflicts of interest, we already expect firms that charge contingently to identify and manage conflicts of interest to a high standard. This is particularly the case where they have an interest in the outcome which may not align with the client's interest such that they could make a financial gain at the client's expense. As not all firms are within scope of the Senior Managers regime, creating additional obligations for Senior Managers would not capture the entire market. Further, we are proposing to collect data regularly from the entire market, irrespective of the charging model used (see Chapter 7).

Q6: Do you agree that changes to our existing conflict of interest and accountability rules would not effectively address the harm to consumers occurring in this market? If not, what changes to systems and controls would be most effective?

Separating responsibility for transfer advice

3.38 We have considered whether we should require separate firms to give the transfer advice and related investment advice, with only the firm giving the transfer advice being subject to a ban on contingent charging. This removes the conflict of interest for the initial advice to transfer. This mirrors how the two-adviser model typically works. The findings from our previous work suggested that this can frequently result in poor consumer outcomes when firms do not work together well, as discussed in CP17/16, CP18/7 and PS18/20. We do not believe it is appropriate to mandate this type of arrangement. We also consider it could disrupt relationships between advisers and existing clients.

3.39 We have also considered whether different firms should be required to give, on the one hand, the initial advice on transferring including on the proposed destination scheme, and, on the other hand, any subsequent ongoing advice in the event a transfer occurs. This proposal specifically focuses on reducing the conflict of interest arising from ongoing advice that might incentivise a firm to recommend a transfer in the first place. Again, this could disrupt relationships between advisers and existing clients. Further, as firms take different views on investment destinations, this proposal could give rise to changes in any transferred portfolio when the relationship is handed across to a new firm for ongoing advice. As this may result in additional charges for the client, we do not consider that it is a feasible solution. We address ongoing conflicts of interest further in Chapter 4.

3.40 Another variation on separating responsibility would be to require every firm giving DB pension transfer advice to have the advice checked by a separate firm holding the relevant permission, but subject to payment of a non-contingent fee. As well as the added cost to consumers, there is a risk that firms would only choose partners that mostly agree with their recommendations.

Q7: Do you agree that separating responsibility for transfer advice potentially has unintended consequences that may not be in clients' best interests? Are there any ways in which a separation of advice or independent checking of transfer advice could work effectively?

Ban percentage charging

3.41 Some of the options available to us are not standalone but could work in conjunction with other remedies. For example, we have considered whether we should prevent firms from charging on a percentage basis for pension transfer advice and requiring charges to be set in monetary terms. On its own, it does not directly address the conflict of interest. If used with contingent charging, it may reduce the level of charges being paid by some consumers. This would not be guaranteed unless we prevented firms from having different fixed monetary charges for different levels of transfer values. But this fails to recognise the extra work that might be involved in higher value cases. We see the way charges are presented to consumers as a disclosure issue and address this further in Chapter 5.

Q8: Do you agree that banning percentage charging is unlikely to have a significant impact on consumer outcomes? If not, how could it be used effectively?

Use of temporary product intervention powers

3.42 We also considered whether we should use our product intervention powers to ban contingent charging for up to a year. These powers can be used if the FCA identifies a significant risk to consumers that requires prompt action. The estimated level of harm from unsuitable advice in this market is significant: this increases the case for using the powers.

3.43 By consulting on a ban on contingent charging, rather than using our temporary intervention powers, we give stakeholders full opportunity to comment on our proposed measures before they are finalised and come into effect.

Options outside our remit

Scheme pays, pensions advice allowance and partial transfers

3.44 Some responses to both our discussion questions and to the Committee inquiry made suggestions that we are not able to implement as they are outside our powers. We have already shared some of these ideas with Government and will continue to talk to them about the policy implications.

3.45 For example, some suggested that in the event of a ban on contingent charging, the Government should review legislation to allow individuals in DB schemes to access part of their pension to pay for advice ('scheme pays') in a similar manner to DC schemes.

3.46 Other respondents have suggested that the pensions advice allowance should be changed. The pensions advice allowance permits consumers to use funds in any DC pension to pay for general pre-retirement advice which is not just related to that pension, subject to certain constraints. But the current rules prevent the pensions advice allowance being used to pay for advice on a pension transfer. So respondents suggested that the scope of the pensions advice allowance should be extended to include pension transfer advice. But for such a change to be effective, they also suggested that the current limit of £500 would need to increase to cover the cost of pension transfer advice. Not all DC pension schemes offer the pension advice allowance to members (as it is not mandatory) and not all members seeking advice will have an existing DC pension which could be used to pay charges if the recommendation was not to transfer.

3.47 Neither of these suggestions addresses the ongoing conflict of interest (see Chapter 4). But they may help to reduce any 'access to advice' issues that contingent charging causes, although we believe these should be minimal due to our mitigations. Further, as both suggestions rely on charges being paid out of existing pension arrangements, they may reinforce the opacity of charges. We address this further in Chapter 4.

3.48 Some respondents have suggested that all schemes should have to offer partial transfers. They consider a partial transfer is more likely to be suitable than transferring all the benefits away from the DB scheme. The retained DB benefits could then cover essential expenditure in retirement but the transferred portion could be used for discretionary spend. This may result in more suitable transfers.

Q9: **What are your views on the potential for 'scheme pays', changes to the pension advice allowance and partial transfers to improve the quality of advice or address conflicts of interest adequately, or both?**

Enhanced guidance services

3.49 Irrespective of the type of charging model used, many in the industry consider that TPR and the MAPS should play a key complementary role to any action the FCA takes. We are working with both these bodies to explore what additional support they can provide. The Committee said that this is particularly important in relation to the role of trustees and guidance to members. The Rookes report also pointed to the need for trustees to provide appropriate support for members considering transfers.

3.50 Some industry stakeholders believe that mandatory guidance from an independent third party would result in better outcomes. They think that providing consumers with information and education about the DB and DC pensions will result in fewer people seeking advice. Some have suggested that MAPS could deliver this. Our discussions with MAPS indicate that it would need significant extra resource to deliver mandatory guidance on giving up DB transfers. Whether trustees or MAPS give guidance, some have said it could be used to warn consumers about the conflicts of interest inherent in a contingent charging model. On the other hand, mandatory guidance could be seen as another obstacle for consumers, especially given the tight timeframes for transferring.

3.51 The Committee also called for a standardised approach to triage. We believe that our perimeter guidance has provided more consistency on the content of triage services. However, we give firms flexibility on how they deliver triage services. But to improve consistency further, we are proposing more guidance in this area (see paragraphs 3.55-3.58).

Q10: **Given the timeframes that apply to guaranteed transfer values, what are your views on the need to provide guidance to members considering a pension transfer? Should guidance be mandatory and, if so, who should deliver it?**

Triage and abridged advice

Background

3.52 Many advisers operate a triage service before they give DB transfer advice. Triage is where firms have an initial conversation with potential customers. Triage gives the customer factual information about the features of safeguarded and flexible benefits that make them more or less suitable for general groups of people. The purpose of triage is to enable customers to decide whether to take advice on the transfer or conversion of their pension benefits, so it should also include information on charges.

3.53 We consider that triage can be useful to educate consumers on some of the basic features of different types of pensions and the transfer process, including the costs involved. However, during our previous review of firms' triage services, we found that some forms of triage may be giving advice on pension transfers – and crossing the advice boundary – rather than providing generic information. In response to our findings, PS18/20 set out new perimeter guidance (PERG) on how firms can provide an appropriate triage service. We acknowledged the concerns of some firms that their ability to engage with consumers would be restricted. So we committed to engage in further discussion about the delivery of guidance to consumers on pension transfers.

3.54 Following the publication of PS18/20, we have engaged with a variety of stakeholders who want to understand better how they can deliver guidance to consumers without breaching the advice boundary. Stakeholders have specifically asked for greater clarity about the use of 'decision trees' and traffic-light Red, Amber, Green (RAG) rated questionnaires under the PERG guidance.

Proposals

Triage services

3.55 It remains our view that, as a non-advised service, triage should be an educational process so that consumers can decide whether to proceed to regulated advice. Firms can achieve this by providing factual, balanced information on the advantages and disadvantages of pension transfers and conversions, and the requirement to obtain advice. If advisers give a professional opinion, based on considering the client's circumstances that steers the client towards keeping or giving up their safeguarded pension benefits, they are likely to be giving advice. We are not able to change the advice boundary as it is set in legislation.

3.56 Some firms and organisations have asked us whether decision trees can be used within a non-advised triage service. Decision trees are commonly used by advisers to help the consumer best select an investment that meets their needs by extracting information through a series of questions. Similarly, we have been asked whether traffic-light RAG-rated questionnaires can be used within a triage service without stepping across the advice boundary. Both of these activities are forms of pre-purchase questioning as set out in PERG 8.30A.

3.57 In contrast to other forms of investment, pension transfer or conversion advice results in a binary decision of whether to transfer or convert. Decision trees and 'RAG-rated' questionnaires accumulate personalised information that is tailored to the individual consumer rather than material that relates to customers in general. The way an adviser ranks the information in the pre-purchase questioning could suggest that the consumer takes one course of action over another, ie in this case, to transfer or convert, or not. For this reason, we believe that decision trees and RAG-rated questionnaires are likely to lead to advice, so should not be used within a triage service.

3.58 So we are consulting on amendments to our guidance in PERG to clarify that decision trees and traffic-light RAG-rated questionnaires should not be used within a non-advised triage service.

Q11: **Do you agree with our additional guidance on triage services? If not, please indicate alternative ways of addressing the issue.**

Abridged advice

3.59 Given the limitations of triage as a non-advised service, and the implications of our proposed ban on contingent charging, we are proposing to introduce 'abridged advice' in relation to pension transfers and conversions. Abridged advice will act as a new mechanism to filter out those consumers for whom a pension transfer or conversion is unlikely to be suitable, before they pay for full advice. Where firms consider it appropriate, based on the client's circumstances, to give abridged advice, it will enable them to provide a low-cost alternative to full advice. As it cannot result in a recommendation to transfer, conflicts of interest are reduced. Abridged advice must be carried out or checked by a PTS.

3.60 Abridged advice includes the initial stages of the usual advice process. Under abridged advice, we would expect the adviser to conduct a full fact-find and risk assessment, including an assessment of the client's attitude to transfer risk in line with our guidance on assessing suitability (COBS 19.1.6G). Based on this analysis, the adviser may provide the consumer with a personal recommendation not to transfer or convert their pension if they can demonstrate that a pension transfer or conversion is unlikely to be suitable.

3.61 This means that some consumers may receive a personal recommendation not to transfer or convert without an adviser having to collect detailed scheme data, undertake an Appropriate Pension Transfer Analysis (APTA) or provide a Transfer Value Comparator (TVC). Removing these elements from the advice process should enable abridged advice to be provided cost-effectively.

3.62 An adviser can only provide the client with a personal recommendation not to transfer or convert their pension through abridged advice. This must be communicated to the client before the adviser initiates the abridged advice process. The only other outcome is that abridged advice is insufficient to draw any conclusions on whether to make a personal recommendation to transfer or convert, or not.

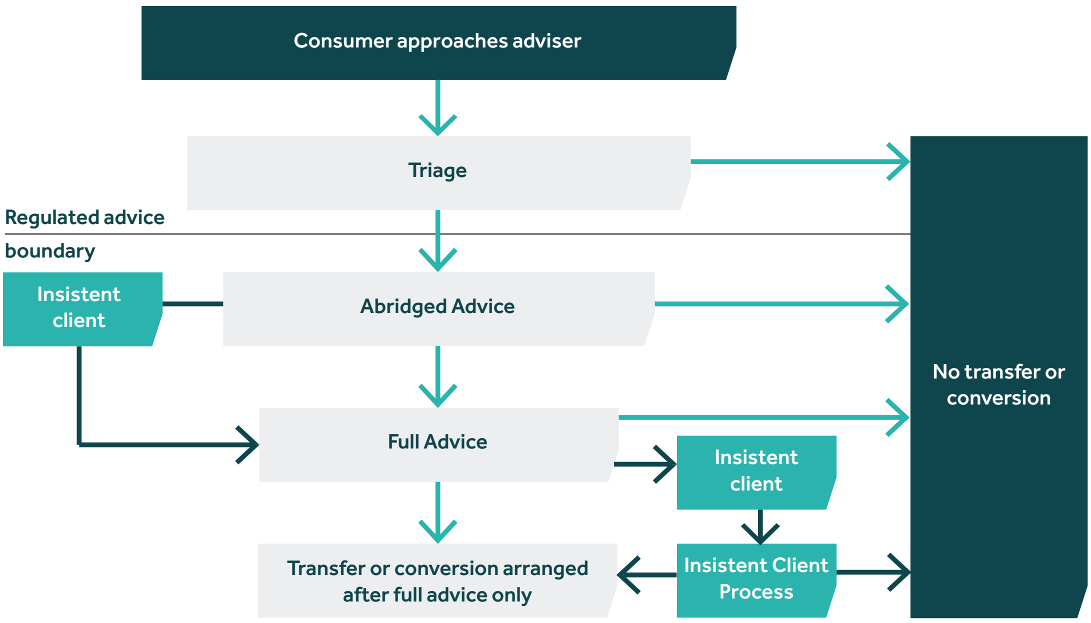
3.63 We have set out in proposed guidance the information advisers may consider it necessary to collect from the client for the purposes of abridged advice. This is likely to include: high level health information to ascertain if the client has a materially reduced life expectancy; the client's attitude to transfer risk including their capacity for loss; the client's attitude to investment risk and their relevant knowledge and experience of investments; a high-level understanding of the client's financial and family situation (including other pensions and savings; and other relevant information such as whether the client is relocating overseas.

3.64 Based on the information collected through the abridged advice process, if it is unclear whether the client would benefit from a pension transfer or conversion, the adviser must check if the client wants to continue to full advice, and if they understand the associated costs.

3.65 Firms may also use the abridged advice process as a means of identifying individuals who might qualify for the carve-out from our proposed requirement to charge on a non-contingent basis (see paragraph 3.22). Having identified a client who meets the requirement, if the adviser wishes to apply the carve-out, this should be made clear to the client before the advice process continues.

3.66 Advisers will need to prepare a suitability report, as they do for any other personal recommendation, and they will be liable for the advice provided. As the process does not include an APTA and a TVC, advisers will not be able to provide consumers with as much information as required on the risks of a transfer or conversion. For example, the client would not be provided with the comparison of benefits likely to be paid between ceding arrangement and proposed arrangement. This means that consumers who wish to proceed with a transfer or conversion, against advice, are not in a fully informed position. To protect these consumers, we propose that a regulated firm will not be able to get involved in any arrangements to assist a transfer or conversion for a client (including not providing confirmation of advice to the trustees of an occupational scheme) unless the client has taken full advice, in line with our existing rules.

3.67 The flowchart below shows the possible consumer journeys through guidance and advice under our proposed rules.



3.68 Firms will not be required to offer abridged advice. But if they do, it may only be offered for safeguarded benefits that require a PTS. This is in the same way that the ban on contingent charging only applies advice on pension transfer and conversions that requires a PTS.

Q12: **Do you agree with that our proposed abridged advice service will enable firms to provide a low-cost alternative to full advice for those consumers that need it? If not, how would you suggest we amend it?**

4 Addressing ongoing conflicts

4.1 In this chapter, we set out our proposals for addressing conflicts of interest in adviser charging models for ongoing advice. Given the high-charging products that many consumers are currently transferred into, our proposed changes are also intended to reduce the charges paid by consumers who transfer in future. Although there has been much focus on the effects of initial charging models, there are also significant conflicts of interest that arise from ongoing charges so we propose to address these at the same time.

Prioritising DC workplace pension schemes

Background

4.2 Some of the responses to CP18/7 and to the Committee's inquiry pointed to the longer-term conflict of interest created by ongoing charges over the course of a 20 to 30-year retirement when a consumer transfers from a DB to DC scheme. Typically, ongoing adviser charges range from 0.5% to 1% of a transferred pot. From the Financial Advice Market Review Baseline report, we know that the typical level of ongoing advice charges on amounts exceeding £200,000 is 0.66%. From our DB4 data collection, we also know that 36% of consumers who transferred invested in a solution costing more than 1.5% each year.

4.3 Total ongoing advice charges of 0.5% to 1% will reduce an average transferred pension pot of £350,000 by £145 to £290 each month in the period immediately after transferring. Similarly, ongoing product charges of 1% to 1.5% will reduce it by a further £290 to £440 each month. So the total deductions on a transfer value of £350,000 would range from £435 to £730 each month. A DB scheme with that size of transfer value might have a current income value of £1,000-£1,200 each month, so the charges represent between 44% and 61% of the current level of that value. We recognise that fluctuations in the fund value due to investment returns as well as withdrawals will change these numbers over time.

4.4 Over 10m people have been auto-enrolled in a workplace pension scheme (WPS), in addition to those who were already members of a scheme. Yet we have seen in our thematic work that WPSs are rarely used to consolidate pensions following a transfer. This is despite 98% of employers using a DC scheme for auto-enrolment purposes. The majority of these are master-trust and contract-based schemes that accept inward transfers. However, we are aware that some trust-based DC schemes do not accept transfers. A growing number also offer decumulation options. If advisers recommended a default fund in a WPS as the receiving scheme, it's likely that a transferring member would not require advice again until decumulation and their product charges would be capped at 0.75% each year. On an average transfer value, this would mean product charges of £220 each month, considerably lower than the charges outlined above (see paragraph 4.3).

4.5 Our rules already require firms to explain why the scheme they recommend is at least as suitable as a WPS (COBS 19.2.2R). Our recent work indicates that many firms pay lipservice to this requirement and recommend personal pension schemes on the basis that a WPS offers inadequate fund choices. Yet, in many cases, advisers are not able to articulate the need for a vast selection of funds. We have seen firms recommend more expensive schemes on the basis that the client needs the adviser's ongoing advice service and so the charges for managing the pension are justified. When combined with multiple layers of charging such as platform charges, charges for discretionary fund management as well as product charges, advisers are not giving sufficient attention to value for money. The high cost of some recommended investment solutions contrasts sharply with the lack of charges incurred by members if they stay in their DB scheme.

Proposals

4.6 We consider that if a transfer from safeguarded benefits to flexible benefits is suitable, a default option within a WPS, if available, is more likely to be a suitable destination option for many consumers. Many consumers often have no or limited prior knowledge and experience of investments. They would also receive the protections afforded by Independent Governance Committees or trustees. A WPS will also be an attractive option for many consumers who wish to consolidate their pension savings in one place.

4.7 We propose to require firms to demonstrate why the scheme they recommend is more suitable than a WPS. This is intended to make it easier for an adviser to recognise the benefits associated with recommending a transfer into a workplace pension rather than a non-workplace DC pension. Firms will also be required to include analysis of a transfer into the default arrangement of an available WPS in the APTA which provides the evidence for the suitability report.

4.8 In our proposed guidance, we have set out circumstances that we consider are valid reasons for not considering a WPS:

- the client does not have access to a default fund with capped charges within a DC WPS either as an active or deferred member
- the scheme does not accept transfers in
- the advice sets out why and how the member will access the funds within 12 months of decumulating, and the WPS is incompatible with the way the pot will be accessed
- the member can demonstrate prior evidence of investment activity through an adviser or active investment choices as a self-investor (excluding investment in a mortgage endowment policy or a default fund of a WPS)

4.9 Where the client provides evidence of experience at making active investment choices as a self-investor or an advised investor, we have proposed that a firm would need to consider whether this factor is so important to the client as to outweigh other factors in favour of the default arrangement of the qualifying scheme.

4.10 We have also set out guidance on circumstances that we consider are not valid reasons for considering a WPS in most cases:

- the member is more than 12 months from starting to decumulate
- the member is within 12 months of being able to decumulate but it remains unclear if or how they will access a transferred pot at that time
- insufficient fund choices

4.11 We propose to monitor the effectiveness of this proposal via data collection (see Chapter 7). We recognise this proposal will be controversial. But in our view, this safeguard is necessary to protect consumers from being advised to transfer into destinations that:

a. are too complex for their needs
b. perpetuate the need for unnecessary ongoing charges that ultimately reduce consumer's income in retirement

4.12 As this proposal should result in fewer transferring consumers taking advice when accumulating pension savings, it may also bring about a drop in the numbers taking advice when it comes to decumulating those funds. Our work on the Retirement Outcomes Review will protect those who subsequently choose not to take advice when accessing their pension savings via drawdown within FCA-regulated schemes. Our proposal does not apply to transfers out of contracts with guaranteed annuity rates.

Q13: **Do you agree that requiring firms to demonstrate that an alternative scheme is more suitable than a WPS is the most effective way to reduce the numbers of consumers being transferred into schemes that do not meet their needs and limit unnecessary charges paid? If not, how would you suggest we address this issue more effectively?**

5 Empowering consumers

5.1 In this chapter, we propose remedies that are intended to improve consumer engagement with the advice process. The remedies in the previous chapters seek to address conflicts in the advice process. We are concerned that, regardless of conflicts, charges are unclear and consumers do not fully understand the implications of the advice they are given.

5.2 So we are proposing changes to improve charges disclosure at the start and end of the advice process. We think this will empower consumers to consider whether they want to incur the costs of advice and be more aware of potential adviser conflicts. Ultimately, it may also have a positive effect on the value for money of advice. We are also proposing to require firms to undertake checks on a client's understanding as part of the advice process.

Initial charging disclosures

Background

5.3 In the file reviews that we undertook as part of our thematic reviews, we have found poor levels of disclosure. For example, in our most recent findings, we found that 61.7% of files were non-compliant on disclosures and communications with clients. The disclosure failings were driven in part by failings in firms' standard documentation, particularly in the way they present initial and ongoing fees.

5.4 We frequently see firms not providing charging structures to clients in good time, and charging structures that do not clearly set out indicative levels of charges for each service. This means that consumers are not aware of the charges they are paying, either for the initial advice or for ongoing advice.

Proposals

5.5 We are proposing that before firms provide regulated advice on a transfer or conversion requiring a PTS, they must send a letter of engagement that sets out, in monetary terms, the amounts that would be paid under various conditions:

For abridged advice

- The firm offers abridged advice and a transfer or conversion is not recommended following abridged advice
- The firm offers abridged advice but is unable to take a view on whether it is in the client's best interests to transfer or convert without undertaking full advice
- The firm gives abridged advice followed by full advice

For full advice

- The firm is giving full advice, making it clear that the amount is generally payable irrespective of whether the advice is to transfer or convert and transacted

- The amount of ongoing adviser charges that would be paid each month in the year following a transfer or conversion if funds remained invested, making no assumptions about growth but allowing for the cost of initial advice
- If the first-year charges would be significantly lower than subsequent years charges, the letter should indicate the charges in subsequent years until normal charging levels are reached

5.6 If an adviser operates the carve-out and knows that a potential client would be eligible for the non-contingent charging, the letter must explain:

- the reasons for this
- that no charge would be payable in the event of a recommendation not to transfer or convert

5.7 If an adviser offers abridged advice, the letter must explain that a consumer will not be able to undertake a transfer after only receiving abridged advice.

Q14: **Do you agree with our proposals for requiring the disclosure of charges in engagement letters? If not, please indicate what alternatives should be considered.**

Suitability reports: enhanced disclosures

Background

5.8 Firms must provide a suitability report when they make a personal recommendation to a client. The suitability report must at least specify the client's demands and needs, explain why the firm has recommended that a pension transfer or conversion is suitable for the client, and explain any possible disadvantages of the transaction for the client. We expect a suitability report to provide clear evidence to substantiate the adviser's recommendation. It should enable the client to understand the implications when deciding whether they should transfer their pension.

5.9 In our thematic work, we have seen that many firms are failing to communicate with their consumers in a way that is clear, fair and not misleading. Overall, we found that only 29.2% of firms' disclosure and communication with clients was compliant. In particular, our review highlighted that many suitability reports are too long with unclear recommendations. Often, reasons for and against a pension transfer are given without a clear recommendation as to whether the client should transfer. Some firms also over-emphasised the benefits and down-played the risks of transfer to an alternative arrangement.

5.10 In many cases, the advice and product charges associated with a pension transfer were not presented clearly to the client in the suitability report. Further, ongoing pension advice is frequently misrepresented as a mandatory feature of the pension transfer package rather than as an optional additional service that the client can cancel at any time. In some cases, firms have recommended that clients invest in schemes where the aggregated charges have the potential to negate future investment returns so the client had a high risk of being worse off.

Proposals

5.11 To address the issues highlighted by our supervisory work on disclosure and communication practice, we are proposing that firms must include a one-page summary at the front of all transfer suitability reports requiring a PTS. This proposal also applies to pension conversions.

5.12 The summary, limited to one side of A4 if printed, will bring forward key information that we would expect to be detailed in the suitability report. To show how this requirement may be applied in practice we have included three sample templates in Annex 1. We consider that requiring key information in the summary should improve the overall standard of disclosure and communication and help consumer engagement. Behavioural research that was conducted as part of our Retirement Outcomes Review consistently found that consumers engage more when they are not given excessive information. The adviser could also use the summary to support their recommendation to insistent clients. Our Behavioural Economics and Design Unit has reviewed the layout of our examples in Annex 1 and considers them an effective way to engage consumers.

5.13 We propose that the one-page summary must include the following:

a) Charges disclosure
Advisers must disclose ongoing advice and all product charges they expect to levy in the first year if a transfer or conversion goes ahead, presented in pounds and pence. They must present these charges alongside the charges associated with the client remaining in their current DB scheme. If the client has a WPS which will not be used as a destination scheme, the adviser must also provide a disclosure of the charges associated with a transfer into their WPS. In addition, any first-year contingent charges must also be presented as a percentage of the client's DB scheme income in today's terms, so that the client can see the proportion of DB income that might be given up to charges if they were to transfer. This proposal means that consumers will receive clear disclosure of the impact of charges at the end of the advice process, in addition to those proposed in engagement letters at the start of the process.

b) The adviser's recommendation
The wording of the adviser's recommendation must clearly set out whether the consumer should transfer or convert their pension or not. The adviser should also state where to find a more detailed explanation for this recommendation in the main body of the suitability report. The client must be invited to provide a signature on the one-page summary to confirm that they intend to follow the advice of their adviser. If the recommendation is not to transfer or convert, and the client refuses to provide a signature to confirm they intend to follow the transfer advice of their adviser, the adviser should follow the 'insistent client' process in line with COBS 9.5A.

c) Pension risk
We will require a statement of the risks associated with the transfer of a pension or pension conversion. The client must be invited to provide a signature in the one-page summary to confirm that they understand the risks disclosed to them as written in the one-page summary. If the client refuses to provide a signature, the adviser should check that the client fully understands the risks associated with the recommendations presented to them.

d) ***Ongoing advice***
Firms must provide information about any ongoing advice service provided if the adviser proceeds with the pension transfer or pension conversion. The client must be informed that they are not required to take this service, and that they may cancel at any time. The monthly and annual charges associated with this service must also be disclosed in pounds and pence. The client must be invited to provide a signature on the one-page summary to confirm that they wish to opt-in to the ongoing advice service.

5.14 We also propose Handbook guidance for providing a summary if firms use the two-adviser model. This guidance clarifies that if advisers have produced separate suitability reports on the transfer advice and the investment recommendation, the summary of the advice given by each firm should be included in the one page summary.

5.15 Currently our rules do not specify at what stage in the advice process a firm should provide a suitability report to the client. For our new disclosures to be effective in informing client decision-making, we propose that our rules are updated to require that suitability reports for pension transfer advice are always provided in good time before a transaction is undertaken.

5.16 Earlier in this CP, we proposed to introduce abridged advice (see paragraphs 3.59-3.68) as a low-cost alternative to full advice. To ensure the client knows what type of advice has been provided, we also propose to introduce rules to require that the one-page summary of the suitability report discloses whether the service provided is abridged advice or full advice. In a one-page summary for abridged advice, the adviser must disclose that full advice has not been provided, and that a pension transfer or conversion cannot be arranged unless full advice has been given. Also, when providing a suitability report for abridged advice, the adviser is not required to include disclosure of charges and ongoing advice. We have included an example of one form of the summary for abridged advice in Annex 1.

Q15: **Do you agree with our proposals to introduce a one-page summary at the front of a suitability report? If not, please indicate what alternatives should be considered to improve disclosures to consumers.**

Q16: **Do you agree with our proposal to require that suitability reports are always provided before a transaction is undertaken?**

Checking consumers understand the advice

Background

5.17 Consumers seeking advice on pension transfers generally have low levels of pension knowledge. Research carried out for the Department for Work and Pensions in relation to Defined Ambition pensions found that individuals had very limited knowledge about their own pension scheme and the risks and uncertainties attributable to either DB and DC pension schemes. Clients who have low levels of knowledge and experience of pensions and investments will rely on their advisers to put them in an informed position. If they are not given clear and fair information about their pension and investment options they will be unable to engage effectively with the advice process or to question their adviser about the reasons for their recommendation, and what they should do next. A lack of understanding of the implications of advice may mean that they are not well placed to make an informed decision on whether to follow the advice.

5.18 Suitability reports are meant to help consumers understand why a transaction has been recommended and the risks associated with that transaction. But, in our view, the poor quality of suitability reports, as discussed in paragraph 5.9, is highly likely to leave consumers confused.

5.19 In other markets, overseas regulators are using 'consumer confusion audits' to demonstrate that the products and services firms have sold to their customers are suitable for those customers' circumstances. For example, the United States Food and Drug Administration requires pharmaceutical companies to conduct trials of over-the counter-sales of medication to show that actual purchasers understand the usage and dosing directions before the company can widely sell the drug directly to consumers. Ideally, consumer confusion audits are carried out by independent third parties.

5.20 Given the limited timeframes associated with pension transfers, it would be impractical to introduce similar requirements for pension transfer advice. But we think that firms could do more to check that consumers understand the information presented to them and are making an informed decision about whether to transfer.

Proposals

5.21 So we are proposing new guidance where a firm intends to make a positive recommendation to transfer or convert where a PTS is required. The firm must gather evidence that the client can demonstrate that they understand the risks to them of proceeding with a pension transfer before finalising the recommendation and keep a record of this evidence.

5.22 We know some firms already undertake something similar by asking the client to play back their understanding of the proposed transaction in their own words. Others may want to ask open questions to gauge the client's understanding of the transaction. At this time, we are not mandating how firms must undertake these checks but we may do so in future, if needed. But we are proposing guidance that sets out that firms should adjust their approach depending on the type of client. So, for example, when checking the client's understanding of the risks, a firm may have a different style of questioning with a more sophisticated client than it would with a client who has little understanding of how investment markets work or the charges payable.

5.23 If a client is not able to demonstrate a reasonable understanding of the risks of proceeding with a pension transfer or conversion, or declines to sign the summary to confirm their understanding, then the adviser should generally not make a recommendation to transfer. This would be justified on the grounds that the client does not appear to have the relevant knowledge and experience.

5.24 Firms must keep records to be able to demonstrate how they undertook the check and what it entailed.

> **Q17:** **Do you agree with our approach to checking that the client has a reasonable understanding of the risks of proceeding? If not, what alternative approaches might achieve the same outcome?**

6 Enabling advisers

6.1 In this chapter, we set out proposals to enable advisers to give better quality advice. We want to raise standards by improving the levels of knowledge and understanding of PTSs who give or check advice on pension transfers. In response to feedback received from stakeholders, we are now setting out proposals for compulsory CPD for PTSs, specific to pension transfer advice.

CPD requirements

Background

6.2 Our Training & Competence (TC) Sourcebook sets out how firms are responsible for reviewing the competence of their employees on a regular and frequent basis. They are also responsible for taking appropriate action to ensure their employees remain competent for their role. This is particularly relevant where an adviser gives pension transfer advice infrequently and passed the exams many years ago.

6.3 But our recent supervisory findings show continued concerns about the suitability of advice on pension transfers. The competence of a PTS is one of the potential drivers of unsuitable advice. We want to ensure that skill levels are high and are maintained over time.

6.4 In CP18/7, we proposed that all PTSs must obtain the Level 4 RDR qualification for advising on investments before they can advise or check pension transfer advice. In PS18/20, we confirmed that PTSs must acquire the additional qualification by October 2020. Some respondents suggested that PTSs should also undertake specific CPD to be able to continue to deliver pension transfer advice.

6.5 Advising on pension transfers is complex and has evolved since the pension freedoms. Together with wider economic and demographic developments, pension freedoms will continue to have a profound impact on how consumers take their retirement income. We believe that PTSs must be able to evidence that they are improving their knowledge by keeping up to date with current thinking and market trends as well as changes to our Handbook requirements in this area.

Proposals

6.6 We are proposing that PTSs must undertake a minimum of 15 hours CPD each year, focused specifically on pension transfer advice. This would be in addition to any other existing CPD requirements for other types of advice.

6.7 Further, at least 5 hours of the 15 hours must be provided by resources external to any firm that employs or contracts services from the PTS. This will ensure that a PTS is not just receiving a 'house view' of the market. We believe that this is a proportionate way to address any skills shortfall or out-of-date knowledge that might exist. We propose that the new requirements would come into force at the beginning of the calendar year after our Board makes the final instrument, and the CPD year would be the same as the calendar year. Where a PTS is assessed as competent (for the purposes of TC 2.1.1R during a CPD calendar year, then the required hours for that year can be pro-rated according to the remaining duration of that year.

6.8 We will require PTSs to maintain their own records of their CPD and firms should record these centrally, in line with the requirements of the TC Sourcebook.

Q18: Do you agree with our proposals to introduce CPD requirements for PTSs? If not, what other approaches could be used to help PTSs maintain knowledge?

7 Effective regulation

7.1 This chapter outlines the data we propose to collect from firms about PTS advice and PII. The efficient collection of data provides us with up-to-date information on the markets we supervise to enable oversight and appropriate action.

7.2 Given the high risks attached to advice on pension transfers and conversions and inadequate PII, we are proposing to amend the Retail Mediation Activities Return (RMAR), FSA031, FSA032 and FIN-APF in SUP16. These are the proposed changes:

- A new section of the RMAR – RMA-M – on Pension Transfer Specialist advice (collected six-monthly). This will enable us to monitor the number of consumers that firms advise to transfer, the take-up of ongoing advice services, and the charging structures that firms use to provide pension transfer or conversion advice. It will also give us further information about the size of the pension transfer market including the number of pension transfer specialists firms employ, and the use of introductions for advice on pension transfers.
- Amendments to the current data collected on PII within RMA-E – on Professional Indemnity Insurance (PII) Self-certification (collected quarterly), FSA031 – Capital adequacy for exempt CAD firms subject to IPRU (INV) Ch 9 only (quarterly), FSA032 – Capital adequacy for exempt CAD personal investment firms subject to IPRU (INV) Ch 13 choosing to carry out activities under MiFID Article 67(3) (quarterly), and the Authorised Professional Firms Questionnaire (FIN-APF). This will enable us to monitor the PII market more effectively in the wake of recent changes in the market, and to assess how these changes might affect consumers.

7.3 The changes will be directly relevant to:

- financial advice firms that give advice on DB pension transfers or conversions, or give advice on pensions with other safeguarded benefits (excluding guaranteed annuity rates)
- all firms that are required to report details of their PII via the RMA-E – PII self-certification, FSA031, FSA032 or FIN-APF

RMA-M – Pension Transfer Specialist advice

Background

7.4 In autumn 2018, we undertook an ad-hoc collection of DB pension transfer data from advisory firms to gain more information about the outcomes of DB transfer advice. From the information we gathered, we have identified broad market trends. These trends have informed the proposals in this paper and identified individual firms that may be posing a risk to consumers for further supervision work.

7.5 Currently 4.9m deferred members and 1.3m active members within funded pension schemes are eligible for the PPF (which excludes employees in local government pension schemes). So we believe that PTS advice is likely to be a significant part of the retirement income market for some time. Given our continued focus on DB transfer advice, we believe we need to continue to collect similar data to the ad-hoc request on DB transfers. This will inform our supervisory approach and help us assess policy interventions for safeguarded benefits.

7.6 Our regulatory return data need to provide relevant, up-to-date insight on the markets and firms we regulate. Collecting this information through a regulatory data request will result in firms collating and submitting data more efficiently. It will enable us to continue to analyse and use the data more effectively.

7.7 These proposals are designed to improve our ability to supervise effectively. The data we propose to collect would be used to:

- monitor market trends
- provide details of firms that are active in providing PTS advice to retail customers
- assess potential conflicts of interest in the market for PTS advice and where these may not be effectively managed
- help assess the effectiveness of our interventions, such as those in this CP
- inform future FCA interventions, such as supervisory work and potential policy changes

7.8 Before introducing the proposed regulatory data request, we may also conduct a further ad-hoc data collection exercise to bring existing information up to date.

Proposals

7.9 We propose to create a new section of the RMAR regulatory return (RMA-M) covering data on DB and other safeguarded benefit advice, including advice on pension transfers and conversions, excluding transfers that do not require a pension transfer specialist. We intend to collect these data from all firms with the full (but not the limited) permission to advise on pension transfers, conversions, and opt-outs for retail customers.

7.10 We propose to ask firms about their activities and those of their appointed representatives including:

- whether they have provided financial advice to retail customers on DB pensions transfers or other pensions with safeguarded benefits (excluding guaranteed annuity rates)
- the number of retail customers they provided with advice to transfer and not to transfer
- the number of PTSs, introductions accepted and appointed representatives
- the number of retail customers, the transfers values and the revenue generated for specific types of advice and advice outcomes
- the number of retail customers who agreed to ongoing services
- charging structures for pension transfer advice
- the costs and types of investment solutions

7.11 The proposed data form is set out in Appendix 1.

7.12 We propose to introduce this reporting 6 months after our Board has made the final instrument. Firms' first reporting period for RMA-M will cover the previous 6 month period. We propose that the due date for RMA-M is 30 business days after the end of the reporting period.

7.13 The date of submission will not be impacted by firms' annual reporting dates. All firms will be expected to submit data for the same period.

> **Q19:** **Do you agree with the data we propose to collect in RMA-M? If not, what amendments would you suggest?**

Data collected on PII within RMA-E – Professional indemnity insurance (PII) self-certification, FSA031, FSA032, and FIN-APF

Background

7.14 In March 2019, we introduced new rules to increase the FOS award limit from £150,000 to £350,000. The increase applies to complaints referred to the FOS about acts or omissions by firms on or after 1 April 2019. Consultation feedback highlighted the potential impact of the new rules on the price and availability of PII cover for activities carried out by firms that are subject to the £350,000 award limit. As a result, we want to ensure the data we collect on firms' PII cover, particularly for firms that undertake high-value business such as DB pension transfer advice, allow us better to identify developments that could adversely impact consumers. Targeted amendments to the existing data return on PII cover (RMA-E, FSA031, FSA032, and FIN-APF) will help us achieve this.

7.15 Our proposals are designed to enable us to better monitor whether firms are complying with the prudential requirements for PII.

Proposals

7.16 We propose to amend the existing data collected on intermediaries' PII cover within the existing quarterly RMA-E submission, FSA031, FSA032, and FIN-APF so that we have better data about the PII cover of all firms that offer retail intermediation. This will allow us to monitor the changes in the PII market more effectively and how those changes might affect consumers. This population of firms will include, but is not limited to, firms providing pension transfer advice.

7.17 These changes will impact all firms required to submit RMA-E, FSA031, FSA032 and FIN-APF. We propose to introduce these changes for firms' submissions due on or after 1 October 2020. These changes will not amend firms' reporting periods or submission dates.

7.18 We propose to:

- require firms to confirm if they have no exclusions or limitations to their PII cover
- collect new data on whether exclusions apply to past or future business or both
- collect new data on the nature of the exclusions applying to business lines

7.19 In addition to the areas we are consulting on, we will also be updating the existing RMA-E, FSA031, FSA032 and FIN-APF drop-down lists for the names of authorised insurers and business line categories to reflect the current market.

Q20: **Do you agree with the data we propose to collect in RMA-E, FSA031, FSA032 and FIN-APF? If not, what amendments would you suggest?**

Guidance for completing the regulatory returns

7.20 We propose to introduce guidance notes to help firms complete these amended returns. The draft guidance notes are in Appendix 1.

Q21: **Do you have any comments on the proposed guidance for completing RMA-M and revised guidance for completing RMA-E, FSA031, FSA032 and FIN-APF?**

8 Technical amendments

8.1 In this chapter, we consult on changes to the pension transfer definition and set out technical proposals to clarify to firms how to apply our rules and guidance in practice.

8.2 The proposed changes include:

- clarifying and amending the TVC
- additional factors firms should incorporate in cashflow modelling (where used)
- clarifying how the pension transfer rules should be applied to retirement annuity contracts
- how to use estimated transfer values for initial advice
- clarifying the application of adviser charges
- explaining the scope of arranging a transfer

Pension transfer definition

Background

8.3 In CP18/7, we proposed amending the Handbook glossary definition of 'pension transfer' to include reference to safeguarded benefits and flexible benefits. We intended to align the definition with the terminology used in the regulated activity of advising on pension transfers (article 53E of the Regulated Activities Order). The regulated activity covers movement of safeguarded benefits to flexible benefits. We intended to simplify the existing definition and also remove all transfers of flexible benefits which do not require the same level of protection.

8.4 Due to feedback to the consultation, we explained in PS18/20 that we had decided not to proceed with our proposal at that time as we had not achieved the simplification and clarity that we intended. We also said that we would consider respondents' detailed feedback to CP18/7 to help us investigate alternative ways to simplify and clarify the definition.

8.5 One theme emerging from the responses was that we had not removed all transfers of flexible benefits from the Handbook definition and that the definition remained complex. Respondents also had different opinions of how cancellation rights would apply for different types of transfers.

Proposals

8.6 We propose aligning our pension transfer definition more closely with the wording of the regulated activity. The proposals mean that the pension transfer definition will include pension transfers that are covered by the regulated activity, ie safeguarded benefits to flexible benefits, and that transfers of flexible benefits would be completely excluded. However, beyond this carve-out for transfers of flexible benefits, the scope of the definition would remain unchanged. This means that the proposed definition would still cover certain transfers of safeguarded benefits where the receiving scheme offers safeguarded benefits.

8.7 Finally, for cancellation purposes, we are proposing to move the definition of pension transfer into the application section of COBS 15. Although the scope of the definition for cancellation purposes would remain unchanged. This means that transfer of flexible benefits would continue to be covered.

8.8 The proposed Handbook definition and COBS 15 application are set out in Appendix 1. The table below sets out the effect of our proposed changes on different types of transfers involving safeguarded and flexible benefits:

Transfer from	Transfer to	Policy Effect
Any pension scheme with safeguarded benefits	Any pension scheme with flexible benefits	Retained in scope of pension transfer definition
Any pension scheme with flexible benefits	Any pension scheme	Removed from scope of pension transfer definition Retained within scope of the cancellation rules Record keeping of suitability reports will reduce from indefinite to 5 years
An Occupational pension scheme (OPS) with safeguarded benefits	Another OPS with safeguarded benefits	Out of scope of regulated activities
An OPS with safeguarded benefits	Any FCA regulated pension scheme with safeguarded benefits	Retained in scope of pension transfer definition
An individual pension contract providing fixed or guaranteed benefits that replaced similar benefits under a DB pension scheme	Any defined contribution OPS with safeguarded benefits Any FCA regulated pension scheme with safeguarded benefits	Retained in scope of pension transfer definition

8.9 As transfers of flexible benefits are excluded from the application provisions in COBS 19.1, the main consequence of removing any transfer of flexible benefits from the scope of the definition is that firms would only need to retain suitability reports on these transactions for 5 years instead of indefinitely. Firms should also note that our proposals will also result in changes to the data that firms report to us in Product Sales Data.

Q22: Do you agree with our proposed changes to the pension transfer definition?

Q23: Have we identified all the protections that would be lost for some categories of pension transfer and addressed these adequately?

Transfer Value Comparator

Background

8.10 Since October 2018, firms have been required to provide consumers with a TVC when giving pension transfer advice. The TVC provides consumers with a comparison of their transfer value with the estimated cost of purchasing the same benefits in a DC environment, using a prescribed methodology and assumptions. This means that firms should be providing consistent TVCs.

8.11 Through our ongoing engagement with firms and software providers, it has become clear that firms are interpreting the rules in slightly different ways. As a result, we are taking this opportunity to refine some areas of the methodology and clarify where firms have identified inconsistencies and implementation issues, such as obtaining a generic open-market option quote.

Proposals

8.12 Most of our proposals should clarify how to apply the TVC methodology in practice to achieve greater consistency across the industry. We are also proposing a change to the expense assumptions used in the TVC.

TVC pre-retirement expense assumption

8.13 The TVC shows a potential 'loss' if the cost of purchasing the DB benefits in a DC environment is greater than the transfer value offered. We have received extensive feedback that the 'loss' in current market conditions is significant, particularly for consumers who are still some years from retirement. We consider this to be a reasonable summary of the current high cost of securing an individual guaranteed income in the open market in current conditions. But we have reviewed some of the underlying assumptions to ensure they remain fit for purpose.

8.14 We propose that the product charge assumption that applies before future income benefits come into payment should be reduced to 0.4% (from its current 0.75%). This will more closely reflect the charges associated with a product invested solely in gilts. We consider that all other assumptions reasonably reflect our policy intention of illustrating the value of the risk-free benefits that the member would receive in their DB scheme.

TVCs within 12 months of retirement or for late retirement

8.15 If a client is within 12 months of the ceding scheme's normal retirement age (NRA), the TVC calculation uses the current open market cost of purchasing a generic annuity that is the nearest match for scheme benefits. From feedback received, we know it can be difficult to replicate certain benefits without personalisation using actual provider quotes. For example, most annuity providers now personalise annuity quotes for the postcode.

8.16 We propose to simplify the TVC basis so that the methodology for those consumers with 12 or more months to NRA is also used for those who have less than 12 months to NRA. We consider that this will still help consumers understand the value of the benefits they are considering giving up. We propose to remove the separate mandatory wording that currently applies to TVCs prepared within 12 months of retirement.

8.17 Our proposals also confirm that a TVC is required where the scheme NRA has already passed. The TVC should be based on the same age used in the Cash Equivalent Transfer Value (CETV) calculation which usually, but not always, assumes immediate retirement. Where the client has not yet reached NRA, but is planning to retire late, the TVC should be prepared in the usual way to NRA and the impact of late retirement can be illustrated in the APTA, taking into account any scheme-specific late retirement terms.

TVC rate of return during accumulation

8.18 To ensure consistency with the monthly updates to the annuity interest rate, we propose to clarify that the rate of return during accumulation should be updated on the 6th of each month based on the gilt yield that applied on the 15th of the previous month. Our proposals also confirm that the gilt yields derived from the UK FTSE Actuaries Index should be based on the 5- to 10-year index or the 10- to 15-year index, and that the 5- to 15-year index can be disregarded. So, for example, for a 12-year term to NRA, the rate should be based on the 10- to 15-year index. The term to NRA should be taken as the date on which the TVC is first prepared. We are also proposing to update the notes to the TVC to clarify that the assumed rate of return is risk free.

Valuing spousal/partner benefits within a TVC

8.19 If the scheme rules provide for a spouse/partner's pension on the death of the member, the benefit will be included in the transfer value. Schemes would normally assume that a female scheme member has a male spouse/partner who is 3 years older and a male scheme member has a female partner/spouse who is 3 years younger. We propose to confirm that these assumptions should be used in the TVC. If a member does not have a spouse/partner eligible for scheme benefits, or the partner's actual age or gender is different from assumed, the firm should use the APTA to illustrate potential outcomes.

Valuing favourable early retirement benefits within a TVC

8.20 While most schemes allow retirement before a member's NRA, they usually apply a reduction for the early payment of the pension. But some schemes permit members to retire early without applying any reductions. If such terms exist, it will almost always be in members' best financial interests to take the pension at the earliest age it can be taken unreduced.

8.21 If no consent is required (from employer and/or trustee) to take the benefits unreduced at an age less than NRA, we consider it reasonable to show this in the TVC calculation. This is likely to be consistent with how the CETV itself has been calculated. So we propose to confirm that, when calculating a TVC, firms may use the age at which benefits can first be taken unreduced and without consent being required. If the member has passed this age, it should be assumed that they take their benefits immediately.

Q24: Do you agree with our proposed changes and clarifications to the TVC rules? If not, please indicate how we should change our approach.

Cashflow modelling

Background

8.22 We do not mandate cashflow modelling for use in the APTA. However, we recognise that as well as justifying the recommendation, it can often be useful to help a consumer understand whether keeping or giving up safeguarded benefits is likely to meet their needs and objectives.

8.23 Our supervisory work has identified some areas where cashflow modelling has been used in a way that could be misleading. These include the use of nominal terms cashflows without explaining inflation, a lack of indexation of tax bands or tax limits, and no consideration of market downturns. As a result, advisers may be giving clients unrealistic expectations of future income.

Proposals

8.24 To address the shortcomings we have seen in cashflow modelling in the APTA, we are proposing the following new rules if firms choose to use cashflow modelling:

- Firms must prepare cashflow models in real terms, ie in today's money terms. This will ensure that the models are consistent with other mandated documents such as Key Features Illustrations (KFIs).
- Firms must ensure that tax bands and tax limits are set using reasonable assumptions if they model net income from year to year. The use of real terms' modelling should facilitate appropriate indexation.
- The model should explicitly allow for taxes or constraints that are likely to arise on a transfer that would not occur if safeguarded benefits were retained, such as a Lifetime Allowance charge, any tax applicable on the death of the consumer, or the application of the money purchase annual allowance.
- The modelling must include 'stress testing' scenarios to illustrate the impact of less favourable future scenarios so that the consumer can see more than one potential outcome.

Q25: Do you agree with our proposals when cashflow modelling is used in an APTA? If not, how do you suggest we amend it?

Retirement annuity contracts

Background

8.25 There appears to be some uncertainty in the market about whether retirement annuity contracts (sometimes colloquially referred to as deferred annuities), which provide a monetary income at retirement, should be treated like contracts with guaranteed annuity rates (GARs) when giving pension transfer advice. In our rules, GARs are treated differently to other types of transfers, such as DB transfers. The safeguarded benefits in a GAR do not have the same level of complexity as DB transfers. This means some of the requirements in COBS 19.1 do not apply. In addition, advisers can advise on GARs using a limited form of the pension transfer permission rather than the full version.

8.26 Some firms consider that retirement annuity contracts fall within the glossary definition of a GAR and are already treating these contracts in the same way as GARs. But other firms think that the wording of the GAR definition excludes retirement annuity contracts due to the use of the word 'rate' within the definition.

8.27 In our view, retirement annuity contracts are within the scope of the GAR definition although we can see why some firms may have interpreted this differently. Although retirement annuity contracts share some features with more complex DB scheme benefits, such as the need for an actuarial calculation to determine the transfer value, the nature of the benefit is a monetary rate or equivalent. This includes with-profit retirement annuity contracts where the monetary rate can increase due to bonuses.

8.28 In CP15/7 and PS15/12, we said it would be disproportionate to require the same protections for transferring a GAR as for transferring out of a DB scheme. These protections include the requirement for a PTS and a more in-depth analysis. It was our intention that the same principles should be applied to retirement annuity contracts.

Proposals

8.29 We propose to amend the glossary definition of a GAR to clarify that it includes retirement annuity contracts. This means that a PTS, a TVC and an APTA will not be required when advising on a retirement annuity contract. Firms should note that the other rules and guidance in COBS 19.1 will continue to apply. Similarly, firms with the limited form of the pension transfer permission will be able to advise on retirement annuity contracts in the same way as they do on contracts containing GARS. Firms should note that our proposals are not intended to apply to Section 32 contracts, or to deferred annuities resulting from DB scheme buy outs.

Q26: Do you agree with our approach of clarifying that retirement annuity contracts should be treated in the same way as contracts with guaranteed annuity rates? If not, please state why.

Estimated transfer values

Background

8.30 In rare circumstances, a scheme is only able to provide estimated transfer values, rather than guaranteed transfer values, to members who need to take advice. For example, a scheme that is restructuring may offer its members different options. This can be challenging when one of the options is a buyout of benefits with an insurer, but where the precise details and cost of the scheme buyout cannot be finalised until the likely take-up of the offer is known. So individual guaranteed transfer values can only be determined once the take-up is known.

8.31 If the value of benefits exceeds £30,000, members need to take advice if they are considering transferring out of the DB scheme instead of taking any other option available to them within the scheme. Ideally, advice would always take place after the guaranteed transfer value is made available. But members need to take advice to make an informed choice on the options that have been put to them. A scheme may give the member an estimated transfer value so they can seek advice. This creates a difficult situation for advisers who are unable to finalise their recommendation using an estimated transfer value which is still subject to change. Some advisers have refused to advise in such circumstances.

8.32 We believe that it should be possible for advisers to advise in these circumstances so that members can make informed decisions on how to proceed. Otherwise, members would be unable to exercise their statutory right to transfer out.

Proposals

8.33 So we are proposing Handbook guidance that sets out our expectations of advisers when advising a member who only has an estimated transfer value. Our proposed guidance addresses both the comparison between the ceding and proposed schemes, required as part of a provisional APTA, and the advice recommendation.

8.34 When an adviser gives pension transfer advice, among other things, the adviser must assess the benefits likely to be paid and options available under the ceding arrangement. The adviser must also compare these with the benefits and options available under the proposed destination scheme, as part of the provisional APTA. As the ceding scheme is unlikely to exist going forward, the guidance sets out that an acceptable and pragmatic way forward is to compare the benefits and options available to the member under the restructuring or buyout of the scheme with those under a proposed arrangement. If the benefits and options in either the current or proposed scheme are not fully known, advisers should make reasonable assumptions to enable them to make a comparison.

8.35 The proposed guidance sets out that when giving the advice, the adviser should communicate the uncertainties of that advice due to the nature of the estimates used. They should clarify that the advice process and recommendation will be subject to review once the final transfer value is known. They should set out any assumptions they have made as part of the process and, where possible, indicate circumstances that could cause the advice to change. Once the guaranteed transfer value is available, it should not be necessary to repeat the entire advice process if the initial advice adequately addresses the degree of uncertainty. It may be possible to proceed by providing an addendum to the initial, provisional, suitability report to confirm the final position. Advisers should not provide confirmation of advice until they provide a final suitability report based on a guaranteed transfer value.

Q27: Do you agree with our proposed guidance on how advisers should give advice when only an estimated transfer value is available? If not, how would you change it?

Application of adviser charging and inducement rules

Background

8.36 Our rules on adviser charging in COBS 6.1A and inducements in COBS 2.3 contain requirements on firms including those who make personal recommendations in relation to retail investment products. Advice on a pension transfer or conversion is included in the definition of personal recommendation and is not limited to situations where advice is given in relation to a retail investment product. But parts of COBS 6.1A and COBS 2.3 do not clearly set out that they apply in all cases of advice on a pension transfer or conversion.

Proposals

8.37 We propose to amend relevant parts of COBS 6.1A and COBS 2.3 to apply them to advice on pension transfers and conversions, irrespective of whether there is a recommendation into a retail investment product. We also propose to insert an exception for an "employer funded pension advice charge" from the provisions of COBS 6.1A. This will provide firms with greater certainty about how to apply the rules and improve consistency of disclosures.

Q28: Do you agree with our proposals to amend the application of the adviser charging and inducement rules to include advice on pension transfers and conversions in all circumstances (other than the proposed exclusion of an "employer funded pension advice charge" from the application of the adviser charging rules)? If not, please state why.

Arranging a transfer

Background

8.38 The rules in COBS 19.1 apply to firms that give advice on pension transfers, conversions or opt-outs involving safeguarded benefits. Within COBS 19.1, we have become aware that a rule on record keeping (COBS 19.1.7CR) refers to firms who arrange transfers or opt-outs without giving advice. This rule is inconsistent with the application rules of COBS 19.1, so it can create uncertainty about how to apply the rule. Further, this arranging activity does not have a Handbook Glossary definition so the meaning may not be clear.

Proposals

8.39 We propose to change the application provisions of COBS 19.1 so that they refer to firms that arrange transfers, opt-outs and conversions as well as those who give advice. This will mean that arranging activities will be clearly within scope of COBS 19.1. A firm may arrange a transfer, opt-out or conversion without giving a personal recommendation where no advice is required, for instance if the transfer value is £30,000 or less, or if a different firm has provided the necessary advice.

8.40 To provide more certainty for firms, we are also clarifying that arranging a transfer means any action that helps to bring about the conclusion of the client's rights in the ceding scheme or an opt-out. For example, providing a confirmation of advice directly to the trustees would be part of arranging a transfer. This is separate to arranging (bringing about) deals in investments which, for pension transfer advice, involves acquiring rights in the destination scheme.

8.41 If an advisory firm arranges a transfer or conversion where another firm has provided a personal recommendation, we are proposing that, where the transfer value exceeds £30,000, the firm should seek confirmation, from the advising firm, of what the recommendation is. Further, if the firm is aware that the advice is not to transfer or convert, they should warn the client and check whether the client understands the consequences of acting against advice. If the client does not understand the consequences, the firm must refuse to arrange the pension transfer or conversion and must refer the client back to the advising firm.

8.42 If a firm is arranging a transfer, we are proposing that it must check that full advice was given, not just abridged advice, as discussed in Chapter 3.

Q29: Do you agree with the change in application of COBS 19.1 to capture arranging a transfer or conversion? If not, please explain why.

Annex 1
Sample suitability report summaries

Example A: Client has available workplace pension

1. Pension transfer summary:

	Stay in my current scheme	If I transfer to my workplace pension	If I transfer to another defined contribution pension
Current value of my pension income	£833 per month	Variable	Variable
Ongoing advice charges in first year	£0	£0	-£250 per month
Product charges in first year	£0	-£250 per month	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£250 per month**	**-£688 per month**
% of my current scheme income spent on charges	**0%**	**30%**	**83%**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [*if leaving and a separate adviser is advising on the destination scheme:*] DEF adviser has recommended that I transfer to ABC Scheme).

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

4. Ongoing pension management advice

If I transfer my pension, my adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Example B: Client does not have available workplace pension or is converting benefits

1. Pension transfer summary:

	Stay in my current scheme	If I transfer to a defined contribution pension
Current value of my pension income	£833 per month	Variable
Ongoing advice charges in first year	£0	-£250 per month
Product charges in first year	£0	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£688 per month**
% of my current scheme income spent on charges	**0%**	**83%**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [*if leaving and a separate adviser is advising on the destination scheme:*] DEF adviser has recommended that I transfer to ABC Scheme)

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

4. Ongoing pension management advice

If I transfer my pension, my adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Example C: Abridged advice

1. Current value of my pension:

	If I stay in my current scheme
Current value of my pension income	£833 per month

2. Advice charges

	Stay in my current scheme	If I proceed to full advice
Abridged advice charge	-£X	-£X
Expected full advice charge	£0	-£4,000

3. My adviser's recommendation:

My adviser has recommended that I: stay in my current XYZ Scheme.

(or)

My adviser has concluded that there is insufficient information to make a recommendation.

The reasons for this recommendation/conclusion are set out in section X of the report.

I confirm that I intend to follow the recommendation of my adviser:

(signature)

(or)

I understand that I cannot transfer my pension unless I take full advice. Full advice will cost me £4,000 – this is equivalent to around 4 months' income from my current scheme.

(signature)

Annex 2
Questions in this paper

Chapter 1: Summary

Q1: **Do you have any comments on the intended commencement dates of our proposals or the draft Handbook text set out in Appendix 1?**

Chapter 3: Addressing initial conflicts – contingent charging

Q2: **Do you agree that a ban on contingent charging is likely to be an effective in reducing the numbers of consumers receiving unsuitable advice? If not, how would you suggest we effectively reduce the numbers of consumers receiving unsuitable advice? Do you think we should address the conflict of interest issues differently?**

Q3: **Do you agree that the way in which we have set out the ban should be effective and adequately reduces scope for gaming? If not, how should we amend it?**

Q4: **Do you agree with the scope of the proposed carve-out and our proposals for monitoring its use? If not, how would you change it?**

Q5: **Do you agree with our decision not to propose a price cap? If not, how could the shortcomings of a price cap be overcome?**

Q6: **Do you agree that changes to our existing conflict of interest and accountability rules would not effectively address the harm to consumers occurring in this market? If not, what changes to systems and controls would be most effective?**

Q7: **Do you agree that separating responsibility for transfer advice potentially has unintended consequences that may not be in clients' best interests? Are there any ways in which a separation of advice or independent checking of transfer advice could work effectively?**

Q8: **Do you agree that banning percentage charging is unlikely to have a significant impact on consumer outcomes? If not, how could it be used effectively?**

Q9: **What are your views on the potential for 'scheme pays', changes to the pension advice allowance and partial transfers to improve the quality of advice or address conflicts of interest adequately, or both?**

Q10: **Given the timeframes that apply to guaranteed transfer values, what are your views on the need to provide guidance to members considering a pension transfer? Should guidance be mandatory and, if so, who should deliver it?**

Q11: **Do you agree with our additional guidance on triage services? If not, please indicate alternative ways of addressing the issue.**

Q12: **Do you agree with that our proposed abridged advice service will enable firms to provide a low-cost alternative to full advice for those consumers that need it? If not, how would you suggest we amend it?**

Chapter 4: Addressing ongoing conflicts

Q13: **Do you agree that requiring firms to demonstrate that an alternative scheme is more suitable than a WPS is the most effective way to reduce the numbers of consumers being transferred into schemes that do not meet their needs and limit unnecessary charges paid? If not, how would you suggest we address this issue more effectively?**

Chapter 5: Empowering consumers

Q14: **Do you agree with our proposals for requiring the disclosure of charges in engagement letters? If not, please indicate what alternatives should be considered.**

Q15: **Do you agree with our proposals to introduce a one-page summary at the front of a suitability report? If not, please indicate what alternatives should be considered to improve disclosures to consumers.**

Q16: **Do you agree with our proposal to require that suitability reports are always provided before a transaction is undertaken?**

Q17: **Do you agree with our approach to checking that the client has a reasonable understanding of the risks of proceeding? If not, what alternative approaches might achieve the same outcome?**

Chapter 6: Enabling advisers

Q18: **Do you agree with our proposals to introduce CPD requirements for PTSs? If not, what other approaches could be used to help PTSs maintain knowledge?**

Chapter 7: Effective regulation

Q19: **Do you agree with the data we propose to collect in RMA-M? If not, what amendments would you suggest?**

Q20: **Do you agree with the data we propose to collect in RMA-E, FSA031, FSA032 and FIN-APF? If not, what amendments would you suggest?**

Q21: **Do you have any comments on the proposed guidance for completing RMA-M and revised guidance for completing RMA-E, FSA031, FSA032 and FIN-APF?**

Chapter 8: Technical amendments

Q22: **Do you agree with our proposed changes to the pension transfer definition?**

Q23: **Have we identified all the protections that would be lost for some categories of pension transfer and addressed these adequately?**

Q24: **Do you agree with our proposed changes and clarifications to the TVC rules? If not, please indicate how we should change our approach.**

Q25: **Do you agree with our proposals when cashflow modelling is used in an APTA? If not, how do you suggest we amend it?**

Q26: **Do you agree with our approach of clarifying that retirement annuity contracts should be treated in the same way as contracts with guaranteed annuity rates? If not, please state why.**

Q27: **Do you agree with our proposed guidance on how advisers should give advice when only an estimated transfer value is available? If not, how would you change it?**

Q28: **Do you agree with our proposals to amend the application of the adviser charging and inducement rules to include advice on pension transfers and conversions in all circumstances (other than the proposed exclusion of an "employer funded pension advice charge" from the application of the adviser charging rules)? If not, please state why.**

Q29: **Do you agree with the change in application of COBS 19.1 to capture arranging a transfer or conversion? If not, please explain why.**

Annex 3: Cost benefit analysis

Q30: **Do you have any comments on our cost benefit analysis?**

Annex 3
Cost benefit analysis

Section 1: Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account the other impacts we foresee.

Problem and rationale for intervention

3. In 2015, the government gave DC pension savers much more flexibility in how they could access their pension savings. The government recognised that DB pension scheme members may want to access the pension freedoms. However, to protect those members, they put in place a mandatory advice requirement for those looking to give up their valuable DB benefits. DB schemes contain a promise about the rate of income payable in retirement. Subsequently, significant numbers of consumers with DB benefits have sought advice and our market-wide data collection shows that 69% of them have received advice to transfer out of their scheme. The view of the FCA, TPR and government is that most consumers will be best advised to keep their DB pensions and other safeguarded benefits. As the number of recommended transfers across the market is much higher than we would expect, we are concerned that unsuitable advice to transfer is widespread across the market.

4. Our thematic work on DB to DC transfer advice (see paragraphs 7-8) found that a large proportion (30%) of advice reviewed was unsuitable based on evidence in firms' file records. In a further 20% of files reviewed, it was unclear if advice was suitable, notwithstanding that files should contain sufficient evidence to justify the advice. Only the remaining 50% of files could be considered suitable based on what was recorded on the file. We did not make our own checks as to whether information in files was an accurate and unbiased reflection of the consumer's actual circumstances.

5. Consumers who seek pension transfer advice are potentially susceptible to the following harms:

- Unsuitable transactions:
  - Some consumers are advised to transfer their DB pension when it is not in their best interest. Because of the transfer they have a lower expected value of future income.
  - Consumers are transferred to unsuitable pension products, which results in losing the "longevity insurance" provided by DB schemes and they risk running out of money in retirement.
- Prices too high or quality too low:
  - Consumers that choose to transfer are paying for advice which is of a poor quality and in some cases not in their best interests.
  - Consumers that choose to transfer are paying high fees and charges (both initial and ongoing) following a recommendation to transfer and invest in products which allow advisers to generate further revenues at their expense. Charges for advice on a non-contingent basis are almost always lower than on a contingent basis.

Evidence of harm

Unsuitable recommendations to transfer

6. The key harm is that consumers will enter into an unsuitable transaction, i.e. make an unsuitable pension transfer. This will directly affect their income throughout their retirement. This harm will also affect pension conversions where a consumer transfers their DB pension to the DC section of the same scheme.

7. We have undertaken a number of rounds of Supervision work on DB transfer advice. Some of this work focused on firms that we thought posed a high risk to consumers, while some of it looked at a wider cross-section of the market. We identified higher risk firms using a range of tools such as data and intelligence. For example, some firms were identified from data we collected from providers that showed the largest distributors of DB transfers to those providers. Other firms were selected from whistle blowing reports or from our dedicated work on preventing scams. We have also undertaken reviews in relation to scheme restructures, such as the British Scheme Pension Scheme.

8. Our thematic work found that broadly 50% of files reviewed could be considered suitable based on the records in the file. 30% was unsuitable on the same basis. Suitability was not clear based on file records in the remaining 20% of cases. Our supervisory work did not validate the accuracy of file records. If half of the unclear files could have been proven to be suitable, and all files that looked suitable were a true representation of the client's circumstances this would still amount to 40% of advice being unsuitable. If a smaller proportion of advice given in relation to "unclear" files was suitable, or some of the files that looked suitable were not an accurate representation of client circumstances, then the proportion of unsuitable advice is likely to be higher.

9. As our Supervision work has been firm focused, we do not know the suitability of advice on a market-wide basis. We undertook a data collection from the market to help us better identify firms that may pose a high risk to consumers. We were concerned to see that 69% of all advice given since April 2015 resulted in a recommendation to

transfer, and that 60% of all firms were recommending at least 75% of their clients to transfer.

10. The proportion of clients being advised to transfer – at 69% – is significantly higher, for example, than the proportion likely to have unusually limited life expectancy at retirement, perhaps the most compelling situation in which a transfer is likely to result in higher rather than lower income expectations. As noted below, national statistics suggest that no more than 10%-15% of 65 year olds will die by the age of 75.

11. Our DB4 data show that 70,761 consumers received advice to transfer out of a DB scheme from October 2017 to September 2018. We estimate that this represents about 1.5% of all deferred DB scheme members who have the right to transfer. This is broadly consistent with estimates from employee benefit consultancies (EBCs) that undertake scheme administration.

12. In the firms we reviewed as part of our Supervision work, high conversion rates were often associated with unsuitable advice. So the high conversion rates in the DB4 findings are concerning. The propensity to recommend more transfers when consumers present with higher transfer values, set against a background of largely percentage based charging, may indicate some advisers may be acting for their own gain rather than in the best interests of consumers.

13. Those who seek advice on a transfer are a self-selecting sample of DB scheme members. It is likely that some of these members consider that they are better suited to a transfer. Others are just exploring their options and may not know if they are suited to a transfer. Others have sought advice due to very specific scheme circumstances such as a scheme restructure.

14. There is some evidence that DB members who seek advice have higher transfer values than those who do not seek advice, and that schemes that both promote transfers as a retirement option and provide transfer values more routinely have higher proportions of members seeking advice. Some EBCs actively promote to employers the communication of transfer values to members. As a result, we believe that it is likely that the number of schemes providing transfer values will continue to increase. This may also result in more members seeking advice.

15. The information we have about those seeking advice does not tell us if a transfer is likely to be suitable for them than for those who do not take advice. We know that where we have reviewed advice, the consumers have a broad range of personal circumstances and transfer value amounts. We would expect the same to be true if we reviewed a random sample of files from across the industry. Our previous work focussed on firms who posed a high risk and often had high conversion rates. We now know that high conversion rates are a feature of the market more broadly although not all firms have high conversion rates.

16. In CP17/16 and CP18/7, we indicated that harm could be estimated using the amount of redress that would be due. In GC17/1, we said that average redress previously awarded by the Financial Ombudsman Service (FOS) was likely to be in the range £20,000-£60,000, based on cases resolved in 2015/16. At that time, EBCs were estimating average transfer values of around £250,000. So redress ranged from 8%-24% of the value of benefits.

17. In paragraph 8, we noted that 50%-60% of advice from our thematic work was suitable. If combined with a conversion rate of 69%, we can infer that between 35% and 42% of consumers taking advice may be suited to a transfer. This means that between 28,000 and 35,000 of consumers would have received unsuitable advice between October 2017 and September 2018. The average transfer value of all advised consumers in DB4 was £350,000. Average redress of 8%-24% would result in payments of redress to each affected consumer of £28,000-£84,000. Across all consumers, this results in harm of £800m-£3bn each year but we think a narrower range of £1.6bn-£2bn each year is more likely (assuming the midpoint of 16% average redress).

Loss of longevity insurance: consumers at risk of running out of money

18. DB schemes provide longevity insurance, so that consumers attain a stable source of income for life. So a key risk to consumers following an unsuitable pension transfer is pension savings being exhausted during retirement. In a DB scheme, this will not be an issue. In a DC scheme, a combination of poor investment returns, excessive withdrawals, and the cumulative impact of fees and charges mean that there is a risk of consumers' pots being exhausted when they are still alive. This also means that there will be little or no money to leave to dependents, which is often mentioned as one of the reasons for transferring. Research suggests that a key concern for consumers is outliving their retirement savings.

19. To illustrate the risks, we have created several member profiles and projected forward their pension pots under a variety of scenarios. For this purpose, we have assumed an average transfer value of £350,000, an initial advice charge of £7,000, 0.5% pa ongoing advice charges, investment management fees of 1.5% pa, real investment growth of 2.5% pa, and 25% tax free cash taken at outset. If a 58-year-old member draws a real income starting at £10,000 from age 65, then funds are projected to run out at age 92. However, the latest ONS statistics show that there is a 1 in 4 chance that a 65-year-old will still be alive at age 92. If this consumer had drawn income immediately, then income is projected to run out in their mid-80s which is close to median life expectancy. The consumer would need to achieve an additional 1% pa in real investment return to increase the likelihood that they would not outlive their pension pot.

20. In both the scenarios above, as a spouse typically receives 50% of the pre-tax free cash income on the death of the member in a DB scheme, a spouse's benefits would be worse under a DC scheme because the available funds at a time when death is more likely to occur (typically 85-86 for males currently aged 65 and 87-88 for females currently aged 65) would not be able to secure as high a spouse's income as that which the DB scheme would have provided. Many consumers state that their reason for transferring to a DC scheme is to leave more money to dependants. These scenarios demonstrate that for many typical cases, this objective would not be met.

21. Our modelling shows several common scenarios where funds are likely to run out before median life expectancy. These include likely events such as market falls or crashes and slow recovery, increased withdrawals in early years and variable investment returns year-on-year. The results demonstrate money running out when a consumer still needs income in their 70s. It could be argued that tax free cash assumed to be taken at outset could be used to provide a 'nest egg'. However, it may well be the case that, for many consumers, most of this cash will have been spent by the time to the consumer reaches their mid-80s. So in many cases, there is a real risk of consumers outliving their funds if there are any adverse developments in retirement.

22. Although consumers may have the State Pension to fall back on when their private pension provision runs out, an avoidable reduction in their expenditure and living standards still creates a harm. This harm needs to be balanced against the utility benefits that some consumers may get from spending more in the earlier years in retirement than they would have done had they remained in a DB scheme.

Prices too high or quality too low

Initial charges

23. Typically, contingent charging is based on a percentage charge of 2%-3%. In the FAMR baseline report, we said that our RMAR data show that the most common method of adviser charging offered is a percentage fee based on the size of investment. Our Supervision work on pension transfer advice shows that, of the firms whose files we reviewed, firms nearly always charge the same way for pension transfer advice as they do for investment advice. The FAMR baseline showed that percentage charges varied from 2.1% for amounts over £200,000 to 3.4% for amounts of under £50,000.

24. Considering the FAMR baseline charges and findings from our Supervisory work, a range of charges of 2%-3% is typical. Applying this range to the average transfer value (£350,000) from our DB4 findings would generate an initial advice fee of £7,000-£10,500. Our Supervision work shows that where firms already charge on a non-contingent basis, is the charges are more likely to be fixed in monetary terms and are typically about £3,000-£3,500. So contingent charging generates fees at least twice those of non-contingent charges, although only from those who transfer. Our estimate of the harm (see paragraph 17) does not include the harm relating to consumers who may be paying too much in charges.

25. Under contingent charging and where firms are setting charges to cover costs, each client who transferred would broadly cover the cost of providing advice to those that did not transfer if half of all clients transfer. If this were the case, the average charge across all clients (including those who pay no charge) would be between £3,500 and £5,250. However, supervisory work has shown that 69% are advised to transfer. This means that the average charge varies from £4,800 to £7,250 which is more than we think advice should cost (see paragraph 27).

26. We consider that at least some firms that contingent charge are taking advantage of poor consumer knowledge about pensions and advice. They charge high amounts for advice on a contingent basis where the level of the charge is dwarfed by the transfer value and its deduction from the transferred funds may not be clearly observed by the consumer. Firms with high conversion rates are advising on average transfer values of nearly £400,000. In such cases, typical contingent charges result in fees to £8,000-£12,000. We have also come across instances of advice charges of £30,000 on transfer values of £900,000-£1m.

27. Based on our supervisory work, we consider that good quality, suitable advice should take 20-25 hours, some of this undertaken by a Pension Transfer Specialist (PTS), and the rest by support staff. Using typical market charge out rates (£200 per hour for a PTS as set out in paragraph 40 and half of this for support staff), and assuming that the PTS carries out half of the hours, this produces a charge to the client of £3,000-£3,500 which will include an allowance for overheads and a profit margin. Firms that can consistently give good advice should be able to secure PII at rates that do not result in excessive charges. If some firms can charge £3,000-£3,500 for non-contingent advice, which incorporates a profit margin, it should be possible for other firms to do so.

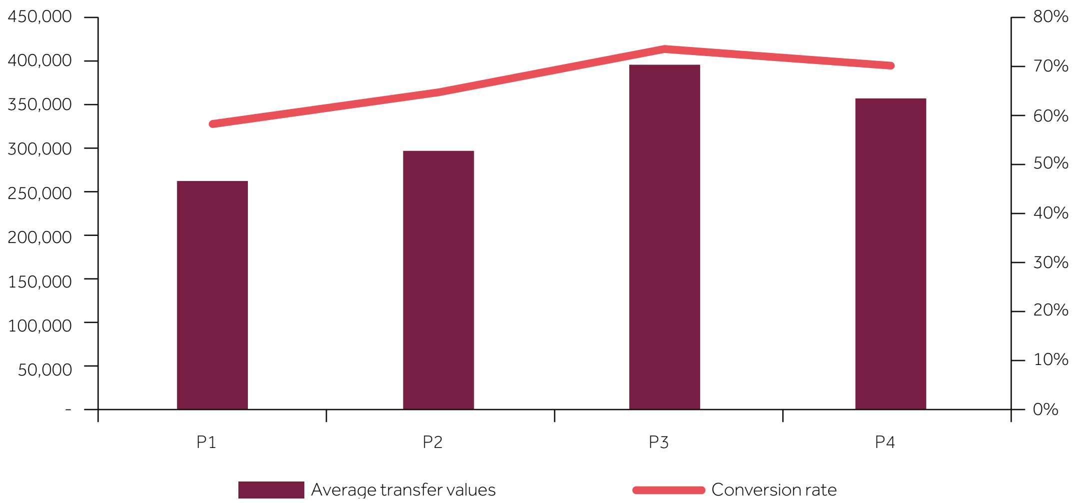
28. Our supervisory work suggests that around 70%-80% of firms are using some form of contingent charging, whether in whole or in part. Partial contingent charging occurs when part of the charge is due for payment irrespective of the advice outcome and the remainder of the charge is only paid when a transfer takes place, such as an implementation charge.

29. We have looked at the market-wide data collection in more detail to see if there are patterns that might suggest why firms appear to have a bias towards recommending a transfer as well as to understand the differences between firms. We collected data from all firms that had advised on DB transfers, covering a period of 3.5 years, from April 2015 to September 2018. In this section, we refer to the time periods as follows:

- P1: 1 April 2015 – 30 September 2015
- P2: 1 October 2015 – 30 September 2016
- P3: 1 October 2016 – 30 September 2017
- P4: 1 October 2017 – 30 September 2018

30. Given that many firms that contingent charge use percentage based charging, we were particularly interested to see if there was any relationship between higher conversion rates and higher transfer values, as such transfers would generate higher charges. Our data show that as average transfer values increased then fell over the period, the average conversion rates (ie the proportion of total consumers who are advised to transfer) also rose and then fell.

Average transfer value and conversions rates



31. The data also show that firms advising on higher average transfer values tended to recommend more transfers than those advising on lower average transfer values, in every time period. Firms with the highest conversion rates (75+%) across the period, advised on transfer values that were at least twice as high as those with the lowest conversion rates (25% or less). This positive correlation between larger transfer values and the proportion of customers recommended to transfer suggests that revenue incentives are an influence on advice. We also found that firms with the highest conversion rates had the highest take-up of ongoing advice (78%). Only one-third of transferring consumers took up ongoing advice from firms with low conversion rates.

Average conversion rate relative to banded average transfer values

32. The chart above shows the average conversion rate across all firms that advised on average transfer values in the band shown. So, for example, in firms where the average transfer value was between £200,000 and £300,000, the average conversion rate was 57%. This increased to 89% in firms where the average transfer value advised on was between £600,000 and £700,000.

33. Without looking at individual files, we cannot pre-determine the suitability of advice given by firms with higher conversion rates or advising on higher transfer values. We understand that there may be valid reasons for consumers with higher transfer values being advised to transfer, in some circumstances. But higher transfer values in themselves do not automatically make a transfer easier to recommend.

34. We also recognise that those who seek advice may not be representative of the entire population of DB scheme members. Data indicate that those who request transfer values (average age 54) tend to be slightly older than the deferred population, by around 3 years. Those who actually transfer are aged 55 on average and have higher average transfer values than those who initially request transfer value quotes.

35. The DB4 data showed significant increases over time in the proportion of firms' revenue that is attributable to DB transfers, growing from an average of 4.8% in the first 6 months after the pension freedoms were introduced in April 2015, to 12.8% in the year to September 2018. Firms that advised over 100 consumers in the year to September 2018 indicated that over one third of their total revenue came from DB transfers. In the same period, firms with conversion rates of 50% or more derived nearly 3 times as much revenue from DB transfers as those with conversion rates below 25%.

36. High quality advice would result in value to consumers in terms of decisions to transfer if and only if it is in their best interest to do so. Evidence of high conversion rates matched with evidence from supervision of frequent outcomes in terms of unsuitable advice to transfer indicate that high cost of advice is not matched with appropriate quality. Many consumers, therefore, are getting poor value for money from transfer advice.

Ongoing charges

37. Consumers generally do not tend to focus on ongoing advice charges. As the deductions appear small when expressed as a percentage of funds under management, consumers may not appreciate the cumulative effect of these charges over a typical period of retirement. Moreover, they do not necessarily understand what level of ongoing advice they will be receiving and whether they need such a service. This means that they are not well placed to exert pressure on advisers to reduce charges or enhance service offerings.

38. The FAMR baseline report suggests that a typical charge for ongoing advice is 0.5%-0.75% of fund value per annum. For an average cash equivalent transfer value of £350,000, based on our DB4 findings, this equates to an annual charge of £1,750 to £2,625 each year.

39. Once funds have been transferred from a DB scheme, the advice required is, for the most part, no different from that given on standard DC pension funds. The issue of consumers paying too much in ongoing charges arises because usual charging percentages are applied to the much larger pots seen in DB transfers.

40. Our FAMR work identified hourly charge out rates of £180 per hour for ongoing advice. Even if we assume that these have increased to £200 per hour, this would imply that clients would be receiving 9-13 hours work each year for the fee they would be paying. Although there will be occasions when detailed advice will be needed, such as at the point of decumulation, on a year-by-year basis there will often be relatively little work required, and much less than the workload implied by the actual fee.

41. We recognise that fluctuations in fund value due to investment charges and withdrawals will change the monetary value of the charge over time and the fee will drop in the longer term. Even allowing for this, a pot may well be growing for some considerable time before it starts reducing. So clients may be overpaying for advice for many years.

42. We acknowledge that some clients transferring their DB pension, who may have low levels of investment knowledge, will find the support of ongoing advice invaluable. However, our concern is not the receipt of advice after the transfer itself, but the fact that many consumers are in advice propositions where they may be paying too much relative to the service provided in most years.

43. Retirement for many can last 20-30 years. Apart from a decumulation decision and a possible later decision to purchase an annuity, many consumers will just need a sense check on their current retirement strategy and readjustment of their portfolio in some circumstances. Unless their circumstances have significantly changed, this should be a relatively straightforward task. Consumers who agree to ongoing advice propositions will often not be getting the level of service or quality of advice that the amount paid for advice would suggest, particularly when the charge is specified in percentage terms on a typical DB transfer value. Furthermore, the prospect of future revenues from ongoing advice may also influence recommendations to transfer, thereby reinforcing bias that hinders the quality of transfer advice.

44. Biased advice to transfer and investment in products generating high charges can significantly reduce the future stream of incomes that consumers achieve from pension savings.

Market failure analysis

45. The market for the pension transfer advice is characterised by **information asymmetry** where one party to a transaction is significantly less well informed. This becomes a problem when one party exploits their greater knowledge. In the market for transfer advice, the asymmetry gives rise to the 'principal-agent' problem, whereby the agent (in this case the adviser) may not be acting in the interest of the principal (the consumer), and the latter is not able to assess the value of the services for which they are paying.

46. Many consumers lack the expertise needed to make an informed decision in relation to transferring out of their DB pension scheme. This is the main rationale for the government's advice requirement.

47. Ideally, consumers should choose advisers based on charges and reputation for high quality advice. Consumers rarely take pension transfer advice and in most cases, they have little experience to draw on when assessing the quality of advice. Furthermore, they find the 'price' of advice difficult to determine as most advice firms do not publish charges online and offer different charging structures.

48. Therefore, advisers often have relatively limited incentive to spend sufficient time and effort to analyse fully all the circumstances which should be considered before issuing a recommendation.

49. The incentive problem is exacerbated by potential biases which may drive positive recommendations, arising from:

- charging structures whereby advisers are only paid when consumers transfer out of DB schemes
- many consumers having a clear preference to transfer (this may enhance demand for services of those advisers known to recommend transfers out of DB schemes in most or all cases)
- the prospect of further revenues from ongoing advice after the transfer

Why consumers choose to transfer

50. There are some valid reasons why consumers may want to transfer their DB pensions. Health or crippling debt may drive a preference for transferring and these consumers are identified in our carve-out from the prohibition on contingent charging. Then there are those consumers, often more able to afford advice ones, whose preferences revolve around wealth management and inheritance planning. From our work, we consider that only a small number of these clients are likely to be suitable for a transfer. The main categories of client suited to a transfer includes:

- consumers in households with multiple DB or other guaranteed pension income sources that is sufficient to meet their needs so that they can accept investment risk to acquire additional flexibility
- consumers in households with significant other assets, where a transfer allows better tax planning
- consumers in households with significant DC pensions or other assets, and the DB scheme is not required to meet their needs
- in rare cases, where employer solvency is at risk, consumers who have a DB pension that exceeds the Pension Protection Fund limit
- a small number of consumers who have emigrated so that currency matching of assets and liabilities and/or tax differences outweigh the loss of guaranteed income

Consumer behaviour

51. Some consumers have lower levels of financial capability as well as a lack of interest and engagement in the advice process. They may not appreciate the value of their DB scheme and the security it offers, nor recognise the risks inherent in a transfer. Many assume that pension transfer advice is a box-ticking exercise which will result in their transfer being approved. They are aware that there is a time limit on a transfer offer and their focus is on receiving a positive recommendation before the time limit expires. A small but significant minority act against the advice they receive not to transfer.

52. They may not recognise that advisers' interests may be misaligned with their own. This creates the risk that substantial consumer detriment will occur if the risks are poorly managed.

53. Behavioural biases affecting consumers' preferences, beliefs and actions reinforce the risk of harmful impacts of asymmetric information and the principal-agent problem:

a. **Loss aversion and framing effects** may lead consumers to underrate the value of advice not to transfer. Consumers who remain in DB schemes may perceive that they have 'lost' the money if they pay for advice. This has a negative impact on the demand for services of those advisers who charge on a non-contingent basis and, conversely, allows those applying contingent charges to extract high revenues, as consumers still perceive to have 'gained' when transferring out.
b. **Present bias** leads a consumer to overlook their long-term needs and focus on the satisfaction of more immediate, desires and aspirations. This encourages consumers to underestimate the benefits of a safe stream of income in the future, when compared with a more appealing 'large amount' they can receive in one go following a transfer and later monetisation of the pension pot. Evidence suggests that a quarter of schemes included an estimated transfer value in their retirement pack.
c. **Over-confidence** in ability to manage pension pots may reinforce the tendency to overestimate the benefits of fully accessible pension pots rather than the constant stream of pension income provided by DB schemes.
d. Consumers may also **overestimate the value of flexibility** attributed to DC schemes. They may state a wish to access flexibility without thinking through the consequences of giving up a stable income to meet fixed outgoings. They may be attracted by the prospect of better death benefits without realising that the funds in a DC scheme may be exhausted by the point of death. Other reasons for a transfer, such as a lack of consumer trust in the employer, or the future of the employer, may be another behavioural bias.
e. **Underestimating life expectancy** and, as a result, underestimating the value of lifetime income streams, as well as not considering charges on the transfer advice or the subsequent ongoing advice on investment.

54. **Lack of trust** – we are also concerned about low levels of consumer trust in the pension transfer advice market and the way in which firms charge for advice. Moreover, our Retirement Outcomes Review findings show a degree of distrust in the pensions system stemming from a range of factors including past pension scandals and frequent changes to pension rules and tax treatment. Some consumers mentioned a wish to 'control' their pension as a motive to withdraw their whole pension. For DB pension scheme holders, this motive is compounded further by a belief that money in a DB pension scheme is not within their control and, in some way, vulnerable to mismanagement.

55. In addition, evidence from our review of advice given to the members of the British Steel Pension Scheme suggest many consumers who transfer do so because they claim that they do not trust their DB pension scheme, possibly motivated by a lack of trust in a past employer or the future of that employer. Consumers do not always understand that the Pension Protection Fund exists as a safety net to replace most of the scheme benefits if an employer becomes insolvent.

Our intervention

Figure 1: How our intervention on contingent charging tackles harm to consumers

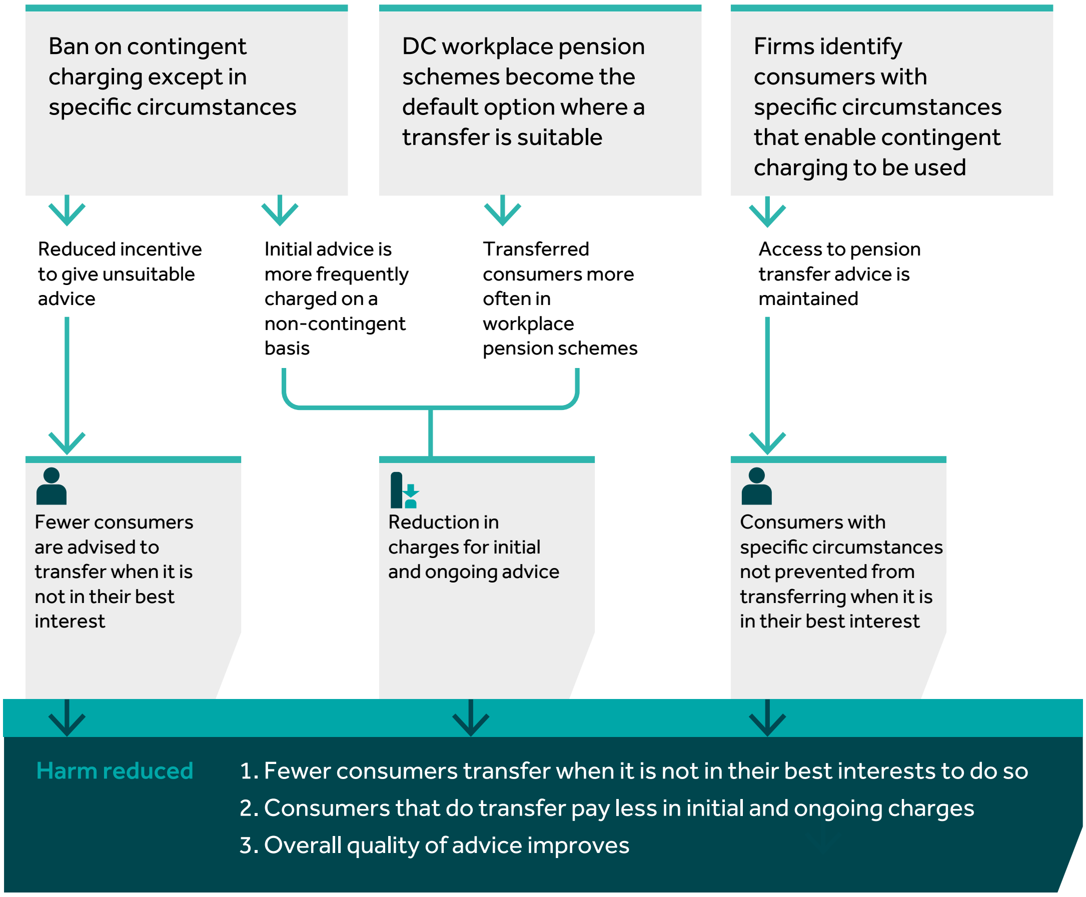
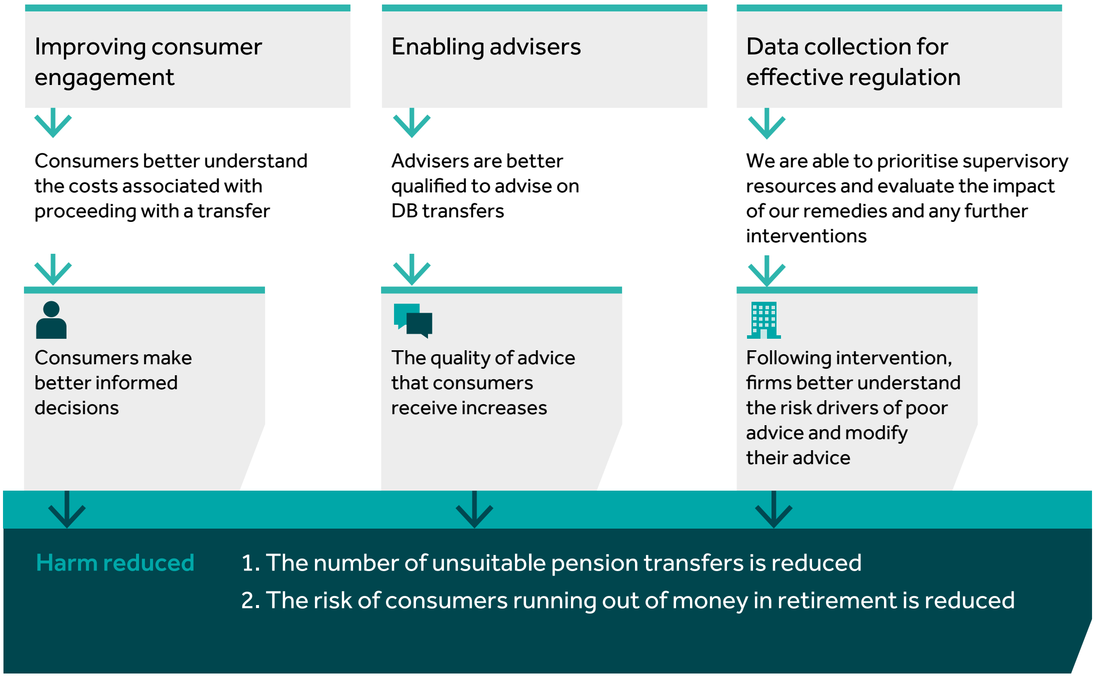


Figure 2: How our remaining interventions tackle harm to consumers



Baseline and key assumptions

56. Using our DB4 data, we have assumed that the 2,426 firms that have advised clients on pension transfers from DB schemes between 1 April 2015 and 30 September 2018 will be caught by our proposals. Using data from their annual FCA fee blocks, we have identified that there are 9 large firms, 63 medium firms and 2,354 small firms. Some of our proposals will also apply directly to the 5,000 active individual pension transfer specialists (PTS), the majority of whom are employed by the firms to which our proposals apply.

57. We use standard assumptions to estimate firm costs based on the standardised costs model, of which further details can be found in Annex 1 'How we analyse the costs and benefits of our policies'.

58. Based on our most recent Penson Transfer Data Request to firms, we have made the following assumptions about the advice market:

- 100,000 advice transactions for DB to DC transfers each year, based on the figures from October 2017 to September 2018
- average size of transfer value is £350,000
- on average, 7 in 10 consumers who receive advice choose to transfer. As this is an average across the market, the figure may vary according to charging model

Summary of costs and benefits of our proposals

59. In the sections below, we have assessed the estimated one-off and ongoing costs arising from each of our proposals.

60. The costs include both compliance costs arising from our interventions and the loss of revenue for firms arising from the reduction in demand for and lower cost of pension transfer advice as well as reduced charges received due to more consumers transferring into workplace pension schemes.

61. We have quantified how we consider that consumers will benefit from the key proposals, although we have not attempted to allocate a value to each proposal. The benefits include transfers from firms to consumers, arising from reduced revenue for firms, and gains forfeited by those consumers who would have been suited to a transfer.

62. We expect our remedies to be net beneficial as consumers will benefit from the reduction in the number of pieces of unsuitable advice and the reduction in the price of initial and ongoing advice, with total ongoing benefits arising of around £1.2bn each year (based on the mid-point of our estimates in the table below).

63. The following table sets out a summary of the costs and benefits of the proposals detailed in this CP:

	Estimated direct costs and benefits	
	One-off	Ongoing
Costs		
Section 2: Familiarisation and gap-analysis	£3.1m	-
Section 2: Training and compliance costs	£8m	-
Section 3: Ban on contingent charging: IT project costs	£12.2m	-
Section 3: Ban on contingent charging: governance/change costs	£56m	-
Section 3: Ban on contingent charging: sales processes	-	£0.2m – £0.5m pa
Section 3: Ban on contingent charging: reduction in advisor revenue	-	£360m – £445m pa
Section 4: Incorporating workplace pensions in advice processes	-	£3.2m pa
Section 4: Workplace pensions: reduction in fee revenue	-	£399m – £598m pa
Section 5: Empowering consumers, eg disclosures	£2.5m	£1m pa
Section 6: Continuing Professional Development	-	£6.4m pa
Section 7: Data gathering	£3m	£0.2m pa
Section 8: Technical amendments	£1m	-
Benefits		
Section 3: Ban on contingent charging: reduction in advice costs	-	£360m – £445m pa
Section 3: Ban on contingent charging: reduction in unsuitable advice	-	£952m – £1.59bn pa
Section 3: Triage and abridged advice	-	Not quantified
Section 4: Workplace Pensions: fees saved	-	£399m – £598m pa
Section 5: Empowering consumers, eg disclosures	-	Not quantified
Section 6: Continuing professional development	-	Not quantified
Section 7: Data gathering	-	Not quantified
Section 8: Technical amendments	-	Not quantified

Section 2: Familiarisation, gap analysis and training costs for the whole package of proposals

64. For some of the upfront costs we expect firms to incur, we have considered this as a whole package of remedies in the CP, rather than for each individual proposal, except for the changes to the RMA-E, FSA031, FSA032 and FIN-APF data collection. This includes the costs of reading the policy documentation, undertaking a gap analysis and training staff on the changes.

65. All other costs are covered in the relevant sections of this CBA.

Familiarisation Costs

66. We expect firms to incur familiarisation costs reading the new requirements. We assume that firms will need to familiarise themselves with approximately 50 pages of policy documentation relating to all the proposals in the CP. Using our standardised cost model, we assume that it would take around 2 and a half hours to read the document.

67. Following our standard assumptions, for large firms we have assumed 20 in-house compliance staff and for medium firms 5 compliance staff. Using salaries data from the Willis Towers Watson UK Financial Services survey, the hourly compliance staff salary, including 30% overheads, is assumed to be £60 at large firms. However, we have used a different approach for small firms, and assumed input from 2 compliance professionals with a higher hourly cost of £90. This is because we believe many small advice firms are unlikely to have in-house compliance staff, and may be reliant on more-expensive external consultancy services.

68. Using these assumptions, we expect a total industry-wide cost of around **£1.1m for familiarisation**. Given the structure of the transfer advice market, the bulk of these costs will affect smaller firms. Throughout this CBA, our analysis of costs is based on average estimates and, by definition, some firms will experience higher and lower costs than those estimated.

Gap Analysis Costs

69. Given this package includes many proposed new requirements, we would also expect firms to incur costs from a detailed analysis of the new rules. To estimate these costs, we have assumed the legal instrument will be around 50 pages.

70. Our standard assumption is that large firms use 4 in-house legal staff, and medium firms use 2. Using the same source for salary data as above, we estimate that the hourly salary for legal staff is £67 for large and medium firms. However, we have assumed that smaller firms would use more expensive external legal advice at the cost of around £100 an hour.

71. Using these assumptions, we expect a total industry-wide cost of around **£2m** for gap analysis. We also expect most of these costs will affect smaller firms.

Training and compliance costs

72. We consider that all advice firms would need to train their employees on how to comply with our package of remedies. Training needs and practice would vary between firms, but we have assumed all firms would need to provide 1 day of bespoke training.

73. We have estimated that across the industry, around 10,000 staff would need to be trained, made up from around 5,000 PTS advisers and 5,000 other support staff. Based on RMAR data from firms, we have assumed that around 2,800 of these staff work at large firms, 2,500 at medium firms, and 5,100 at small firms.

74. As set out in our standardised costs model, we have assumed that all large firms will undertake inhouse training, small firms will use external training providers, and medium firms will use a mix of inhouse and external training. Using the model, we assume external training costs £700 per member of staff and so firms spend £4.5m on external training. For firms that use in-house training, total costs for development and delivery of this training is estimated at £400,000. The total employment costs for all staff being trained is estimated at £3m.

75. Including all these elements, we expect a total industry-wide costs of around **£8m** for staff training. We expect around £5m of this cost will fall on small firms, £2m on medium firms and £1m on large firms.

Section 3: Addressing initial conflicts

Ban on contingent charging

Proposals

76. We propose to introduce a ban on contingent charging, and to require firms to charge the same amount for DB to DC pension transfer advice, irrespective of whether the advice results in a recommendation to transfer or not to transfer. This also applies to pension conversions.

77. The requirement will incorporate all related and associated charges such as advice on where any transferred funds will be invested and implementation charges. It will also apply across two-adviser models to prevent gaming of the ban.

78. To mitigate the impact of the interventions on those who cannot afford advice, we have identified groups of customers for whom a transfer is likely to be in their best interests, due to specific personal circumstances, and propose to exempt them from the ban. These include those who have an illness or condition resulting in a shortened life expectancy and those who may be facing serious financial hardship such as losing their home. Firms will be responsible for identifying individuals who might fall within these groups. In some cases, firms may find this out during an initial triage conversation or in the early stages of the advice process (including abridged advice).

Impact of our proposals

Current consumer outcomes

79. Currently, we know from our DB4 data collection that 69% of consumers taking advice are advised to transfer and 31% are advised not to transfer. We also know that 13% of consumers who are advised not to transfer insist on transferring. In our thematic work,

we have found that 50% of consumers are given advice which could be considered suitable based on available information in files. 30% is unsuitable. It was unclear, based on file evidence, whether advice to transfer was suitable or unsuitable in the remaining 20% of cases. Our view is that most people would not benefit from transfer out of a DB scheme.

80. Looking at the available evidence, the following, and in our view conservative, assumptions can be made for CBA purposes:

- 35% of consumers taking advice are suitable for a transfer and receiving suitable advice to transfer (see paragraph 17). This is likely to include those who would be included in the proposed 'carve-out' which allows firms to continue to charge on a contingent basis in certain circumstances (eg for those with severe health conditions).
- 35% of consumers taking advice are not suitable for a transfer but are receiving unsuitable advice to transfer and are suffering harm because of unsuitable advice (see paragraph 17).
- 26% taking advice receive suitable advice not to transfer and follow the recommendation. This is derived from DB4 findings that around 30% of clients are advised not to transfer but 13% of these transfer anyway as insistent clients.
- 4% taking advice receive suitable advice not to transfer but transfer anyway and suffer harm.

81. In our DB4 findings, we reported that some firms undertook triage services that resulted in consumers not proceeding to take advice. We do not know the precise nature of the triage service these consumers received. In many cases, the triage was delivered before we consulted on our perimeter guidance for pension transfer advice. We undertook that consultation as we considered that some firms were delivering triage services that crossed the advice boundary by providing a steer to consumers not to transfer. Our guidance makes clear that firms must provide balanced, generic information of the benefits and risk of DB and DC schemes so that consumers can decide for themselves whether to proceed to advice. Triage services are normally provided free of charge.

82. If consumers receiving triage were 'advised' not to transfer, rather than self-filtering themselves out of the advice process following guidance, the number of consumers receiving advice would be higher than reported in our DB4 findings. This means that the proportion of consumers advised to transfer would be lower than 69% of all those who had engaged with an adviser. We have proposed introducing abridged advice which should enable consumers to receive regulated advice not to transfer at minimal cost.

Loss of access to advice – carve-out

83. We understand that a potential downside to our proposal to ban contingent charging is that it may restrict access to advice as consumers may be unable to pay a fee from their own funds up-front rather than have it deducted from their pension (as they currently do). However, some of these consumers, i.e. those with low levels of non-pensions savings, will also be particularly susceptible to drops in their income that may occur if they transfer from a DB to a DC pension. It could be one of the reasons why consumers are likely to be better off retaining their safeguarded benefits, where the level of annual income is guaranteed. Personal pensions are exposed to variable and volatile investment returns which could mean having to reduce levels of income being drawn in the future. With little or no savings to fall back on, this may be harmful for consumers who have little financial margin for error in their retirement. We consider that many consumers in this category would be better off retaining a secure retirement income.

84. We recognise that there is a minority of individuals for whom a transfer is likely to be in their best interest due to particularly difficult personal circumstances. These circumstances cover health conditions that result in a shortened life expectancy, as well as those with serious financial hardship such as significant amounts of debt. For this reason, we are proposing a carve-out from the requirement to charge consumers on a non-contingent basis.

85. We expect this carve-out to be used for a minority of consumers only. We consider that sales of impaired life annuities may be considered as a proxy for the number of consumers who may find a DB transfer beneficial for health reasons. A Which? survey suggests that 20% of people purchase enhanced annuities. Impaired life annuities are a subset of enhanced annuities so not all of these individuals will have circumstances which have such an extreme impact on life expectancy that it makes a transfer suitable. National statistics suggest that no more than 10%-15% of 65 year olds will die by the age of 75 (roughly half the life expectancy for a 65-year-old male) and this is probably a more realistic assessment.

86. Alongside the carve-out, our proposal on abridged advice will allow advisers to conduct an analysis of a client's circumstances and to filter out those for whom they would not recommend a transfer. Abridged advice will also allow an adviser to discuss with the client the implications of a transfer, including costs. Firms are also able to charge for advice in instalments over a 12-month period and be exempt from credit authorisation in certain circumstances. In this way, when combined with the carve-out, we consider that most of the minority of consumers who would benefit from a transfer will be able to pay for the advice to transfer.

Loss of access to advice – forfeited gains

87. As noted in paragraph 50, we consider that outside those consumers eligible for the carve-out from the contingent ban, most of the remaining consumers who would benefit from a transfer are more likely to be able to afford advice. However, we acknowledge that there may be a small number of consumers who would benefit from a transfer who may not be able to take advice because of our proposal. These consumers may forfeit gains following our intervention.

88. We know from industry participants that many consumers taking advice on a pension transfer are generally seeking the flexibility to take their benefits in a different way rather than expecting to make monetary gains out of a transfer. We know that many consumers, even when a transfer is suitable, may still make financial losses when they transfer, relative to the value of benefits offered by a DB scheme. The transfer value comparator illustrates the potential loss for each consumer. This is sometimes referred to as the price of flexibility. As consumers who are suitable for and proceed with a transfer accept the monetary loss as the price of flexibility, it is not practical to quantify its value further. So we think that for many of those who do not take advice after our intervention but who would have been suited to a transfer, there will be no forfeited gains.

89. There may be a small number of consumers who transfer and do make a monetary gain. Typical transfer values are around 23 times the level of current revalued income. This implies that the internal rate of return on a transfer value is 4.4%. A consumer with sufficient capacity for loss to invest 70% in equities and 30% in gilts could achieve a net of charges rate of return of 5%, assuming the assumptions in FG17/9 hold for equities and fixed interest over a typical lifetime of 20 years, and a reduction in yield for charges of 0.75%. This consumer would forfeit gains of 15% of the transfer value which is equivalent to £52,500 on an average transfer value.

Available consumer funds

90. Statistics derived from ONS Wealth and Assets survey 2014-16 data show that where an individual aged between 52 and 57 has a DB pension, 60% of households have liquid assets of £10,000 or above. This suggests that at least 60% would be able to pay for advice, if non-contingent charges were around £3,000-£3,500. We do not know consumers' propensity to spend their savings on pension transfer advice, although our FAMR consumer research suggested that only 20% of consumers would not take financial advice for reasons of cost. Although the research focused on investment advice that typically costs less than pension transfer advice, we believe that this suggests that consumers will access and pay for advice where they can see that it adds value. Alternatively, consumers may be able to pay for advice out of income if firms offered instalment payment terms.

91. A fall in demand for full advice may be countered, to some extent, by demand for abridged advice. Abridged advice can be provided without charge. Firms will need to consider the extent to which it is viable to provide abridged advice without charge when it can only result in a recommendation not to transfer or is indeterminate, in which case the client decides if they want to continue to full advice. We believe abridged advice is not dissimilar to the services that firms were giving, free of charge, prior to the introduction of the perimeter guidance on triage services. The key difference is that firms will be explicitly responsible for advice not to transfer. We think this may mean that some firms charge a small amount for abridged advice to cover the costs of giving advice.

Future consumer outcomes

92. We have undertaken some modelling of possible outcomes that may arise from our intervention to ban contingent charging. Our modelling focuses on quantifying:

a. the numbers of consumers who may not be willing or able to take advice even though a transfer would have been suitable for them, and
b. the reduction in harm that could be achieved.

93. As there are a range of potential outcomes, we have modelled several different scenarios using different assumptions. We compare these against a baseline that is derived from our DB4 findings, the outcomes of our thematic work and average redress levels derived from GC17/1.

94. The baseline assumes:

- 70% of consumers receiving advice are advised to transfer, based on our DB4 findings.
- In the baseline, half of advice could be considered suitable based on what is recorded in files we have seen in supervisory work, informing an assumption that 35% of consumers receiving advice are suited to a transfer and 65% of consumers seeking advice are not suited to a transfer. We think this a conservative assumption for our CBA as we think it highly unlikely that transfer is in fact suitable for 35% of consumers, based on life expectancy and other factors.

- An average transfer value of £350,000, based on our DB4 findings.
- Harm from unsuitable advice is £56,000, using average redress of 16% (the midpoint of our range) of the transfer value (this is arguably a conservative assumption – in paragraph 134 we show the total ongoing advice and product charges alone could on average consume £77,000 of a £350,000 pension pot over a typical retirement period).
- 102,392 consumers currently take advice, based on the last year of the DB4 findings.
- 13% of clients receiving advice not to transfer insist on transferring, based on DB4 findings, and all insistent clients suffer harm from transferring, as their transfer is assumed to be unsuitable.

95. These assumptions result in a baseline where consumers who receive unsuitable advice to transfer or insist on transferring suffer harm of £1.784bn each year at current pricing levels.

96. For the purpose of our modelling, we have made some additional assumptions:

- The price of advice after our intervention is at the upper end of what we consider is a reasonable price and varies from £3,500 to £4,500, compared with an average contingent price of £7,500 currently, ie 2% of an average transfer value, based on our DB4 data.
- Willingness to pay for advice by those who have funds varies from 30% to 50%, and we assume 60% have sufficient funds, informed by the ONS data (see paragraph 90). We think this assumption of limited willingness to pay is conservative. Noting that very few consumers will increase their lifetime income by transferring out of a DB scheme, industry participants have told us that most consumers who would benefit are relatively better off. They might for example have ample reliable income from other sources, or be engaged in inheritance planning (see paragraph 50). If so, this cohort of consumers may have a greater willingness to pay for advice.
- Gains forfeited by those who do not proceed to take advice but would have been suited to a transfer range from £0 to £52,500 (see paragraphs 88-89).
- No more than 20% of consumers taking pension transfer advice have circumstances that mean they can be carved out of the ban on contingent charging.
- A policy efficiency rate (which reflects the extent to which our intervention is successful in achieving better rates of suitability) of 50%-90%, where 100% means advisers never give unsuitable advice.

97. We have deliberately chosen a range of assumptions to show the sensitivity of the potential outcomes to changes in assumptions made. For example:

- we do not know precisely the extent to which consumers will be prepared to pay for advice
- we do not have a practicable way of calculating gains forfeited by those who do not proceed to a transfer where a transfer would be suitable for them

98. The assumptions for our scenario testing are shown in the table below. The outcomes are based on the number of consumers taking advice during the final year of the DB4 collection. We discuss the outcomes of these scenarios below the table.

	Baseline	Scenario 1a	Scenario 1b	Scenario 1c	Scenario 1d
Assumptions					
% of cases suitable for transfer	35%	35%	35%	35%	35%
% of cases unsuitable for transfer	65%	65%	65%	65%	65%
Upfront price of advice, £	£7,000	£3,500	£3,500	£3,500	£4,500
Willingness to pay the upfront fee (for those who have funds), %		50%	50%	30%	30%
Policy efficiency, %		90%	90%	50%	50%
Gains forfeited by consumers suitable to transfer who do not take advice, £		£0	£52,500	£52,500	£52,500
Outcomes					
Consumers suitable to transfer who do not take advice, %		11%	11%	12%	12%
Consumers not suitable to transfer who do not take advice, %		46%	46%	53%	53%
Benefits from reduced advice costs, £m		£360m	£360m	£445m	£425m
Benefits from changes in unsuitable advice and forfeited gains, £m		£1,590m	£1,139m	£952m	£952m

99. This baseline comparison assumes that 35% of consumers that receive advice are suitable to transfer. It effectively extrapolates our thematic findings on the rate of suitable advice (50%) for part of the market to the broader market (where 70% of advice results in a positive recommendation to transfer). The scenario testing results can be summarised as follows:

a. Scenario 1a assumes that our policy is 90% successful in eliminating unsuitable advice. This scenario assumes a high level of willingness to pay for advice, at 50%. Most consumers who no longer take advice and so do not proceed to a transfer are those who would not benefit from a transfer. However, 11% of those who do not take advice would have been suitable for a transfer. This scenario shows the greatest benefit. This is primarily due to the reduction in harm from unsuitable advice to those who will no longer receive. The benefits are increased by the savings that most consumers make from reduced advice costs that represent a transfer from firms to consumers.

b. Scenario 1b uses the same assumptions as 1a except it assumes a higher level of gains forfeited by those who do not proceed to take advice but would have been suited to transfer, compared to Scenario 1a. This means the benefits are reduced.

c. Scenario 1c is the same as 1b except it assumes that fewer consumers are willing to pay for advice – 30%- and the policy is less efficient than in Scenario 1a and 1b. This reduces the benefits further as more consumers continue to receive unsuitable advice when the policy is less effective.

d. Scenario 1d is the same as 1c except it assumes a higher price for advice. This lowers the benefits from the reduced advice costs for most consumers but the intervention remains significantly beneficial.

100. In total, our analysis shows that the harm from unsuitable advice reduces by **£952m to £1.59bn each year**. These figures take account of the gains forfeited by those consumers who would have been suited to a transfer but no longer take advice, in addition, consumers will benefit from reduced advice costs varying from **£360m to £445m each year**. The reduced advice costs represent a transfer from firms to consumers.

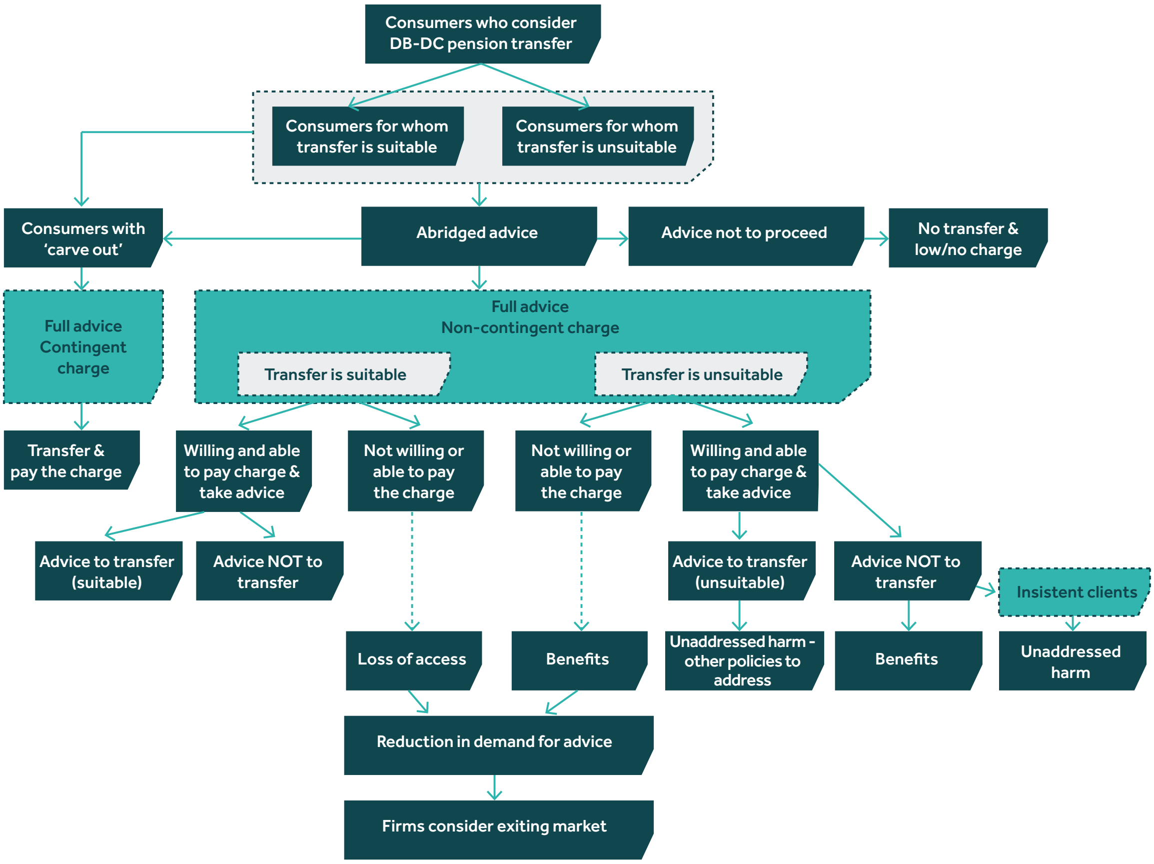
101. We have repeated the analysis above assuming a starting position where 60% of advice is suitable resulting in 42% of consumers taking advice being suited to a transfer. This enables us to assess the benefits if the rate of suitable advice across the market is higher than in the files we have reviewed from higher risk firms. Although the harm is lower at £1.463bn, our modelling indicates that the outcomes would still be beneficial. The harm from unsuitable advice, after taking into account forfeited gains, is reduced by between £417m – £1.29bn each year. In addition, consumers would benefit from reduced advice costs ranging from £369m to £448m each year.

102. Our scenario testing takes no account of second order effects such as the impact on the cost of PII and FSCS levies if the proportion of unsuitable advice falls. The chart below shows the change in harm to different groups of consumers in Scenario 1a above. Harm does still exist after the intervention for some groups, but this is outweighed by larger reductions in harm for other groups:

Harm – before and after intervention on contingent charging
Baseline and Scenario 1a

103. The outcomes for different groups of consumers are summarised in the following flowchart:

Pension transfer advice



Market Impact – consumers

104. We estimate that the ban on contingent charging will reduce consumer demand for advice on DB transfers by between 56% and 66% each year, the range depending on how many consumers are willing and able to pay for advice. Roughly 4 out of 5 cases (see table in paragraph 98) will consist of consumers who are currently taking advice but for whom a transfer is unsuitable. So we consider that these consumers will actually benefit from their inability or unwillingness to pay for advice. The remaining 1 out of 5 cases would be suitable but would not seek advice as a result of our intervention although they retain valuable pension benefits.

Summary of impact on consumers

105. Our analysis starts from an assumption that 50% of advice is suitable, in line with our thematic work findings. By altering the other assumptions used, the benefits total benefits arising from the proposals range from £1,377m to £1,950m each year (under scenarios 1a and 1d respectively). Even if we had assumed a starting assumption that 60% of advice is suitable, this still results in net benefits to consumers ranging from £844m to £1,659m each year. While all scenarios are possible given the underlying uncertainty around some of the assumptions, our calculations show that net benefits arise under all reasonable scenarios.

106. We recognise that, in all our scenarios, some consumers will not take advice when it would have been suitable for them to transfer. Some of these consumers may be able to consider a transfer at a future point in time when they are more able to afford advice. Taking advice is not a once-off decision in most cases. We also consider that many of those consumers who might benefit from a transfer, and who are not included in the carve-out from the contingent charging ban, are likely to be more able to pay given the potential reasons for transfer (see paragraph 50). So we consider that there will be relatively few consumers who are unable and unwilling to pay an advice fee when they could benefit from a transfer. As a result, losses incurred by this group of consumers are likely to be outweighed by greater reductions in harm for other groups, as shown in our figures.

Market Impact – response from firms

107. As set out in paragraph 104, we expect there to be a decrease in numbers of consumers seeking advice, potentially contracting by over 50% or even as much as by two thirds. While some firms will simply scale down operations in the transfer advice market, others will probably cease to offer it altogether. This will in part be due to the reduction in demand, but also due to lower levels of profits that firms consider that they will be able to make from this advice.

108. We estimate approximately 20% of firms are currently operating a non-contingent charging model successfully. We do not expect that all firms who are currently operating a contingent charging model will be able to move to a non-contingent charging model as they do not consider it to be financially viable. This will mean a reduction in the numbers of firms operating in this market.

109. All firms who charge on a fully or partially contingent charging basis will need to review their charging basis. This means they will need to consider the level at which they set their charges going forward and the extent to which consumers are willing and able to pay those charges. If firms set charges too high, demand for their service is likely to fall. If they set them too low, advice may not be profitable. As set out in paragraph 27 above, we consider that good quality, profitable advice can be provided for £3,000-£3,500. Some firms may leave the market because they do not consider it is worth changing their charging model for the small number of pieces of pension transfer advice they give each year. We consider this is most likely where firms have also been affected by changes in PII. From our DB4 data, we know that firms undertaking less than 10 pieces of advice each year only have, on average, 1 PTS and were earning less than 5.5% of their revenue from DB transfer advice in 2017-18. It is possible that they can replace this with other types of business. However, some firms, particularly those who only give small amounts of advice to existing clients, may wish to continue to offer that service. So we do not anticipate that all firms with low numbers of customers seeking advice will leave the market.

110. Some firms may leave the market because they identify, from the descriptions in this paper, that they are a firm with which we may have concerns. For example, if they are a firm with current high conversion rates that are advising most of their clients to transfer or a firm transferring high proportions of clients into high cost product solutions. From our DB4 data, we know that 60% of firms (1,454 firms) have advised at least 75% of their clients to transfer since April 2015. These are mainly firms giving DB transfer advice to 50 or fewer clients each year.

111. It is difficult to predict with certainty how many firms will remain in the market, as well as the type of firm and the quality of firms who will leave. However, we expect that sufficient firms should be able to continue to offer advice profitably so that the majority of those for whom a transfer is suitable will be able to access advice in a competitive market for advice. The visibility of charges is likely to mean that firms with relatively higher insurance costs, resulting in more expensive services, will find it more difficult to compete. Those offering better advice with lower risk of subsequent redress payments, should be able to benefit from lower insurance premiums and lower costs, and be able to offer lower charges for advice while remaining profitable.

One-off compliance costs

IT project costs

112. In paragraph 107, we acknowledge that it is likely that there will be a reduction in consumer demand for advice on DB transfers because of these proposals, but that this reduction could be spread could be spread evenly across all firms. So we have taken a conservative assumption that all firms will need to undertake one-off IT systems changes to update their accounting systems by our proposals. For large and medium firms, we expect this to consist of a IT system change project. We have also assumed that small firms will either incur costs equivalent to 2 days of an IT professional, or may incur a cost for upgrading their compliance software from a third party if these changes are not included in their subscription.

113. We have estimated the costs associated with adapting IT systems using the assumptions in the standardised cost model. Our standard model assumes that IT projects contain the following elements: business analysis, design, programming, project management, testing and involvement of senior management.

114. Applying our standard calculation for a moderate project, we estimate that the IT systems changes are likely to cost the industry **£12.2m**. We expect the cost to be broken down between firms as follows:

	Large firms	Medium firms	Small firms
Total IT project cost per firm	£412,502	£113,820	£553

Governance/change costs

115. We estimate that 80% of firms currently operate a contingent or hybrid charging structure. Conservatively, we expect that these firms will need to alter their business model because of our proposals. This will also include consideration of whether to continue operating in the market. As such, changes will be required to the internal processes of firms, and a substantial amount of Board review time for large and medium firms. Applying our standard calculation for major changes which affect how firms run the businesses, we expect a total industry wide cost of **£56m** for this work. We expect this cost to be broken down between firms as follows:

	Large firms	Medium firms	Small firms
Total change costs per firm	£577,242	£388,466	£17,109

Ongoing compliance costs

Sales processes

116. We expect the length of the sales process to increase when firms assess whether a consumer is eligible for the carve-out. We assume this will apply in 20% of cases.

117. We have estimated the costs associated with an increase in consumer engagement using the assumptions in the standardised costs model. To calculate this cost, we assume that an extra 15-30 minutes would be required to undertake the assessment. Based on 100,000 consumer interactions each year and using our standardised cost model (which gives costs per hour of around £40), it is estimated that the on-going cost to industry from a longer sales process of **£0.2m to £0.5m each year**.

Triage and abridged advice

Proposals

Triage

118. We are issuing additional guidance for firms that wish to operate a triage service to clarify that decision trees and traffic-light RAG-rated questionnaires should not be used within a non-advised triage service. Firms are not required to provide a triage service, and based on the results of our data request, we estimate that 54% of firms currently operate a triage service. These firms will need to review our guidance to decide whether the service they offer is still appropriate, whether it needs amending, or whether to stop providing it.

Abridged Advice

119. We are also proposing rules and guidance for firms that wish to set up and operate an abridged advice service. Abridged advice will enable firms to provide a low-cost alternative to full advice. It should also act as an additional mechanism to filter out those consumers for whom a pension transfer or conversion is unlikely to be suitable before they pay for full advice.

120. As abridged advice is intended to address the limitations of triage of a non-advised service, we assume that all firms that currently operate a triage service will also choose to set up and operate an abridged advice service. Of those firms that do not currently operate a triage service, we estimate that half will choose to set up and operate an abridged advice service as a means of identifying individuals who might qualify for the carve-out to our proposed requirement to charge on a non-contingent basis. So we estimate that 75% of firms will set up and operate an abridged advice service.

Costs

121. We have not assumed a cost for the triage and abridged advice proposals as these are not mandatory and firms can choose whether to adopt them. In practice, we assume that some firms will pass any additional costs to consumers for abridged advice where the client does not transfer. Where they proceed to full advice, the costs of abridged advice are assumed to form part of the overall advice process.

Benefits

122. We expect that our proposals to introduce additional guidance on triage will make it easier for firms to operate an appropriate triage service without stepping across the advice boundary.

123. We consider our proposal to introduce 'abridged advice' will enable firms to provide a low-cost alternative service to full advice that is not bound by the limitations of triage as a non-advised service. This could benefit firms by enabling them to attract customers that would otherwise be unwilling to pay for full advice.

124. We also expect our proposals for 'abridged advice' to benefit consumers by providing them with the option to receive the initial stages of the advice process at a lower cost than full advice. This service is likely to be of value to those consumers that would not benefit from a pension transfer, as they can now receive a personal recommendation from their adviser not to transfer without having to pay for full advice at a substantially higher cost.

125. Abridged advice will also provide firms with a means of assessing whether consumers qualify for the carve-out to our proposed requirement to charge on a non-contingent basis. This will be of benefit to those consumers who do qualify for the carve-out by providing them with a means of retaining access to advice.

Section 4: Addressing ongoing conflicts

Proposals

126. We consider that where a transfer out of a DB scheme is suitable, a default option within a workplace pension scheme (WPS), where available, is likely to be a suitable destination option for many transferees. So we are proposing rules to require firms to demonstrate why any non-WPS they recommend is more suitable than a WPS. This is intended to make it easier for an adviser to recognise the benefits associated with recommending a transfer into a workplace pension rather than a workplace DC pension. Firms will also be required to include analysis of a transfer into an available WPS in the Appropriate Pension Transfer Analysis (APTA) which provides the evidence for the suitability report.

127. We have set out, in our proposed guidance, circumstances that we consider are valid reasons for not considering a WPS. We have also set out guidance of circumstances that we do consider are not valid reasons for considering a WPS in most cases.

Market Impact – Firms

128. We recognise that the transfer of funds to WPSs will impact differently on different parts of the market:

- ongoing advice fees will reduce, affecting many advice firms
- ongoing product charges will be reallocated from existing pension providers to other players in the market, such as Master Trusts
- ongoing product charges will be reallocated between existing pension providers to those offering lower cost schemes for automatic enrolment
- vertically integrated firms will be impacted by all of these changes as they provide both advice and fund management

129. We have not attempted to quantify the impact on different types of firms in detail. However, while pension providers will be impacted to a greater extent, we consider that any reduction in income will be relatively small compared to the total income received by the firms affected.

Ongoing costs

130. Under the proposals advisers will need to assess the appropriateness of WPSs. They will also need to explain the features to clients to make sure the destination scheme is appropriate for their needs. To calculate this cost, we assume that an extra 60 minutes would be required to undertake the assessment. Assuming 80,000 interactions each year involve considering a WPS and using our standardised cost model (which gives costs per hour of around £40), it is estimated that the on-going cost to industry from a longer sales process is **£3.2m each year**.

Benefits

131. In estimating the benefits to consumers, we have made several assumptions:

- Following the statistics produced following the rollout of automatic enrolment, we have assumed that **90%** of DB scheme members have access to a workplace pension (DWP statistics show that 87% of people have access to a WPS).
- For those who have access, the breakdown of membership by scheme type based on recent research is tending towards: 50% personal pension/stakeholder, 25% trust based Defined Contribution (DC) scheme, and 25% Master Trust.
- Based on anecdotal evidence from stakeholders, we assume that all personal pensions will accept DB transfers in whereas only some trust based schemes and Master Trusts currently accept DB transfers. We also recognise that the market is shifting towards Master Trusts so the proportions may vary. So we assume that between **50-70%** of consumers will have access to schemes which accept DB transfers.
- It has been reported that around **20%** of DB transfers are for the over 60s. We have assumed that this means it is likely that these clients will access the funds within 12 months, which would mean that a WPS may be inappropriate for these clients.
- We recognise that some consumers will be sophisticated investors who are more suited to a wide range of investment options, or wish to manage investments themselves. From our supervisory data, we assume that clients who genuinely want or need a wide range of sophisticated investments, or who do not wish to use a WPS, is in the range **10-20%**.

132. Combining these assumptions, we estimate that between 30% and 45% of consumers would have access to a WPS that should be suitable for them.

133. In terms of the financial impact for consumers, we have assumed the following:

- An average DB member who transfers in their late-50s and starts to draw an income in their mid-60s.
- Average CETV of £350,000, based on our DB4 findings, and life expectancy in line with ONS national averages.
- Provider charges of 1.5% pa in a non WPS destination, and 0.75% pa within a WPS based on the charge cap for a default fund used for automatic enrolment.
- An initial advice charge of £7,000 followed by annual ongoing advice charges of 0.5% pa of the pension pot. Within a WPS we have assumed that no advice is required until the point of retirement and, after retirement, a further 4 pieces of advice are taken at a cost of 2% of the pension pot at 5-yearly intervals.
- 35,000 members transfer each year, assuming demand falls.

134. For a WPS, expressed in today's money terms, the lifetime fees and charges for this sample member amount to £77,000. This compares to £115,000 in a non-WPS solution, a saving of £38,000. Across all members transferring, and using the proportions who can use a WPS identified above, this gives a total benefit across all consumers of **£399m-£598m each year**. This is an annual cost for the first year following the introduction of the proposals. This may reduce over time if the volume of transfers reduces.

135. This is a direct transfer from advice firms and providers to consumers and will result in some lost profit for certain firms. But this will result in material enhancements to consumers' pension pots over their lifetime equating to over 10% of their original pot. It could mean that funds last a further 3-4 years in retirement or, if not spent, will result in a significantly higher sum that can be left to dependents.

136. These are considerable savings for consumers who, in many cases, are paying substantially more than they need to, given their needs and objectives. We consider this transfer of wealth to consumers to be appropriate justification for the proposals.

Section 5: Empowering consumers

137. Our proposed remedies within this section are designed to protect consumers from paying too much in fees and charges by providing consumers with better information about the charges they will incur before they take advice. We also want to encourage consumers to have better quality conversations with advisers about the recommendations they have received, which addresses the harm of consumers being transferred to unsuitable pension products. These proposals will affect all firms that provide pension transfers.

Proposals

Initial charging disclosures

138. Before firms provide regulated advice on a DB to DC transfer or conversion, we are proposing that they must issue a letter of engagement that sets out, in monetary terms, the amounts the consumer would pay for receiving abridged advice, full advice, and for any ongoing fees if funds are transferred. Where the firm is aware that the client would be eligible for contingent charging (because of the proposed carve-out) the letter should explain the level of charge that would be payable in the event of a recommendation not to transfer.

Suitability reports: enhanced disclosures

139. We are proposing that firms must produce a one-page suitability report summary which includes:

- The advice and product charges expected to be levied in the first year if a transfer or conversion goes ahead, alongside the charges associated with the client remaining in their current DB scheme or transferring to a Workplace Pension Scheme (if applicable). The charges must be presented in pounds and pence and as a percentage of the client's DB scheme income.
- A clear recommendation on whether the consumer should transfer their pension or not. The client must be invited to provide a signature to confirm that they intend to follow the recommendation, or, if not, the adviser should follow their insistent client process in line with COBS 9.5A.
- A statement of the risks associated with the transfer or conversion. The client must be invited to provide a signature to confirm that they understand the risks disclosed to them.
- Information about any ongoing advice service provided if the client's pension is transferred, including the monthly and annual charges associated with this service, expressed in pounds and pence. The client must provide a signature to confirm if they wish to opt-in to the ongoing advice service.

140. We also propose Handbook guidance for the provision of the summary when firms use the two-adviser model. This clarifies that where separate suitability reports on the transfer advice and the investment recommendation are produced, the summary must be contained within the pension transfer advice suitability report.

141. In addition, we propose that our rules are updated to require that suitability reports for pension transfer advice must always be provided before a transaction is undertaken.

Checking consumers understand the advice

142. We are proposing that where an adviser intends to make a positive recommendation to transfer or convert their pension, they must check that their client has a reasonable understanding of the risks of proceeding with a pension transfer before finalising the recommendation.

143. If a client is not able to demonstrate a reasonable understanding of the risks of proceeding with a pension transfer, then the adviser should reconsider whether a positive recommendation is suitable. Firms should keep records to be able to demonstrate how they undertook the check and what it entailed.

One-off costs

Internal process changes

144. We anticipate that all three of our proposals in this section will require firms to change the structure of their advice process. This will require firms to carry out a change project. Using the standard assumptions to estimate these costs based on the standardised costs model, we estimate that these combined process changes are likely to comprise 45 project days for large firms at a cost of £15,826 per firm, 14 days for medium firms at a cost of £5,104 per medium firm, and 3 days for small firms at the cost of £829 per firm.

145. Using these assumptions, we expect a total industry wide cost of **£2.5m for combined process changes**.

Ongoing costs

Consumer engagement

146. We expect the length of the sales process to increase, and the number of consumer queries to rise, because of our proposals for enhanced sustainability reports and checking customers understand the advice. We have estimated the costs associated with an increase in consumer engagement using the assumptions in the standardised costs model. To calculate this cost, we assume that an extra 10 minutes would be required to explain the sustainability report one-page summary to the client, and an extra 5 minutes would be required to check that their clients have a reasonable understanding of the risks of proceeding with a pension transfer before finalising the recommendation. We recognise that this 15-minute extension to the sales process will also cost consumers some of their leisure time. However, we also anticipate that consumers will gain time by having the key recommendations of their suitability report presented to them in the one-page report summary. We estimate that this gain will balance out the cost to consumers.

147. Based on our Penson Transfer Data Request, we have estimated that the total number of completed transactions each year is 100,000 and the wage cost per minute, plus 30% overheads, is 71p for large and medium firms and 66p for small firms.

148. It is estimated that the ongoing cost to industry from a longer sales process is **£1.0m each year**.

149. There are already requirements on firms to provide information to new customers about their fees and service, so we have not assumed that providing the proposed letter of engagement will put any additional ongoing costs, such as postage, on firms.

Benefits

Fewer consumers make unsuitable pension transfers

150. We expect these proposals will lead to some consumers making more informed decisions, reducing the overall number of consumers that suffer harm from transferring their pension when it is not in their best interests to do so.

Improved consumer engagement

151. We expect our proposals to improve consumer engagement and enable consumers to have a better understanding of the implications of transferring their pensions. We expect that some consumers will not take advice because of clearer disclosure of adviser charges in an engagement letter. We expect that the one-page summary in suitability reports will result in some consumers choosing not to transfer at all, or deciding to transfer to a workplace scheme, when they see the charges associated with a transfer, even when a firm recommends a transfer.

152. It is difficult to estimate the value of the benefits to consumers resulting from improved disclosures. Some of the benefits arising will be incorporated in those amounts estimated for some of the other proposals (such as those relating to contingent charging and workplace pensions), as set out elsewhere in this CBA.

Section 6: Enabling advisers

153. Our proposed remedies in this section are designed to enable advisers to give better quality advice. We want to raise standards by improving the levels of knowledge and understanding of PTS's who give or check advice on pension transfers.

Proposals

CPD requirements

154. We are now setting out proposals that will require all PTSs to obtain 15 hours of compulsory Continuing Professional Development (CPD), specific to pension transfer advice each year. In addition, at least 5 hours of the 15 hours must be provided by resources external to any firm that employs or contracts services from the PTS. We will also require PTSs to maintain their own records of their CPD and firms should record these centrally, in line with the requirements of the Training and Competence Sourcebook. These proposals are designed to address one of the potential drivers of unsuitable advice, by ensuring that skill levels are high and maintained over time.

Costs

155. We assume that 5,000 active individual PTSs will undertake 15 hours of CPD each year, focused specifically on pension transfer advice. Based on an average hourly rate of £40, we estimate this will cost £600 per individual in opportunity costs. We assume total course costs of £500 per day over two days which totals £1,000 per individual. Combining these figures, and using the assumption that 20% of PTSs already carry out these requirements, we estimate that there will be an additional cost of **£6.4m**.

We do not estimate there will be any familiarisation costs from these proposals. We also do not estimate any additional costs of recording, as we would expect this to be a business as usual activity.

Benefits

156. We expect that our proposals to introduce specific CPD requirements should result in a better standard of pension transfer advice that will be of benefit to consumers.

157. We expect our proposal to benefit a proportion of those consumers who are currently provided with unsuitable advice as well as reduce the proportion of those consumers who are provided with advice that is currently unclear. We have not attempted to quantify this benefit in monetary terms.

158. We also estimate that these requirements will increase the revenues, by £5m a year, for firms, such as training providers, that provide CPD opportunities to PTSs.

Section 7: Effective regulation

159. Chapter 7 outlines the data we propose to collect from firms in relation to Pension Transfer Specialist advice and Professional Indemnity Insurance (PII). The efficient collection of data provides us with up-to-date information on the markets we supervise.

Proposals

Data on Pension Transfer Specialist advice

160. We propose to create a new section of the Retail Mediation Activities Return (RMAR) regulatory return (RMA-M) covering data on DB and other safeguarded benefit pension transfer advice, excluding transfers that do not require a pension transfer specialist. We intend to collect these data from all firms with the full (but not the limited) permission to advise on pension transfers and opt-outs for retail customers.

161. We propose to ask firms about their activities and those of their appointed representatives including, the number of consumers advised to transfer and not to transfer, the transfers values involved, the types of investment solutions transferred to, and the revenue generated for the firm.

Data on Professional Indemnity Insurance

162. We propose to amend the existing data collected on intermediaries' PII cover within the existing quarterly RMA-E submission, FSA031, FSA032 and FIN-APF so that we have better data about the PII cover of all firms that offer retail intermediation. In particular, we propose collect new data on exclusion or limitations to firms' PII cover. The firms impacted be these requirements will include, but is not limited to, firms providing pension transfer advice.

163. For this proposal, we have assumed that 13,991 firms will submit data. Using data from their annual FCA fee blocks, we have identified that there are 105 large firms, 581 medium firms and 13,305 small firms.

One-Off costs

IT project

164. We expect that large and medium firms will need to undertake one-off IT systems changes to produce the new data required by our proposals. We have assumed that small firms will not implement a technology solution for submitting the return but will incur costs equivalent to 1 day of an IT professional. We have estimated the costs associated with adapting IT systems using the assumptions in the standardised cost model. Our standard model assumes that IT projects contain the following elements: business analysis, design, programming, project management, testing and involvement of senior management. We estimate that these combined process changes are likely to comprise 46 project days for large firms at a cost of £55,582 per firm, 23 days for medium firms at a cost of £8,235 per medium firm, and 1 day for small firms at the cost of £276 per firm.

165. For our proposal to collect data for pension transfer specialist advice (RMA-M), based on FCA data, we estimate that the IT project length is likely to cost the industry £1.7m.

166. For our proposal to amend PII self-certification requirements (RMA-E, FSA031, FSA032 and FIN-APF), we do not expect that returns will be completed using an IT solution as the form is based on text contained in firms' PII schedules and contracts. We estimate that the initial cost, to industry, including familiarisation, gap analysis and training, will be £1.3m.

167. We estimate the combined impact on the industry to undertake these one-off IT systems changes is a total cost of **£3.0m**.

Direct costs to the FCA

168. Direct costs to the FCA will arise from developing and maintaining the reporting systems required by our proposals. There will also be costs in monitoring the data.

169. We estimate that it will cost us approximately £300,000 to amend up our reporting systems so firms can accurately report the requested data. We expect that the cost of maintaining the systems and monitoring the data will be managed within our existing resources.

Ongoing costs

170. Under our proposals, firms would be expected to submit additional data through the Gabriel system RMAR on an annual basis and, where relevant, through FSA031, FSA032 and FIN-APF. Using survey data collected for CP11/8 (adjusted to account for inflation), we estimate that the ongoing cost of collecting and inputting the data required by our proposals will be £4,190 each year for large firms, £942 each year for medium firms and £269 each year for small firm.

171. So we estimate an ongoing cost to industry of **£0.2m per year**.

Benefits

172. We expect that the collection of data on pension transfer specialist advice (RMA-M) will increase our understanding of the risks and emerging trends in the market.

173. By collecting these data as a regular return rather than as a series of ad-hoc requests, we also expect to reduce the long-term costs to firms, as they will have the option to automate the process through one-off IT system changes.

174. We expect our proposed amendments to Professional Indemnity Insurance (PII) Self-certification (RMA-E, FSA031, FSA032 and FIN-APF) data collection to make it easier for firms to understand our requirements, and so improve the efficiency of completing the return.

175. We also expect that these changes will enable us to use our resources more efficiently and effectively to target firms where consumer protection may be in jeopardy due to insufficient PII coverage for the activities being undertaken. This enables us to minimise the detriment that can be caused if these firms were to have claims made against them.

176. It is not feasible to quantify the value of the benefits to consumers accurately because of the collection of these data. However, the size and number of consumers in the market support the need to supervise developments effectively. We estimate that the total size of the market, measured by amounts being transferred from DB schemes, is currently in the region of £20bn-£30bn each year. So in terms of consumers' retirement outcomes, there are significant the social benefits from having a market that functions well.

Section 8: Technical amendments

177. In this section, we assess our proposals for amending existing rules and guidance. These are mostly technical in nature and should provide firms with additional clarification on how to apply our rules and guidance in practice. These proposed changes include:

a. amending the pension transfer definition
b. clarifying and making some amendments to the transfer value comparator (TVC)
c. additional factors firms should incorporate in cashflow modelling (where used)
d. clarifying the way in which the pension transfer rules should be applied to retirement annuity contracts
e. how to use estimated transfer values for initial advice
f. clarifying the application of adviser charges
g. explaining the scope of arranging a transfer

One-Off costs

178. We expect that software providers preparing transfer value comparators and cashflow modelling tools will need to make one-off IT systems changes to their systems so that firms using the systems can meet our new requirements. We have assumed that there are 10 providers of TVC systems and 10 providers of cashflow modelling systems and they will incur costs of £25,000 each which results in total costs of £500,000. We think it is unlikely that they will pass this cost on directly to regulated firms who already pay regular subscriptions to software providers for the use of such systems, including regular updates.

179. We expect that providers receiving pension transfers will need to make one-off systems changes to their systems to exclude certain categories of pension transfers that are no longer part of the pension transfer definition. We estimate this cost as being **£1m** across all providers.

Benefits

180. In general, our proposals mean that firms and consumers will benefit from a more consistent approach being adopted by firms. In particular, our proposals on cashflow modelling will mean that consumers are in a better-informed position. Moreover, our proposals on using estimated transfer values will reduce the time pressures on consumers and firms when advice is given in relation to a scheme restructure. Given the diverse and technical nature of the clarifications, it is not practical to quantify the benefits that will arise from them.

Q30: Do you have any comments on our cost benefit analysis?

Annex 4
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

4. This Annex includes our assessment of the equality and diversity implications of these proposals.

5. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

6. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of securing an appropriate degree of protection for consumers. In considering what degree of protection for consumers is appropriate, we have had regard to the risks involved in pension transfers and the differing degrees of experience those undertaking these transactions may have. We have recognised the general principle that consumers should take responsibility for their own decisions, but consider that there is a need for timely information and advice that is fit for purpose, and that this should be provided with a level of care appropriate for the particular risks

involved in these transactions. The proposals are also relevant to the FCA's operational objectives to protect and enhance the integrity of the UK financial system, and to promote competition in the interests of consumers.

7. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to reduce the reduce the number of consumers transferring when it is not in their best interests. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

8. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA, as set out in the following sections.

The need to use our resources in the most efficient and economic way

9. We have considered this principle and do not believe that our proposals will have a significant impact on our resources and the way we use them.

The principle that a burden or restriction should be proportionate to the benefits

10. In Annex 2 we have set out our analysis of the costs and benefits of our proposals for consultation. Overall, we believe that our proposals are a proportionate response to the harm that we have found.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

11. We have considered this principle and do not believe our proposals undermine it.

The general principle that consumers should take responsibility for their decisions

12. DB pension scheme members and other consumers with safeguarded benefits have a statutory right to give up these benefits and transfer their pension to a scheme with flexible benefits. To protect scheme members, legislation requires that members must take regulated advice where the value of the benefits given up exceeds £30,000. The FCA, TPR and government believe that most consumers will be best advised to keep their DB pensions and other safeguarded benefits. The number of recommended DB to DC transfers across the market is much higher than we expect, and our thematic work has found that only around 50% of advice reviewed is suitable. So, we are concerned that some consumers are being provided with unsuitable advice to transfer their DB pension, influencing them to make a decision which is not in their best interests. Our proposals are designed to improve the suitability of pension transfer advice by addressing conflicts and enabling advisers to give better quality advice. Our proposals for enhanced disclosures also aim to provide consumers with clear evidence to substantiate the adviser's recommendation. This should help consumers to understand the implications when deciding whether they should transfer their pension.

The responsibilities of senior management

13. We have had regard to this principle and do not believe our proposals undermine it.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

14. We have had regard to this principle and do not believe our proposals undermine it. We think that the best way to reduce the scope for conflicts of interest and the potential harm caused by unsuitable advice is to ban contingent charging. The analysis we have undertaken in Annex 2 demonstrates our commitment to understanding how our proposals will impact different business models.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

15. We have had regard to this principle and do not believe our proposals undermine it.

The principle that we should exercise of our functions as transparently as possible

16. We have had regard to this principle and do not believe our proposals undermine it.

17. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). We do not consider this is relevant in relation to our proposals.

Expected effect on mutual societies

18. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies than other authorised persons, or present them with any more or less of a burden than other authorised persons.

Equality and diversity

19. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.

20. The outcome of the assessment in this case is stated in paragraphs 2.20 and 2.21 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

21. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are proportionate and will result in an appropriate level of consumer protection when balanced with the impact on affected firms.

22. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance, but this duty does not apply to regulatory functions exercisable through our rules.

Treasury recommendations about economic policy

23. We have had regard to the Treasury's recommendations under section 1JAFSMA. Our proposals are consistent with these recommendations, as they aim to improve outcomes for some consumers that receive pension transfer advice, while supporting competition between firms operating in this market.

Annex 5
Abbreviations used in this document

APTA	Appropriate Pension Transfer Analysis
BSPS	British Steel Pension Scheme
CBA	Cost benefit analysis
CETV	Cash equivalent transfer value
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
CPD	Continuing Professional Development
DB	Defined benefit
DC	Defined contribution
EBC	Employee Benefit Consultant
FCA	Financial Conduct Authority
FAMR	Financial Advice Market Review
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GAR	Guaranteed annuity rate
KFI	Key Features Illustration
MAPS	Money and Pensions Service
NRA	Normal retirement age
ONS	Office of National Statistics
OPS	Occupational Pension Scheme
PERG	Perimeter Guidance

PII	Professional indemnity insurance
PTS	Pension transfer specialist
RDR	Retail Distribution Review
TC	Training and Competence
TPR	The Pensions Regulator
TVC	Transfer Value Comparator
VAT	Value Added Tax
WPS	Workplace pension scheme

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
Draft Handbook text

CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFERS) (No 3) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(1) Annex B comes into force on [9 months following the date in (3) below].

(2) Part 2 of Annex C and Part 2 of Annex D come into force on [6 months following the date in (3) below].

(3) The remainder of the instrument comes into force on [the 1st of the month following the date on which the FCA Board make the instrument].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Training and Competence sourcebook (TC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C
Supervision manual (SUP)	Annex D

Amendments to material outside the Handbook

E. The Perimeter Guidance manual (PERG) is amended in accordance with Annex E to this instrument.

Notes

F. In Annex A to this instrument, the "note" (indicated by "Editor's note:") is included for the convenience of readers but does not form part of the legislative text.

Citation

G. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfers) (No 3) Instrument 2020.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

This Annex comes into force on [the 1st of the month following the date on which the FCA Board make the instrument].

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

abridged advice	*advice* in relation to a *pension transfer* that is not *full pension transfer or conversion advice* (see *COBS* 19.1A (Special rules for giving abridged advice)).
cash terms	in pounds and pence.
ceding arrangement	a *retail client's* existing pension arrangement with *safeguarded benefits*.

[*Editor's note*: the above definition of "ceding arrangement" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "ceding arrangement" should be read as, and amended to, references to "*ceding arrangement*".]

employer funded pension advice charge	any form of charge payable by or on behalf of an employer to a *firm* in relation to the provision of a *personal recommendation* by the *firm* to members of a defined benefit *occupational pension scheme* sponsored by that employer in respect of a *pension transfer* and/or *pension conversion*.
full pension transfer or conversion advice	advice on *pension transfers* or *pension conversions* (as applicable) given in accordance with *COBS* 19.1 (Pension transfers, conversions, and opt-outs).
non-DB pension scheme	any pension arrangement that is not a scheme (or is not a section of a scheme) that provides *safeguarded benefits* other than a *guaranteed annuity rate*.
related services	(for the purposes of *COBS* 19.1B) has the same meaning as in *COBS* 6.1A.6R and *COBS* 6.1A.6AG.
serious financial hardship	a *retail client* experiencing circumstances that mean that they are in extreme financial difficulty.

serious ill-health a *retail client* who has a medical condition that is likely to reduce their life expectancy to below age 75.

Amend the following definitions as shown.

adviser charge any form of charge payable by or on behalf of a *retail client* to a *firm* in relation to the provision of a *personal recommendation* by the *firm* in respect of a *retail investment product*, *pension transfer*, *pension conversion*, *pension opt-out* or *P2P agreement* (or any related service provided by the *firm*) which:

(a) is agreed between that *firm* and the *retail client* in accordance with the *rules* on adviser charging and remuneration (*COBS* 6.1A); and

(b) is not a *consultancy charge*.

arranging …

(e) (in relation to a *pension transfer*, *pension conversion* or *pension opt-out)* making arrangements for a *retail client* to bring about:

(i) (in a *pension transfer* or *pension conversion*) the conclusion of all or part of the *retail client*'s subsisting rights in respect of any *safeguarded benefits*; or

(ii) a *pension opt-out.*

guaranteed annuity rate an arrangement in a pension scheme to provide benefits whereby, in defined circumstances and irrespective of the prevailing market rate for annuities when those benefits come into payment, a member is entitled to:

(a) an annuity at a minimum specified rate; or

(b) benefits equivalent to that annuity at that minimum specified rate, including a minimum guaranteed income under a *retirement annuity*.

pension transfer ~~a transaction, resulting from the decision of *a retail client* who is an individual:~~

~~(a) to transfer deferred benefits (regardless of when the *retail client* intends to crystallise such benefits) from:~~

~~(i) an *occupational pension scheme*;~~

~~(ii) an individual pension contract providing fixed or guaranteed benefits that replaced similar benefits under a *defined benefits pension scheme*; or~~

~~(iii) (in the cancellation *rules* (*COBS 15*)) a *stakeholder pension scheme* or *personal pension scheme*,~~

~~to:~~

~~(iv) a *stakeholder pension scheme*;~~

~~(v) a *personal pension scheme*; or~~

~~(vi) a deferred annuity *policy*, where the eventual benefits depend on investment performance in the period up to the date when those benefits will come into payment; or~~

~~(vii) a *defined contribution occupational pension scheme*; or~~

~~(b) to require the trustees or manager of a pension scheme to make a transfer payment in respect of any *safeguarded benefits* with a view to obtaining a right or entitlement to *flexible benefits* under another pension scheme.~~

(except in *COBS* 15 (Cancellation)) a transaction, resulting from the decision of a *retail client* who is an individual to require a transfer payment in respect of any *safeguarded benefits*:

(a) from any pension scheme with a view to obtaining a right or entitlement to *flexible benefits* under another pension scheme; or

(b) from an *occupational pension scheme* with a view to obtaining a right or entitlement to *safeguarded benefits* under a non-occupational pension scheme; or

(c) from an individual pension contract providing fixed or guaranteed benefits that replaced similar *safeguarded benefits* under a pension scheme with a view to obtaining a right or entitlement to *safeguarded benefits* under a non-occupational pension scheme or under a *defined contribution occupational pension scheme*.

For the purposes of this definition of "pension transfer":

(a) "pension scheme" means an *occupational pension scheme* or a non-occupational pension scheme; and

(b) "non-occupational pension scheme" means a *stakeholder pension scheme*, a *personal pension scheme* or a deferred annuity contract.

qualifying scheme

(a) a *personal pension scheme* or *stakeholder pension scheme*, which provides money purchase benefits, used by an employer(s) to comply with duties imposed in Part 1, Chapter 1 of the Pensions Act 2008. In summary, these duties are to take necessary steps for particular employees, by a particular time, to make those employees members of a pension scheme which meets the criteria in that Act and in regulations made under that Act;

(b) but such a scheme will not be a *qualifying scheme* if the only members of that scheme are directors or former directors of the same employer, including at least one third of the current directors of that employer; and

(c) (in *COBS* 9.4.11R, *COBS* 19.1 and *COBS* 19.2) in addition to the schemes in (a) as qualified by (b), a *defined contribution occupational pension scheme* that is a qualifying scheme for the purposes of the Pensions Act 2008.

remuneration (1) (except where (2), ~~or~~ (3) or (4) apply) …

…

(4) (in *COBS* 19.1B) means any payment or benefit whatsoever:

(a) charged to, or received from, a *retail client* (directly or indirectly); or

(b) received by a *firm*, or by any *person* or entity connected with the *firm*;

for, or in connection with, advice or other services provided by the *firm*, or by an associate of the *firm*.

Annex B

Amendments to the Training and Competence sourcebook (TC)

This Annex comes into force on [9 months after the 1st of the month following the date on which the FCA Board make the instrument].

In this Annex, underlining indicates new text and striking through indicates deleted text.

2	**Competence**		
2.1	**Assessing and maintaining competence**		
	…		
	Continuing professional development <u>for retail investment advisers</u>		
2.1.15	R	…	
….			
2.1.23	R	…	
	<u>Continuing professional development for pension transfer specialists</u>		
<u>2.1.23A</u>	<u>R</u>	<u>(1)</u>	<u>A *firm* must ensure that a *pension transfer specialist* who has been assessed as competent for the purposes of *TC* 2.1.1R remains competent by completing a minimum of 15 hours of appropriate continuing professional development in each calendar year starting on 1 January.</u>
		<u>(2)</u>	<u>At least 5 hours of the 15 hours of appropriate continuing professional development must be provided by an external independent provider.</u>
		<u>(3)</u>	<u>In the calendar year in which they were assessed as competent, a *pension transfer specialist* need only complete the pro-rated proportion of the 15 hours (and 5 hours) that reflects the portion of the calendar year after that assessment.</u>
		<u>(4)</u>	<u>The appropriate continuing professional development in (1) is in addition to any other continuing professional development completed. Continuing professional development completed by a *pension transfer specialist* in relation to activities other than acting as a *pension transfer specialist* must not be taken into account for the purposes of (1).</u>
<u>2.1.23B</u>	<u>G</u>	<u>Appropriate continuing professional development has the same meaning as given in *TC* 2.1.22G(1) - (5).</u>	

2.1.23C R *TC* 2.1.17R (suspending the continuing professional development requirement) and related *guidance* apply in relation to *pension transfer specialist* and references to:

(1) *TC* 2.1.15R must be read as a reference to *TC* 2.1.23AR; and

(2) *retail investment advisers* must be read as a reference to *pension transfer specialists*.

Continuing professional development record-keeping

2.1.24 R A *firm* must, for the purposes of *TC* 3.1.1R (Record keeping), make and retain records of:

(1) the continuing professional development completed by each:

(a) *retail investment adviser* (under *TC* 2.1.15R);

(b) *pension transfer specialist* (under *TC* 2.1.23A)~~;~~

and

(2) the dates of and reasons for any suspension of the continuing professional development requirements under *TC* 2.1.17R or *TC* 2.1.23CR.

2.1.25 R A *firm* must not prevent a *retail investment adviser* or a *pension transfer specialist* from obtaining a copy of the records relating to them which are maintained by the *firm* for the purposes of *TC* 2.1.24R.

…

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

Part 1: Comes into force on [1st of the month following the date on which the FCA Board make the instrument].

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

2 Conduct of business obligations

…

2.3 Inducements relating to business other than MiFID, equivalent third country or optional exemption business and insurance-based investment products

…

2.3.1 R …

(1) …

(2) …

(b) …

(i) …

(A) giving a *personal recommendation* in relation to a *retail investment product*<u>, *pension transfer*, *pension conversion*, *pension opt-out*</u> or *P2P agreement*; or

…

(c) in relation to the carrying on by a *UK UCITS management company* or *EEA UCITS management company* of the *collective portfolio management* activities of investment management and administration for the relevant *scheme* or when carrying on a *regulated activity* in relation to a *retail investment product* <u>or a *pension transfer*, *pension conversion* or *pension opt-out*</u> or when *advising on P2P agreements*, the payment of the fee or commission, or the provision of the non-monetary benefit is designed to enhance the quality of the service to the *client*; or

(3) proper fees which enable or are necessary for the provision of *designated investment business*, such as custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with the *firm*'s duties to act

honestly, fairly and professionally in accordance with the best interests of its *clients*; or

(4) an *employer funded pension advice charge*.

…

2.3.6A G …

(1) relating to the provision of a *personal recommendation* on *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*; or

…

2.3.16B R …

(1) makes *personal recommendations* to *retail clients* in relation to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or P2P agreements, and to which COBS 6.1A (Adviser charging and remuneration) applies; or

…

…

6 Information about the firm, its services and remuneration

…

6.1A Adviser charging and remuneration

Application – Who? What?

6.1A.1 R (1) This section applies to a *firm* which makes *personal recommendations* to *retail clients* in relation to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*.

…

Requirement to be paid through adviser charges

6.1A.4 R Except as specified in this section, ~~*COBS* 6.1A.4AR, *COBS* 6.1A.4ABR, *COBS* 6.1A.4ACG, *COBS* 6.1A.4BR and *COBS* 6.1A.5AR(1),~~ a *firm* must

…

Exception: Events before December 2012

6.1A.4A R …

…

Exception: Employer funded pension advice charge

6.1A.4C R A *firm* may receive an *employer funded pension advice charge*.

Exception: receipt and refund of adviser charges

6.1A.5 …

…

Related and other services

6.1A.6 R Related service(s)' for the purposes of *COBS* 6.1A includes:

(1) …

(2) managing a relationship between a *retail client* (to whom the *firm* provides *personal recommendations* on *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*) and a *discretionary investment manager* or providing a service to such a client in relation to the investments managed by such a manager; or

(3) recommending a *discretionary investment manager* to a *retail client* (to whom the *firm* provides *personal recommendations* or other services in relation to *retail investment products*, *pension transfers*, *pensions conversions*, *pension opt-outs* or *P2P agreements*).

6.1A.6A G 'Other services' in *COBS* 6.1A.6R(3) includes:

(1) providing information relating to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* *P2P agreements* or *operators of electronic systems in relation to lending to* the *retail client*, for example, general market research; or

…

…

Calculation of the cost of adviser services to a client

6.1A.16 G (1) ~~In order to~~ To meet its responsibilities under the *client's best interests rule* and Principle 6 (Customer's interests), a *firm* should consider whether the *personal recommendation* or any other related service is likely to be of value to the *retail client* when the total charges the *retail client* is likely to be required to pay are taken into account.

(2) *Firms* that *advise on conversions or transfers of pension benefits* should consider whether it would be more appropriate to give a *retail client abridged advice* (under *COBS* 19.1A) rather than a *full pension transfer or conversion advice* (under *COBS* 19.1) taking into account the total charges the *retail client* is likely to pay.

…

Ongoing payment of adviser charges

6.1A.22 R …

(1) …

(2) the *adviser charge* relates to a *retail investment product* or a *pension transfer*, *pension conversion* or *pension opt-out* or arrangement with *an operator of an electronic system in relation to lending* for which an instruction from the *retail client* for regular payments is in place and the *firm* has disclosed that no ongoing *personal recommendations* or service will be provided.

…

15 Cancellation

…

15.1 Application

…

Definitions

15.1.2 R In this section:

(a) "pension transfer" means a transaction, resulting from the decision of a *retail client* who is an individual to require a transfer payment of benefits from a pension scheme to:

(i) benefits under a non-occupational pension scheme; or

(ii) (for transfers from a non-occupational pension scheme) *safeguarded benefits* under a *defined contribution occupational pension scheme*;

(b) "non-occupational pension scheme" means a *stakeholder pension scheme*, a *personal pension scheme* or a deferred annuity contract; and

(c) "pension scheme" means an *occupational pension scheme* or a non-occupational pension scheme.

…

15.2 The right to cancel

Cancellable contracts

15.2.1 R …

- a contract for a ~~*pension transfer*~~ pension transfer

…

…

15.3 Exercising a right to cancel

…

Record keeping

15.3.4 R …

(1) indefinitely in relation to a ~~*pension transfer*~~ pension transfer, *pension opt-out* or *FSAVC*;

…

…

15 Annex 1 Exemptions from the right to cancel

…

Exemptions for certain pension arrangements (the 'cancellation substitute')

1.5 R There is no right to cancel:

(1) a contract for or funded (wholly or in part) from a ~~*pension transfer*~~ pension transfer; or

…

…

19 Pensions supplementary provisions

19.1 Pension transfers, conversions and opt-outs

Application

19.1.-1A R Except where a *firm* is providing *abridged advice* (see *COBS* 19.1A), this ~~This~~ section applies to a *firm* which:

(1) gives *advice on pension transfers, pension conversions and pension opt-outs* to a *retail client*; or

(2) *arranges pension transfers, pension conversions* or *pension opt-outs*,

in relation to:

(3) a *pension transfer* ~~from a scheme with *safeguarded benefits*~~;

(4) a *pension conversion*; or

~~(3)~~ (5) a *pension opt-out* from a scheme with *safeguarded benefits* or potential *safeguarded benefits*.

…

Definitions

19.1.1-A R In this section and in *COBS* 19 Annex 4A, 4B and 4C:

…

(b) ~~"ceding arrangement" refers to the *retail client*'s existing pension arrangement with *safeguarded benefits*;~~ [deleted]

…

Personal recommendation for pension transfers and conversions

19.1.1C R …

(5) Prior to making a *personal recommendation* to effect a *pension transfer* or *pension conversion*, *a firm* must obtain evidence that the *client* can demonstrate that they understand the risks to them of proceeding with the *pension transfer* or *pension conversion*.

19.1.1D G (1) *COBS* 9 contains suitability requirements which apply if a *firm* makes a *personal recommendation* in relation to *advice on conversion or transfer of pension benefits*.

(2) (a) *COBS* 9 requires a *firm* to obtain from the *client* necessary information for the *firm* to be able to make a recommendation. The necessary information includes ensuring that the *client* has the necessary experience and knowledge to understand the risks involved in the transaction. If a *client* does not understand the risks and/or the *firm* does not have evidence that the *client* can demonstrate their understanding, then it is likely not to be appropriate, under the *COBS* 9 requirements, to make a recommendation to transfer or convert.

(b) The *firm* should make a clear record of the steps it has taken to satisfy itself on reasonable grounds that it has adequate evidence of the *client*'s demonstration of their understanding of the risks.

(3) When a *firm* is obtaining evidence as to whether the *client* can demonstrate that they understand the risks involved in the *pension transfer* or *pension conversion*, it should tailor its approach according to the experience, financial sophistication and/or vulnerability of each individual *client*.

…

Guidance on estimated transfer value

19.1.3B G If a *firm* gives *advice on conversion or transfer of pension benefits* to a *retail client* under circumstances where the arrangements in the ceding scheme are expected to be changed, or replaced by another scheme, the *firm* should:

(1) prepare a provisional appropriate pension transfer analysis and transfer value comparator based on the information related to the changed or replacement scheme;

(2) make reasonable assumptions about the changed or replacement scheme where the benefits are uncertain; and

(3) set out in a provisional *suitability report* any assumptions and uncertainties to the *retail client*, which should clearly set out that the *personal recommendation* can only be finalised once the transfer value and changed or replacement arrangements are certain.

…

~~Record keeping and suitability reports~~ Arranging without making a personal recommendation

19.1.7C R If a *firm arranges* a *pension transfer*, *pension conversion* or *pension opt-out* for a *retail client* without making a *personal recommendation* it must:

(1) make a clear record of the fact that the *firm* has not given a ~~no~~ *personal recommendation* ~~was given~~ to that *client*; ~~and~~

(1A) where the *pension transfer* or *pension conversion* is within the scope of the requirement in section 48 of the Pension Schemes Act 2015:

(a) not proceed with the arrangements until it has received confirmation, from the *firm* that gave the advice to the *retail client*, that the *retail client* has received a *personal recommendation* in accordance with the requirements of *COBS* 19.1 (and that it was not *abridged advice*); and

(b) if the client has received a *personal recommendation*, ask what the recommendation was; and

(c) retain clear records showing evidence of (a) and (b).

(1B) where the recommendation in (1A) was not to transfer or convert the *retail client*’s subsisting rights in respect of *safeguarded benefits*, the *firm arranging* the *pension transfer* or *pension conversion* must:

(a) warn the *retail client* that they are acting against advice not to transfer or convert;

(b) ask the *retail client* whether they understand the consequences of acting against advice;

(c) where the *retail client* does not understand the consequences of acting against advice, refuse to arrange the *pension transfer* or conversion and instead refer the *retail client* back to the *firm* that advised them not to transfer for an explanation of that advice; and

(d) retain a record of the communications with the *retail client* that evidence compliance with the requirements in (a) to (c).

(2) retain ~~this record~~ the record in (1), (1A) and (1B) indefinitely.

19.1.7D G Where the advice referred to in *COBS* 19.1.7CR(1A) was *abridged advice*, the *firm* being asked to arrange the transfer or conversion should not ask the advising *firm* for confirmation of that advice. The *firm* should not arrange the relevant *pension transfer* or *pension conversion* where the advice given was *abridged advice*.

Suitability reports

19.1.8 G If a *firm* provides a *suitability report* to a *retail client* in accordance with ~~COBS 9.4.1R~~ *COBS* 9.4.2AR it should include:

…

…

19.1.9A R Prior to finalising the *firm’s personal recommendation*, a *firm* seeking to obtain evidence that the *client* can demonstrate their understanding of the risks in accordance with *COBS* 19.1.1CR(5) must:

(1) make a clear record of:

(a) the evidence showing that the *client* demonstrated that they understood the risks involved in effecting a *pension transfer* or *pension conversion* and the steps taken by the *firm* to obtain that; and

(b) if the *firm* could not obtain evidence that the *client* could demonstrate that understanding and the *firm* did not change to a recommendation not to transfer, clear evidence and explanation of how the *firm* satisfied itself on reasonable grounds that it was still suitable to continue to make the same *personal recommendation*;

(2) retain the records in (1) indefinitely.

After COBS 19.1 (Pension transfers, conversions, and opt-outs) insert the following new sections, COBS 19.1A and 19.1B. The text is not underlined.

19.1A Abridged advice on pension transfers and pension conversions

Application

19.1A.1 R This section applies to a *firm* which gives *abridged advice* in relation to a *pension transfer* or *pension conversion* to a *retail client*.

19.1A.2 R A *firm* may only give *abridged advice* where the *safeguarded benefits* involved are not only *guaranteed annuity rates*.

Options when providing abridged advice

19.1A.3 R A *firm* giving a *retail client abridged advice* must:

(1) make a *personal recommendation* that the *client* remains in their *ceding arrangement*; or

(2) all of:

(a) inform the *client* that they are unable to take a view on whether it is in the *client*'s best interests to transfer or convert without undertaking *full pension transfer or conversion advice*, even when the *firm* considers that it may be in the *client*'s best interests;

(b) check if the *client* wants the *firm* to provide *full pension transfer or conversion advice* and check that the *client* understands the associated cost; and

(c) (if the *firm* has reason to believe that the *client* is suffering *serious ill-health* or experiencing *serious financial hardship*) make the *client* aware of the implications for the level of *adviser charges* if the *client* proceeded to *full pension transfer or conversion advice*.

Inability to provide confirmation for the purposes of section 48 of the Pension Schemes Act 2015

19.1A.4 R A *firm* must not provide a confirmation for the purposes of section 48 of the Pension Schemes Act 2015 unless it has provided *full pension transfer or conversion advice.*

Requirement to use a pension transfer specialist

19.1A.5 R A *firm* must ensure that *abridged advice* is given or checked by a *pension transfer specialist*.

19.1A6 G Where a *firm* uses a *pension transfer specialist* to check its proposed *abridged advice* it should have regard to the *guidance* in *COBS* 19.1.1BG.

Relevant guidance

19.1A.7 G *COBS* 19.1.6G and (where applicable) *COBS* 19.1.6AG set out the *guidance* that relates to the obligations to assess suitability which apply if a *firm* or *firms(s)* make(s) a *personal recommendation* in relation to *abridged advice*.

19.1A.8 G A *firm* will need to refer to the *guidance* set out in *COBS* 19.1.8G that relates to the provision of a *suitability report* by a *firm* to a *retail client*.

19.1A.9 G A *firm* will not be able to proceed to execute a transaction for an insistent *client* in line with *COBS* 9.5AG where only *abridged advice* has been given.

19.1A.10 G (1) This *guidance* relates to a *firm*'s obligations to obtain information from a *retail client* in accordance with *COBS* 9.2.2R.

(2) For the purposes of the provision of *abridged advice*, necessary information is likely to include:

(a) high-level health information to ascertain if the *retail client* has a materially reduced life expectancy;

(b) the *retail client*'s attitude to transfer risk including their capacity for loss;

(c) the *retail client*'s attitude to investment risk;

(d) the *retail client*'s relevant knowledge and experience;

(e) a high-level understanding of the *retail client*'s financial situation including any debt and other pensions and savings;

(f) the *retail client*'s family situation; and

(g) whether the *retail client* is relocating overseas.

19.1B Ban on contingent charging for pension transfers and conversions

Application

19.1B.1 R (1) This section applies to a *firm* in relation to the provision of:

(a) *advice on conversion or transfer of pension benefits* except where:

(i) the only *safeguarded benefit* involved is a *guaranteed annuity rate*; or

(ii) it is *abridged advice*;

(b) *investment advice* or other services in connection with a *pension transfer* or *pension conversion* (including, but not limited to implementing and arranging a *pension transfer* or *pension conversion*);

(c) ongoing advice or other services in relation to rights or interests in a *non-DB pension scheme* derived in whole or part from a *pension transfe*r or *pension conversion*; or

(d) any *related services*.

Purpose

19.1B.2 G The purpose of this section is to ensure that *firms'* charging structures, either individually or taken together with other associated *firms*, do not create any potential for a conflict of interest relating to, or an incentive to recommend or effect, a *pension transfer* or a *pension conversion* to a *retail client*.

Ban on contingent charging

19.1B.3 R A *firm* must ensure that the methodology for calculating any part of and the total value of the *firm*'s *adviser charges, employer funded pension advice charge* or *remuneration* do not vary depending on whether or not:

(1) the *firm* makes a *personal recommendation* to a *retail client* to effect a *pension transfer* or a *pension conversion*; and/or

(2) the *retail client* effects *a pension transfer* or a *pension conversion*; and/or

(3) (in relation to ongoing advice or other services in relation to the *retail client*'s rights or interests in a *non-DB pension scheme*) the rights or interests in the *non-DB pension scheme* include sums derived from a *pension transfer* or a *pension conversion*.

19.1B.4 R Where:

(1) one *firm* carries out multiple services for a particular *retail client*; and/or

(2) a *firm* and one or more of its *associates* are involved then,

COBS 19.1B.3R applies to the *firm* in relation to the methodology and total value of the *adviser charges*, *employer funded pension advice charge* and/or *remuneration* of the *firm* and, where applicable, any of those *associates*.

19.1B.5 R A *firm* must not attempt to circumvent the *rules* in this section through any charging structure which could create a potential incentive to any *firm* or its *associate* to recommend or transact a *pension transfer* or a *pension conversion* to or for a *retail client*. This includes charging structures in relation to the pricing of other goods or services provided to the *client* or a connected *person* at any time by any *firm* involved in the *pension transfer* or *pension conversion* arrangements, or by any *associate* of the *firm*.

Examples of unacceptable practices

19.1B.6 G The following *evidential provisions* provide examples of charging arrangements the *FCA* considers will breach the *rules* in this section.

19.1B.7 E (1) A *firm* should not charge and/or receive *adviser charges*, *employer funded pension advice charges* and/or *remuneration*, that are higher, when taken together, if the recommendation is to effect a transfer or conversion than if the recommendation is not to do so.

(2) A *firm* should not charge and/or receive *remuneration* of a higher amount for its ongoing advice or services in relation to the funds in a *non-DB pension scheme* than it charges or receives where the funds are not derived from a *pension transfer* or a *pension conversion*.

(3) A *firm* should not purport to charge a *retail client* the same for advice that recommends a *pension transfer* or a *pension conversion* as it would for advice that does not recommend a transfer or conversion, but not take reasonable steps to enforce payment of the full amount of the charge by the *retail client* where the advice is not to transfer or convert.

(4) A *firm* should not charge a lower amount for any other services provided, or to be provided, by the *firm* or an *associate* to the *retail client* or, anyone connected to the *retail client*, if the *client* is advised not to transfer or convert.

(5) A *firm* should not subsequently vary its *adviser charges, employer funded pension advice charge* and/or *remuneration* for advice and/or *related services* so that in practice they become dependent on the outcome of a *personal recommendation* or whether the *retail client* effects a *pension transfer* or a *pension conversion*.

(6) A *firm* should not charge less for advice on a *pension transfer* or a *pension conversion* than it would do if it provided *investment advice* on the investment of pension funds in relation to the same size of pension funds but which did not include funds from a *pension transfer* or a *pension conversion*.

(7) A *firm* should not undertake services related to *full pension transfer or conversion advice* such as parts of the appropriate pension transfer analysis or transfer value comparator, then decline to advise further and not charge for the work undertaken.

(8) Contravention of any of (1) and (2) or (3) to (7) may be relied upon as tending to establish contravention of *COBS* 19.1B.3R or *COBS* 19.1B.5R respectively.

Exceptions for serious ill-health and serious financial hardship

19B.1.8 R (1) If a *firm* has satisfied itself on reasonable grounds that the *retail client* is:

(a) suffering from *serious ill-health*; or

(b) experiencing *serious financial hardship*,

the *firm* need not comply with the other *rules* in this section.

(2) A *firm* in (1) must, in particular:

(a) in the case of *serious ill-health*, obtain evidence from a registered medical practitioner that the *retail client* has a medical condition that means that their life expectancy is likely to be lower than age 75;

(b) in the case of *serious financial hardship*, obtain evidence about the *client*'s financial situation; and

(c) make and retain indefinitely a record of the evidence obtained to satisfy itself that the requirements for *serious ill-health* or *serious financial hardship* are met in relation to the *retail client.*

19.1B.9 G The types of evidence that a *firm* may need to obtain to consider whether their *client* is experiencing *serious financial hardship* include:

(1) evidence that the *retail client* is unable to meet mortgage repayments or rent out of their disposable income or total income, for example, where there is evidence of regular non-payment of essential bills (such as mortgage payments or rent or utility bills);

(2) evidence that the *retail client* has had to incur further debt to repay existing debts, or has only been able to meet repayments of debts by the disposal of assets or security;

(3) evidence that the *retail client* has agreed to a debt management plan or other debt solution, evidence of discussions with a *firm* about entering into a debt management plan or other debt solution, or seeking debt counselling;

(4) evidence of final demands from lenders including threats of legal action to reclaim property or other assets; and

(5) evidence of correspondence from debt collectors demanding immediate repayment.

Amend the following as shown.

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: coming into force
2.8F	…	…	…	…	…
[2.-9]	*COBS* 19.1B.3R, *COBS* 19.1B.4R, and *COBS* 19.1B.5R.	R	The *rules* in column (2) do not apply in relation to a *firm's adviser charges*, *employer funded pension advice charge*, or *remuneration* incurred prior to [3 months after the date the rules come into force] where: (1) a *retail client* was issued with a letter of engagement by a *firm* before [the date the rules came into force]; or (2) (in the case of an *employer funded pension advice charge*) the employer was issued with a letter of engagement by a *firm* before [the date the rules came into force]; and	[the date the rules come into force] to [3 months after the date the rules come into force]	[the date the rules come into force]

			(3) (in either case) the *firm* agreed in the letter of engagement to provide *advice on conversion or transfer of pension benefits* on a contingent basis.		

Part 2: Comes into force on [6 months after the 1st of the month following the date on which the FCA Board make the instrument].

Initial information for clients on the cost of adviser services

6.1A.17 R A *firm* must disclose its charging structure to a *retail client* in writing in good time before making the *personal recommendation* (or providing *related services*) or commencement of the *abridged advice* process.

6.1A.18A R Where the services to be provided in *COBS* 6.1A.17R include *advice on conversion or transfer of pension benefits* other than *abridged advice*, the *firm* must disclose the following to the *client* in writing:

(1) the amounts payable (in *cash terms*) if the *firm* gives *full pension transfer* or *conversion advice.*

(2) where the ban on contingent charging *rules* (see *COBS* 19.1B (Ban on contingent charging)) apply to it, a statement that the amount payable in relation to *advice on conversion or transfer of pension benefits* is the same whether or not the advice is to transfer or convert or to remain in their current scheme or arrangement.

(3) Where the *client* effects a *pension transfer* or *pension conversion*:

(a) the estimated amount of the monthly charge (in *cash terms*) for ongoing advice and services in the first year following the transfer or conversion, assuming that funds remain invested with no growth but taking into account the cost of initial advice;

(b) whether and the extent to which the charges in the first year are lower than the charges anticipated in subsequent years;

(c) if the charges are significantly lower in the first year compared to subsequent years, the *firm* must also indicate the amount of the monthly charge (in *cash terms*) in subsequent years until the point at which the charges are no longer expected to vary significantly from year to year.

(4) Where a *firm* is not subject to the ban on contingent charging *rules* (see *COBS* 19.1B):

(a) the reasons why the *firm* considers that the *retail client* has *serious ill health* or is in *serious financial difficulties*; and

(b) the amounts payable (in *cash terms*) if the *firm*'s recommendation is for the *client* not to transfer or not to convert their pension and the amount payable if the advice is to transfer or to convert.

6.1A.18B R Where the services to be provided in *COBS* 6.1A.17R include *abridged advice*, the *firm* must disclose to the *client* in writing the amounts payable (in *cash terms*) if:

(1) the *firm* gives *abridged advice* and a *personal recommendation* not to transfer or convert their pension;

(2) the *firm* starts the *abridged advice* process but is unable to take a view on whether it is in the *client*'s best interests to transfer or convert without undertaking *full pension transfer or conversion advice*; and

(3) the *firm* gives *abridged advice* followed by *full pension transfer or conversion advice*.

6.1A.18C R A *firm* is not required to include the detailed requirements in *COBS* 6.1A.18AR or *COBS* 6.1A.18BR when making a *personal recommendation* in relation to a *pension transfer* or *pension conversion* where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.

…

9 Suitability (including basic advice) (other than MiFID and insurance-based investment products)

…

9.4 Suitability reports

…

9.4.2A R (1) If a *firm* makes a *personal recommendation* in relation to *a pension transfer* or *pension conversion*, it must provide the *client* with a *suitability report*, including a one page summary at the front of the report.

…

Timing

9.4.4 R A *firm* must provide the *suitability report* to the *client*:

…

(2) … ; ~~or~~

(2A) in the case of a *pension transfer* or *pension conversion*, in good time before the transaction is effected; or

(3) in any other case, when or as soon as possible after the transaction is effected or executed.

…

Additional content for pension transfers and conversions

9.4.11 R (1) A *firm* must include a one page summary at the front of the *suitability report* when making a *personal recommendation* in relation to a *pension transfer* or a *pension conversion*, except where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.

(2) The one page summary must include the following:

(a) a summary of the *personal recommendation*;

(b) a statement as to whether the recommendation is in relation to *abridged advice* or *full pension transfer or conversion advice*;

(c) information about the ongoing advice and/or services (if any) the *firm*, or any other *firm*, will provide to the *client* after the execution of the *pension transfer* or *pension conversion*;

(d) the risks associated with *pension transfers* or *pension conversions* as set out in *COBS* 19.1.6G4(b), and an invitation to the *client* to consider whether they understand those risks and, if so, sign the one page summary to confirm that; and

(e) all of the ongoing advice and product charges expected to be incurred by the *client* if they proceed with the *pension transfer* or *pension conversion*, together with a comparison to the charges and revalued income in the existing *safeguarded benefits* scheme or available *default arrangement* in a *qualifying scheme.*

(3) The information in (2)(c), (d) and (e) is not required if the *firm* only gave *abridged advice*.

(4) The summary in (2)(a) must:

(a) set out whether the recommendation is to effect a *pension transfer* or *pension conversion* or to remain in the *client's* current scheme or arrangement;

(b) set out where in the *suitability report* the *client* can obtain a more detailed explanation of the recommendation; and

(c) invite the *client* to consider whether they accept the recommendation and, if so, sign the one page summary to confirm that.

(5) The information in (2)(c) must:

(a) set out that the *client* is not required to accept ongoing advice and/or services proposed (if any);

(b) explain that the *client* can opt out of receiving ongoing advice and/or services at any time;

(c) set out, in *cash terms*, the monthly and annual charges associated with receiving ongoing advice and/or services; and

(d) invite the *client* to consider whether they wish to receive ongoing advice and/or services and whether they agree to the associated charges, and if so, sign the one page summary to consent to receiving the services and agree to the charges.

(6) The summary of the anticipated charges associated with the *pension transfer* or *pension conversion* in (2)(e) must include the anticipated charges in the first year following the *pension transfer* or *pension conversion* and be set out:

(a) in *cash terms*;

(b) as a percentage of the *client*'s *safeguarded benefits'* income (revalued to the date of the summary);

(c) alongside any charges associated with the *client*'s existing *safeguarded benefits* (both in *cash terms* and as a percentage); and

(d) alongside any charges associated with any *qualifying scheme* available to the *client* (both in *cash terms* and as a percentage), if the *client* chose to transfer to that scheme.

(7) If the *firm* gives *abridged advice*, the statement in (2)(b) must also set out that:

(a) the *firm* has not given *full pension transfer or conversion advice* and a summary of the difference between it and *abridged advice*; and

(b) a *firm* cannot arrange a *pension transfer* or a *pension conversion* unless the *client* receives *full pension transfer or conversion advice*.

9.4.12 G (1) If the *client* declines to sign the one page summary of the advice to confirm their understanding of the risks in *COBS* 9.4.11R(2)(d), the *firm* should take further steps to establish whether the *client* has understood the risks, and if not, consider changing its recommendation.

(2) If the advice is to remain in the *client*'s current scheme or arrangement, and the *client* declines to sign the one page summary to confirm that they intend to accept the *personal recommendation* in accordance with *COBS* 9.4.11R(5)(d), the *firm* should follow the insistent *client* guidance in *COBS* 9.5A (Additional guidance for firms with insistent clients).

(3) Where two or more *firms* are involved in providing both the advice on *pension transfers* or *pension conversions* (as applicable) and the *advice on investments*, the summary of the advice given by each *firm* should be included in the one page summary.

…

19 Pensions supplementary provisions

19.1 Pension transfers, conversions, and opt-outs

…

19.1.2F R (1) This *rule* applies if the *firm* makes a *personal recommendation* to transfer to a *personal pension scheme* or *stakeholder pension scheme* where a *qualifying scheme* is also available to the *retail client*.

(2) To prepare an appropriate transfer analysis the *firm* in (1) must also compare the benefits and options available under the proposed *personal pension scheme* or *stakeholder scheme* with the benefits and options available under the *default arrangement* of the *qualifying scheme* (in accordance with *COBS* 19 Annex 4A and *COBS* 19 Annex 4C).

Transfer value comparator

19.1.3A R (1) …

(2) The *firm* must provide the transfer value comparator to the *retail client* in a durable medium using the format and wording in *COBS* 19 Annex 5 and using the notes set out in *COBS* 19 Annex 5 1.2R. ~~and:~~

~~(a) where the *retail client* has 12 *months* or more before reaching normal retirement age, use the notes set out at *COBS* 19 Annex 5 1.2R; or~~

~~(b) where the *retail client* has less than 12 *months* before reaching normal retirement age, use the notes set out at *COBS* 19 Annex 5 1.3R.~~

(3) When the *retail client* has passed the normal retirement age of the ceding scheme, the *firm* must provide a transfer value comparator

applying the retirement age assumed in the calculation of the transfer value.

(4) Where the ceding scheme allows the *retail client* to take their benefits at an age below the scheme's normal retirement age, with no reduction for early payment and where no consent is required, then the *firm* must provide a transfer value comparator assuming that the *retail client* will retire at this age.

…

Guidance on assessing suitability

19.1.6 G …

(7) Where a *qualifying scheme* is available to the *retail client*, a *firm* considering making a *personal recommendation* to effect a *pension transfer* to a *personal pension scheme* or *stakeholder pension scheme*:

(a) should start by assuming that it will not be as suitable as a transfer to the *default arrangement* of the *qualifying scheme*; and

(b) will need to be able to demonstrate clearly that it is at least as suitable as the *default arrangement* of the *qualifying scheme*.

(8) To demonstrate (7)(b) the *firm* may take into account one or more of the following considerations.

(a) The *default arrangement* of the *qualifying scheme* does not accept transfers from other schemes.

(b) The *retail client* provides evidence of experience at making active investment choices as a self-investor or an *advised* investor (except in relation to investments in the *default arrangement* of a *qualifying scheme* or in a mortgage endowment policy). The *firm* would need to consider whether this factor is so important to the client as to outweigh other factors in favour of the *default arrangement* of the *qualifying scheme*.

(c) Where the *retail client* wishes to access the funds within 12 *months* of entering into pension decumulation and the *qualifying scheme* does not offer the *retail client* a decumulation option that would enable the *retail client* to achieve their desired outcome. The *personal recommendation* would need to clearly set out why and how the *retail client* wants to access their funds and why that cannot be achieved by using the *qualifying scheme*.

(9) The presence of one or more of the following circumstances should not be taken as sufficient to demonstrate that the *personal recommendation* in (7) is suitable:

(a) one of the *retail client*'s objectives is to have access to a wider range of investment options than available under the *default arrangement* of the *qualifying scheme*;

(b) the transfer is to take place more than 12 *months* before the *retail client* enters into pension decumulation;

(c) the *retail client* will enter into pension decumulation within the next 12 *months*, but the *retail client* has not yet decided whether or how they will access their funds.

…

19.2 Personal pensions, FSAVCs and AVCs

…

Suitability

19.2.2 R When a *firm* prepares a *suitability report* it must:

(1) (in the case of a *personal pension scheme*), explain why it considers the *personal pension scheme* to be at least as suitable as a *stakeholder pension scheme*; ~~and~~

(2) (in the case of a *personal pension scheme*, *stakeholder pension scheme* or *FSAVC*) explain why it considers the *personal pension scheme*, *stakeholder pension scheme* or *FSAVC* to be at least as suitable as any facility to make additional contributions to an *occupational pension scheme*, *group personal pension scheme* or *group stakeholder pension scheme* which is available to the *retail client*; and

(3) (in the case of a *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* that is not a *qualifying scheme*) explain why it considers the *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* to be at least as suitable as the *default arrangement* of a *qualifying scheme* which is available to the *retail client*.

…

19 Annex 4A Appropriate pension transfer analysis

This annex belongs to *COBS* 19.1.2BR.

…

Cash flow model

R

5 Where a *firm* prepares a cash flow model, it must:

(1) produce the model in real terms in line with the inflation rate in *COBS* 19 Annex 4C;

(2) (if the net income is being modelled) ensure that the tax bands and tax limits applied are based on reasonable assumptions;

(3) take into account all relevant tax charges that may apply in both the *ceding arrangement* and the proposed arrangement; and

(4) include stress-testing scenarios to enable the *retail client* to assess more than one potential outcome.

19 Annex 4B **Transfer value comparator**

This annex belongs to *COBS* 19.1.3AR.

R

1 ~~Where the *retail client* has 12 *months* or more before reaching the normal retirement age under the rules of the ceding arrangement the~~ The *firm* must:

…

R

2 ~~Where the *retail client* has less than 12 *months* before reaching normal retirement age under the rules of the ceding arrangement, the estimated value needed today to purchase the future income benefits using a *pension annuity* must be determined as the amount in *COBS* 19 Annex 4B 1R(2) multiplied by the ratio of (1) and (2) where:~~

~~(1)~~ ~~is the open market cost of purchasing a *pension annuity* which offers increases in payment which are the nearest match to those in the ceding arrangement; and~~

~~(2)~~ ~~(2) is the value of the *pension annuity* in (1) where the cost is determined in accordance with the assumptions in *COBS* 19 Annex 4C 1R(2).~~ [deleted]

G

3 ~~(1)~~ ~~*COBS* 19 Annex 4B 2R requires *firms* to adjust the estimated cost of purchasing the future income benefits using a *pension annuity* to a market related rate by allowing for the ratio of current market pricing to the theoretical value of the annuity which is the nearest match.~~

~~(2)~~ ~~The *pension annuity* which is the nearest match for the scheme benefits should usually be taken as an index-linked *pension annuity* unless it can be shown that the majority of the benefits are not index-linked in some way.~~ [deleted]

19 Annex 4C **Assumptions**

This annex belongs to *COBS* 19.1.2BR and *COBS* 19.1.3AR.

Assumptions

R

1 …

(2) The assumptions are:

…

(h) the transfer value comparator should be calculated on the basis that:

(i) a female member of the scheme has a male spouse or partner who is 3 years older; or

(ii) a male scheme member has a female spouse or partner who is 3 years younger.

…

Rate of return and charges

2 …

(2) The rates of return for valuing future income benefits between the date of calculation and the date when the future income benefits would normally come into payment must be based on the fixed coupon yield on the UK FTSE Actuaries Indices for the appropriate term.

(2A) The fixed coupon yields in (2) are derived using the appropriate term from one of the following indices:

(a) up to 5 years;

(b) up to 5-10 years;

(c) up to 10-15 years; or

(d) over 15 years.

(3) The product charges prior to future income benefits coming into payment must be assumed to be: ~~0.75%~~ 0.4%

(4) The fixed coupon yields in (2) are updated on the 6th day of each month based on the yield that applied on the 15th day of the previous month.

…

19 Annex 5R **Format for provision of transfer value comparator**

This annex belongs to *COBS* 19.1.3AR.

1

1.1 The first page of the transfer value comparator must follow the format and wording shown in Table 1, except that alternative colours may be used in the chart and the scale of the charts may be changed (as long as the y-axis starts at £0). Note that the figures in Table 1 are used for illustration only. The second page of the transfer value comparator must contain the notes set out in Table 2.

1.2 ~~Where *COBS* 19 Annex 4B 1R applies (where the *retail client* has 12 *months* or more before reaching normal retirement age), the second page of the transfer value comparator must contain the notes set out at Table 2.~~ [deleted]

1.3 ~~Where *COBS* 19 Annex 4B 2R applies (where the *retail client* has less than 12 *months* before reaching normal retirement age), the second page of the transfer value comparator must contain the notes set out at Table 3.~~ [deleted]

…

Table 2

This table belongs to *COBS* 19 Annex 5 1.2R.

Notes

1. *The estimated replacement cost of your pension income is based on assumptions about the level of your scheme income at normal retirement age (or the retirement age assumed in the calculation of the transfer value if you have passed the normal retirement age or the earliest age at which you can take unreduced benefits without consent being required) and the cost of replacing that income (including spouse's benefits) for an average healthy person using today's costs.*

2. *The estimated replacement value takes into account risk free investment returns after any product charges that you might be expected to pay.*

3. *No allowance has been made for taxation or adviser charges prior to benefits commencing.*

Table 3 [deleted]

~~This table belongs to *COBS* 19 Annex 5 1.3R.~~

~~*Notes*~~

1. ~~*The estimated replacement cost of your pension income is based on the current level of your scheme income and the approximate cost of replacing that income (including spouse's benefits) for an average healthy person from an insurer operating in the UK annuity market. The approximation recognises that it may not be possible to find an exact match for your benefits in the form of an annuity income.*~~

2. ~~*It may be possible to get a better deal for your particular circumstances by shopping around.*~~

3. ~~*The estimated replacement value takes into account any charges you might be expected to pay.*~~

4. ~~*No allowance has been made for taxation.*~~

Annex D

Amendments to the Supervision manual (SUP)

Part 1: Comes into force on [the 1st of the month following the date on which the FCA Board make the instrument].

In this Annex, underlining indicates new text and strikethrough indicates deleted text.

16 Reporting requirements

…

16.12 Integrated Regulatory Reporting

…

16.12.22A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of d*ata item*	*Firms'* prudential category and applicable *data item* (note 1)				
	IFPRU	*BIPRU firm*	*Exempt CAD firms* subject to *IPRU(INV)* Chapter 13	*Firms* (other than *exempt CAD firms*) subject to *IPRU(INV)* Chapter 13	*Firms* that are also in one or more of *RAGs* 1 to 6 and not subject to *IPRU(INV)* Chapter 13
…					
Adviser charges	…				
<u>Pension Transfer Specialist advice</u>	<u>Section M RMAR (see note 30)</u>	<u>Section M RMAR (see note 30)</u>	<u>Section M RMAR (see note 30)</u>	<u>Section M RMAR (see note 30)</u>	<u>Section M RMAR (see note 30)</u>
…					
<u>Note 30</u>	<u>Only applicable to *firms* in relation to advice on the merits of a *pension transfer* or a *pension conversion* from pension arrangements with *safeguarded benefits* (other than *guaranteed annuity rates*).</u>				

…

16.12.23A R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Frequency				
	Unconsolidated *BIPRU investment firm* and *IFPRU investment firm*	Solo consolidated *BIPRU investment firm* and *IFPRU investment firm*	*UK Consolidation Group* or *defined liquidity group*	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/ FINREP	…				
…					
Section K RMAR					
<u>Section M RMAR</u>	<u>Half yearly</u>	<u>Half yearly</u>	<u>Half yearly</u>	<u>Half yearly</u>	<u>Half yearly</u>
…					

16.12.24A R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.23R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	…					
Section K RMAR	…					
<u>Section M RMAR</u>					<u>30 *business days*</u>	
…						

…

Part 2: Comes into force on [the date 6 months after the 1st of the month following the date on which the FCA Board make the instrument].

The form (Annual questionnaire for authorised professional firms) referred to in SUP 16 Annex 9R is amended as shown.
FIN –APF – Authorised Professional Firms Questionnaire

…

Professional indemnity insurance

8	Is the firm's professional indemnity insurance policy compliant with regulatory requirements?						
9	Please provide details of the firm's current policy/policies	…	M PII basic information	N	O	P	Q
			Business line subject to policy excess	~~Policy excess~~ Level of policy excess	~~Policy~~ Business line category subject to policy	Time period of policy exclusion	Type of exclusion

exclusio
n

…

The guidance notes (Guidance notes for completion of annual questionnaire for authorised professional firms in SUP 16 Annex 9R) referred to in SUP 16 Annex 9AG are amended as shown.

…

16 Annex 9AG **Guidance notes for completion of annual questionnaire for authorised professional firms in SUP 16 Annex 9R**

…

Data elements

…

Professional indemnity insurance

…

9M PII detailed information: business line

The *firm* should select the business line to which each policy relates from the available list. If the policy relates to all business, the *firm* should select 'all'.

9N <u>and 9O</u> PII detailed information: policy excess

The *firm* should enter the value of any excess applicable to the relevant policy <u>and the business line to which that excess relates</u>.

~~9O~~ <u>9P to 9R</u> PII detailed information: policy exclusions

If there are any exclusions in the *firm*'s PII policy which relate to types of business that the *firm* has carried out in the past or during the lifetime of the policy, these should be selected from the available list <u>showing the business line to which the exclusion relates, the time period it covers and type of exclusion</u>.

…

The form (Retail Mediation Activities Return ('RMAR') referred to in SUP 16 Annex 18AR is amended as shown.

SECTION E: PII Self-Certification

…

3	Has your firm renewed its PII cover since the last reporting date?
3A	Has there been a change to the basis of your firm's PII cover since the last reporting date?
4	**Professional Indemnity Insurance Details**

…

PII detailed information

L	**M**	**N**	**P**	**Q**
Business line category subject to policy excess	Policy excess (Sterling)	~~Policy~~ Business line category subject to policy exclusions	Time period to which the policy exclusion(s) relates	Type of exclusion

…

Section M: Pension Transfer Specialist advice

	Qualifying question	
1.	Has the *firm* or its *appointed representatives* provided advice to *retail clients* on converting or transferring from *defined benefits* (DB) *pension schemes* or other pensions with *safeguarded benefits* (excluding *guaranteed annuity rates*) in the reporting period?	[Yes/No]
Part 1 – Business model		
2.	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with a *full pension transfer or conversion advice*?	[number]
3.	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with *abridged advice*?	[number]
4.	How many *pension transfer specialists* were employed by, or working under the responsibility of, the *firm* and its *appointed representatives* at the end of the reporting period? Please provide the full-time equivalent numbers.	[number]
5.	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from other authorised *firms*?	[number]
6.	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from introducer *firms* that were not authorised?	[number]

7.	Of the total *retail clients* in Question 2, how many did the *firm* and its *appointed representatives* provide with *full pension transfer or conversion advice* but not on the investment of proceeds of the transfer or the conversion?	[number]
Part 2 – Appointed representatives		
8.	Of the *retail clients* who were reported under Question 2, how many were advised by an *appointed representative* of the *firm*?	[number]
9.	Of the *retail clients* reported in Question 3, how many were given *abridged advice* by an *appointed representative* of the *firm*?	[number]
10.	Focusing on the *appointed representative* that gave *full pension transfer or conversion advice* to the most *retail clients*, how many *retail clients* did they advise?	[number]
Part 3 – Personal recommendations to transfer		
11.	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* to transfer or convert their pension?	[number]
12.	What was the total transfer value of the *pension transfers* and *pension conversions* for the *retail clients* in Question 11?	[monetary value]
13.	What was the total revenue derived from initial *advisory charges* for *full pension transfer or conversion advice*, advice on the investment of the proceeds where this was also given and implementation charges for the *retail clients* in Question 11?	[monetary value]
Part 4 – Personal recommendations not to transfer		

14.	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *full pension transfer or conversion advice*?	[number]
15.	Of the *retail clients* reported in Question 3, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *abridged advice*?	[number]
16.	What was the total transfer value of the *pension transfers* and *pension conversions* for the *retail clients* in Question 14?	[monetary value]
17.	What was the total revenue derived from the initial *advisory charges* for *full pension transfer or conversion advice* on the *pension transfers* and *pension conversions* for the *retail clients* in Question 14?	[monetary value]
18.	What was the total revenue derived from *abridged advice* on *pension transfers* and *pension conversions* for the *retail clients* in Question 15?	[monetary value]
19.	For how many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* on an insistent client basis after providing *full pension transfer or conversion advice*?	[number]
20.	Of the *retail clients* that were eligible for the carve-out and charged in full or partially on a contingent basis what was the total initial revenue derived from the *firm* accepting to process the *pension transfers* or *pension conversions* on an insistent client basis (including providing advice on the investment of the proceeds)?	[monetary value]
Part 5 – Ongoing services		

21.	How many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* for?	[number]
22.	Of the *retail clients* in Question 21, how many agreed to an ongoing advice or service provided by the *firm* or its *appointed representatives*?	[number]
Part 6 – Charging structures		
23.	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant that the entire *advisory charge* was only payable if the *retail client* proceeded with the transfer or conversion? (charging completely contingent on a transfer or conversion taking place)	[number]
24.	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant that a part of the *advisory charge* was only payable if the *retail client* proceeded with the transfer or conversion? (charging partially contingent on a transfer or conversion taking place)	[number]
25.	Of the *retail clients* reported under Question 2, how many were advised under a charging structure which meant that the *advisory charge* remained the same whether or not the *retail client* proceeded with the transfer or conversion? (charging completely non-contingent)	[number]
Part 7 – Product and investment solutions		
26.	Of the *retail clients* reported in Question 21, how many proceeded to transfer or convert into an investment solution	[number]

	that had annual ongoing product and investment charges (excluding ongoing advice charges) of 0.75% or less?	
27.	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5%?	[number]
28.	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 1.5%?	[number]
29.	How many *retail clients* proceeded to transfer into a solution that had higher ongoing charges than their workplace pension?	[number]
30.	Of the *retail clients* reported under Question 21, how many proceeded to transfer into a workplace pension?	[number]
31.	How many *retail clients* proceeded to transfer or convert where the investment solution included investments subject to regulatory restrictions on retail distribution?	[number]
32.	How many *retail clients* proceeded to transfer into a qualifying recognised overseas pension scheme (QROPs) or another overseas pension scheme?	[number]
Part 8 – Guidance		
33.	How many *retail clients* were provided with guidance (e.g. through a triage service)?	[number]

34.	How many of the *retail clients* reported under Question 33 proceeded to *full pension transfer or conversion advice* or *abridged advice* by the end of the reporting period?	[number]

…

The guidance notes (Notes for completion of the Retail Mediation Activities Return ('RMAR') referred to in SUP 16 Annex 18BG are amended as shown.

…

16 Annex 18BG **Notes for completion of the Retail Mediation Activities Return ('RMAR')**

Introduction: General notes on the RMAR

…

NOTES FOR COMPLETION OF THE RMAR

…

Section E Professional indemnity insurance

…

Guide for completion of individual fields

Part 1

…	
Has the firm renewed its PII cover since the last reporting date?	This question will ensure that a *firm* does not fill in Part 2 of the PII section of the *RMAR* each time it reports, if the information only changes annually. <u>Where the *RMAR* form requires information which a *firm* has not submitted previously then this should be completed in the first submission period after those changes have come into force.</u> If the *firm* is reporting for the first time, you should enter 'yes' here and complete the data fields. You should only enter 'n/a' if the *firm* is exempt from the PII requirements for all the regulated activities forming part of the *RMAR*.
<u>Has the basis of your PII cover changed since the last reporting date?</u>	<u>You should select 'yes' or 'no' to identify whether there has been a change in the cover in your *firm*'s PII policy or policies since the last reporting date. If you enter 'yes' then you should specify any changes</u>

	to the level of excess, period of cover or exclusion(s) in the relevant data fields.

Part 2

…	
Increased excess(es) for specific business types (only in relation to business you have undertaken in the past or will undertake during the period covered by the policy)	If the prescribed excess limit is exceeded for a type or types of business, the type(s) of business to which the increased excess applies and the amount(s) of the increased excess should be stated here. *Firms* should record each business type subject to an increased excess separately. (Some typical business types include advice on non-mainstream pooled investments, endowments, ~~FCAVCs,~~ splits/zeroes, precipice bonds, income drawdown, *lifetime mortgages*, discretionary management, delegated authority work.)
Policy exclusion(s) (only in relation to exclusions you have had in, ~~the~~ or will have during, the period covered by the policy)	If there are any exclusions in the *firm*'s PII policy which relate to any types of ~~businesses~~ business or activities that the *firm* has carried out either in the past or during the lifetime of the policy, enter the business type(s) to which the exclusions relate here. *Firms* should record each business type or activity subject to an exclusion separately. If no exclusions apply to the *firm*'s PII policy, *firms* should state this here (e.g. 'No exclusions apply to this policy). (Some typical business types include advice on non-mainstream pooled investments, endowments, ~~FCAVCs,~~ splits/zeroes, precipice bonds, income drawdown, *lifetime mortgages*, discretionary management.)
Time period to which the policy exclusion(s) relate	For any exclusions in the *firm*'s PII policy, the *firm* should select whether the exclusion applies to types of business or activities carried out in the past ('past business'), during the period covered by the policy ('future business) or both ('past and future business').
Type of exclusion(s) (only in relation to business you have undertaken in	The *firm* should enter the type of exclusion from the drop-down list. Some typical types

the past or will undertake during the period covered by the policy)	include the volume of business or activity covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity. If the type of exclusion is not listed firms should select 'other'.
…	
Insurer name (please select from the drop-down list)	The *firm* should select the name of the *insurance undertaking* or Lloyd's syndicate providing cover named on the schedule or certificate of insurance. If the PII provider is not listed you should select 'other'. ~~and enter the name of the *insurance undertaking* or Lloyd's syndicate providing cover in the free-text box.~~ If a policy is underwritten by more than one *insurance undertaking* or Lloyd's syndicate, you should select ~~multiple' and state the names of all the *insurance undertakings* or Lloyd's syndicates in the free-text box~~ the name of the lead *insurer* on your schedule or certificate of insurance.
…	

…

Section M Pension Transfer Specialist advice

The data in this section should only relate to advice on *pension transfers* or *pension conversions*, meaning advice on the merits of a *pension transfer* or a *pension conversion* from *defined benefits pension schemes* or other *safeguarded benefits* but excluding transfers from or conversions of *safeguarded benefits* that are *guaranteed annuity rates.*

For this *guidance* on section M, all questions below relate to activity in the reporting period.

Guide for completion of individual fields

Qualifying question		
1	Has the *firm* or its *appointed representatives* provided advice to *retail clients* on converting or transferring from *defined benefits* (DB) *pension schemes*	This should include advice that was either *full pension transfer or conversion advice* or *abridged advice.*

	or other pensions with *safeguarded benefits* (excluding *guaranteed annuity rates*) in the reporting period?	If the answer to the qualifying question is no, then no further questions need to be answered.
Part 1 – Business model		
2	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with *full pension transfer or conversion advice*?	This should include the total number of *retail clients* that were provided with *full pension transfer or conversion advice*, including those that were recommended not to transfer or convert. It should exclude *retail clients* that were only provided with *abridged advice*.
3	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with *abridged advice*?	This should include the total number of *retail clients* that were provided with *abridged advice*, including those that were recommended not to transfer or convert and those that proceeded to take *full pension transfer or conversion advice*.
4	How many *pension transfer specialists* were employed by, or working under the responsibility of, the *firm* and its *appointed representatives* at the end of the reporting period? Please provide the full-time equivalent numbers.	This should include all *pension transfer specialists* providing advice under the authorisation of the *firm* completing this return. This should not include *pension transfer specialists* working alongside the *firm*, but under responsibility of another authorised *firm*. Please express as full-time-equivalent numbers e.g. an individual working 4 out 5 days per week should be recorded as 0.8 FTE.
5	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from other authorised *firms*?	This should include introductions for *full pension transfer or conversion advice* and *abridged advice*. This should not include introductions from *firms* or individuals that are not authorised.
6	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from introducer *firms* that were not authorised?	This should include introductions for *full pension transfer or conversion advice* and *abridged advice*. This should not include referrals not done by way of business, for example by friends or family. Nor should it include referrals from *UK* accredited accountancy or legal *firms* that are regulated by a *designated professional body*.

		For more information on introducers, please see our website: https://www.fca.org.uk/news/news-stories/investment-advisers-responsibilities-accepting-business-unauthorised-introducers-lead-generators
7	Of the total *retail clients* in Question 2, how many did the *firm* and its *appointed representatives* provide with *full pension transfer or conversion advice* but not on the investment of proceeds of the transfer or conversion?	This is specifically looking for the number of *retail clients* where the choice of investment for the proceeds of the transfer has been recommended by another authorised *firm* or chosen by the *retail client* (whether based on information provided by an introducer or not).
Part 2 – Appointed representatives		
8	Of the *retail clients* who were reported under Question 2, how many were advised by an *appointed representative* of the *firm*?	This is specifically looking for the number of *retail clients* advised by the *firm*'s *appointed representatives*.
9	Of the *retail clients* reported in Question 3, how many were given *abridged advice* by an *appointed representative* of the *firm*?	As with Question 8, this is specifically looking for the number of *retail clients* advised by *appointed representatives*.
10	Focusing on the *appointed representative* that gave *full pension transfer or conversion advice* to the most *retail clients*, how many *retail clients* did they advise?	*Firms* should identify the *appointed representative* that provided *full pension transfer or conversion advice* to the highest number of *retail clients*.
Part 3 – Personal recommendations to transfer		
11	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* to transfer or convert their pension?	This should include the total number of *retail clients* that were provided with *full pension transfer or conversion advice*, excluding those that were recommended not to transfer or convert.
13	What was the total revenue derived from initial *advisory*	This should be the total revenue collected by the principal *firm* and *appointed*

	charges for *full pension transfer advice*, advice on the investment of the proceeds where this was also given and implementation charges for the *retail clients* in Question 11?	*representatives* for the initial *advisory charges* for *full pension transfer or conversion advice*. This should include all initial charges for the *full pension transfer or conversion advice*, including the investment advice on the proposed destination where relevant, and arranging a *pension transfer* or *pension conversion*. It should exclude any ongoing charges the *retail client* has agreed to pay. It should also exclude any separate initial charges for *abridged advice*.
Part 4 – Personal recommendations not to transfer		
14	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *full pension transfer or conversion advice*?	This should not include *abridged advice* recommendations.
15	Of the *retail clients* reported in Question 3, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *abridged advice*?	This should not include *full pension transfer or conversion advice* recommendations.
17	What was the total revenue derived from the initial *advisory charges* for *full pension transfer or conversion advice* on the *pension transfers* and *pension conversions* for the *retail clients* in Question 14?	This should be the total revenue collected by the principal *firm* and *appointed representatives*.
18	What was the total revenue derived from *abridged advice* on *pension transfers* for the *retail clients* in Question 15?	This should be the total revenue collected by the principal *firm* and *appointed representatives*.
19	For how many *retail clients* did the *firm* arrange a *pension transfer or conversion* on an insistent client basis after	*Retail clients* should only be considered insistent clients if the *firm* or its *appointed representatives* initially provided a *personal recommendation* not to transfer

	providing *full pension transfer or conversion advice*?	following *full pension transfer or conversion advice*.
20	Of the *retail clients* that were eligible for the carve-out and charged in full or partially on a contingent basis, what was the total initial revenue derived from the *firm* accepting to process the *pension transfers* or *pension conversions* on an insistent client basis (including providing advice on the investment of the proceeds)?	This should be the total initial revenue derived from *retail clients* that were eligible for the carve-out and charged in full or partially on a contingent basis.
Part 5 – Ongoing services		
21	How many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* for?	This should be measured at the point of receiving the *retail client*'s request to arrange a *pension transfer* or *pension conversion*. This should include: • those advised to transfer or convert by the *firm* or its *appointed representatives* (as reported in Question 11); • insistent client transfers or conversions (as reported in Question 19); and • any *retail client* that did not receive advice on the transfer or conversion by the *firm* (for example, for less than £30k pots or those transfers or conversions executed by the *firm* where the *retail client* had received advice from a different *firm*).
Part 6 – Charging structures		
23	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant that the entire *advisory charge* was only payable if the *retail client* proceeded with the transfer or conversion? (charging completely contingent on a	This should be the total number of *retail clients* that were eligible for the carve out from the contingent charging ban rules and charged in full on a contingent basis.

	transfer or conversion taking place)	
24	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant that a part of the *advisory charge* was only payable if the *retail client* proceeded with the transfer or conversion? (charging partially contingent on a transfer or conversion taking place)	This should be the total number of *retail clients* that were eligible for the carve-out and charged partially on a contingent basis.
25	Of the *retail clients* reported under Question 2, how many were advised under a charging structure which meant that the *advisory charge* remained the same whether or not the *retail client* proceeded with the transfer or conversion? (charging completely non-contingent)	This should be the total number of *retail clients* that were not eligible for the carve-out and charged in full on a non-contingent basis. This excludes *retail clients* who only received *abridged advice*.
Part 7 – Product and investment solutions		
26	Of the *retail clients* reported in Question 21, how many proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of 0.75% or less?	This should include all charges associated with the ongoing investment e.g. discretionary fund management, platform, product, tax wrapper or investment charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those immediately making a full encashment or purchasing an annuity with the full.
27	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5%?	This should include all costs associated with the ongoing investment e.g. discretionary fund management, platform, product, tax wrapper or investment charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those

		immediately making a full encashment or purchasing an annuity with the full balance of the transfer.
28	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 1.5%?	This should include all costs associated with the ongoing investment e.g. discretionary fund management, platform, product, tax wrapper or investment charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those immediately making a full encashment or purchasing an annuity with the full balance of the transfer.
29	How many *retail clients* proceeded to transfer into a solution that had higher ongoing charges than their workplace pension?	This should include *retail clients* advised to transfer and insistent client transfers. This should not include *retail clients* that planned to immediately withdraw the full balance on transfer. It should also not include *retail clients* without a workplace pension or where the workplace pension would not accept a transfer.
30	Of the *retail clients* reported under Question 21, how many proceeded to transfer into a workplace pension?	This question refers to those *retail clients* that proceeded to transfer to a workplace pension covered by 0.75% charge cap.
31	How many *retail clients* proceeded to transfer or convert where the investment solution included investments subject to regulatory restrictions on retail distribution?	This should include *retail clients* advised to transfer and insistent client transfers. For investments subject to restrictions on retail distribution see *COBS* 9.3.5G: https://www.handbook.fca.org.uk/handbook/COBS/9/3.html?date=2016-03-07
32	How many *retail clients* proceeded to transfer into a qualifying recognised overseas pension scheme (QROPs) or another overseas pension scheme?	This should include *retail clients* advised to transfer and insistent client transfers.
Part 8 – Guidance		

33	How many *retail clients* were provided with guidance (e.g. through a triage service)?	This should include *retail clients* that were provided with guidance from the *principal firm* and its *appointed representative* only.

…

The form (Data items for SUP 16.12) referred to in SUP 16 Annex 24R is amended as shown.

FSA031

Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 9)

…

Part 4 (Regulatory capital test to be completed by all firms)

29 …

…

Professional Indemnity Insurance

33 …

34 Does your firm conduct insurance distribution activities?

34A Has your firm renewed its PII cover since the last reporting date?

34B Has there been a change to the basis of your PII cover since the last reporting date?

35 …

	J	K	L	M	N
PII detailed information					
	Business line subject to policy excess (from list)	Policy excess	Business line category subject to policy exclusion(s)	Time period of policy exclusion(s)	Type of exclusion(s)

…

FSA032

Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

…

34 Does your firm conduct insurance distribution activities?

35 Has your firm renewed its PII cover since the last reporting date?

35A Has there been a change to the basis of your PII cover since the last reporting date?

36 …

…

38 …

	J	K	L	M	N
	PII detailed information				
	Business line subject to policy excess	Policy excess	~~Policy~~ Business line category subject to policy exclusions	Time period of policy exclusion(s)	Type of exclusion(s)

…

The guidance notes (Guidance notes for data items in SUP 16 Annex 24R) referred to in SUP 16 Annex 25G are amended as shown.

16 Annex 25G **Guidance notes for data items in SUP 16 Annex 24R**

…

FSA031 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 9)

…

…		
Professional Indemnity Insurance This section requires each firm to confirm it is in compliance with the prudential requirements in relation to professional indemnity insurance (PII). Data is required in relation to all PII policies that a firm has in place, up to a limit of ten (this is provided in columns A-H). If a firm has more than ten policies, it should report only on the ten largest policies by premium. For each insurer, if there are any business lines with different excess or different exclusions, then they should be reported in columns J and K, for excess, and in columns L to N, for exclusions (so there can be multiple entries in columns J and K, and L to N, for each insurer).		
…		
Business line	35J	For policies that cover all business lines, firms should select 'All' from the list provided (to follow). Where the policy contains different excess for

		different business lines, firms should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 35K. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'. (Some typical business types include pensions, endowments, FSAVCs, splits/zeroes, precipice bonds, income drawdown, lifetime mortgages, discretionary management).
Policy excess	35K	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs.
Policy exclusion	35L to 35M	If there are any exclusions in the firm's PII policy, the business type(s) to which they relate should be entered here in data element 38M (from the drop-down menu). For any exclusions in the firm's PII policy, the firm should enter in data element 38N whether the exclusion applies to types of business or activities carried out in the past ('past business'), during the period covered by the policy ('future business) or both ('past and future business'). For any restrictions or limitations in the firm's PII policy which relate to any types of business or activities that the firm has carried out either in the past or will undertake during the period covered by the policy, the firm should enter in data element 38O the type of restriction or limitation from the drop-down list. (Some typical policy restriction/limitation types include the volume of business or activity covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity.) If the type of restriction or limitation is not listed firms should select 'other'.

…

FSA032 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

…

…		
Professional Indemnity Insurance		

This section requires each firm to confirm it is in compliance with the prudential requirements in relation to professional indemnity insurance (PII). Data is required in relation to all PII policies that a firm has in place, up to a limit of ten (this is provided in columns A-H). If a firm has more than ten policies, it should report only on the ten largest policies by premium. For each insurer, if there are any business lines with different excess or different exclusions, then they should be reported in columns J – L, for excess, and in columns L to N, for exclusions (so there can be multiple entries in columns J~~,~~ and K, and L to N, for each insurer).		
…		
Has your firm renewed its PII cover since the last reporting date?	35A	This is either ‘Yes’ or ‘No’.
Has there been a change to the basis of your PII cover since the last reporting date?	35AA	This is either ‘Yes’ or ‘No’.
…		
Business line	38J	For policies that cover all business lines, firms should select ‘All’ from the list provided (to follow). Where the policy contains different excess for different business lines, firms should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 38K. Once these ‘non-standard’ excesses have been identified, the remaining business lines should be reported under ‘All other’. (Some typical business types include pensions, endowments, FSAVCs, splits/zeroes, precipice bonds, income drawdown, lifetime mortgages, discretionary management).
Policy excess	38K	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs.
Policy exclusions	38L to 38N	If there are any exclusions in the firm’s PII policy, the business type(s) to which they relate should be entered here in 38L. This is a free text field. For any exclusions in the firm’s PII policy, the firm should enter in 38M whether the exclusion applies to types of business or activities carried out in the past (‘past business’), during the period covered by the

		policy ('future business) or both ('past and future business'). For any restrictions or limitations in the firm's PII policy which relate to any types of business or activities that the firm has carried out either in the past or will undertake during the period covered by the policy, the firm should enter in 38N the type of restriction or limitation from the drop-down list. Some typical policy restriction/limitation types include the volume of business or activity covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity. If the type of restriction or limitation is not listed firms should select 'other'.
…		

…

[**Note:** the FSA previously provided firms in the Supervision Manual (Retail Mediation Activities Return) Instrument 2006 (FSA 2006/14) with an indication of the available insurers which could be selected in the online version of the RMAR Section E. We have included below the various options which are to be made available for the revised drop-down menus in RMAR Section E. These lists will also be used for FIN –APF – Authorised Professional Firms Questionnaire, FSA 031 and FSA 032.]

Drop-down list for 'Insurer name'

[Please Select]

Acapella Syndicate 2014 (Managed by Pembroke Managing Agency Limited)

Ace

Aegis Syndicate 1225 at Lloyd's

AIG Europe Ltd

American International Group (AIG)

Amtrust at Lloyd's 1861

AmTrust Europe Limited

Antares Syndicate 1274

Arch Insurance Company (Europe) Ltd

Arch Underwriting at Lloyd's 2012

Argo Managing Agency

Assicurazioni Generali SpA (Branch of overseas firm)

Atrium Underwriting

Aviva

AXA insurance UK

Axis Specialty Europe SE / Axis Syndicate 1686 at Lloyd's

Beazley (Lloyd's Syndicate or Limited Company)

Brit (Lloyd's Syndicate or Limited Company)

Canopius Managing Agents (previously Trenwick)

Catlin Insurance Company Ltd

Channel Syndicate at Lloyd's 2015

Chartis UK

Chaucer Insurance Company

Chubb European Group SE

CNA Insurance

DCH Syndicate at Lloyd’s 386

DTW Syndicate at Lloyd’s 1991

DUAL Corporate Risks

Eureko Insurance Ireland Ltd

Everest at Lloyd’s 2786

Golgate Insurance Company

Great Lakes Insurance SE (UK Branch)

HCC (Lloyd’s syndicate)

HCC International Insurance Company Plc

HDI Global Specialty SE

Hiscox (Lloyd’s Syndicate or Limited Company)

Liberty Managing Agency limited (4472; 5381)

Liberty Mutual Insurance Europe

Markel (Lloyd’s Syndicate)

Markel International Insurance Company Ltd

MS Amlin

MS Amlin Syndicate 2001

Munich Re Syndicate at Lloyd’s 457

Named Underwriters at Lloyd’s

Navigators Syndicate at Lloyd’s 1221

Neon Syndicate at Lloyd’s 2468

Omnyy LLP

Other

Probitas Syndicate at Lloyd's 1492

QBE at Lloyd's (5386; 5334)

QBE International Insurance Limited

Royal and Sun Alliance plc

The Griffin Insurance Association Limited

Travelers Insurance Company

W R Berkley Syndicate at Lloyd's 1967

XL Insurance Company SE

Zurich Insurance PLC (Branch of overseas firm)

Allianz Global Corporate & Specialty SE

China Re Syndicate at Lloyd's 2088

Pembroke Syndicate at Lloyd's 4000

International General Insurance Company (UK) Ltd (IGI)

QIC Europe Limited

Sompo International Insurance Ltd

Starr International (Europe) Ltd

Starr Managing Agents Limited

Travelers Insurance DAC

Travelers at Lloyd's 5000

XL Insurance Company UK Limited

Drop-down list for any column requiring 'Business line category'

[Please Select]

All business lines [for excess only]

No exclusions apply to this policy [for exclusions only]

General insurance and pure protection - Standard/general

General insurance and pure protection - Commercial

General insurance and pure protection - Critical illness

General insurance and pure protection - Income protection

General insurance and pure protection - Delegated authority business

General insurance and pure protection - Other GI and pure protection type

Mortgages - Standard/general

Mortgages - Impaired credit

Mortgages - Self certification

Mortgages - Endowments

Mortgages - Equity release

Mortgages - Other mortgage type

Retail investments - Standard/general

Retail investments - Income drawdown/withdrawal

Retail investments - Investment bonds

Retail investments - Personal pensions and AVCs

Retail investments - Structured products

Retail investments - DB pension transfers/safeguarded benefits

Retail investments - NMPI/NRRS

Retail investments - Other retail investment type

Other FCA regulated business

Drop-down menu for PII exclusion time period

[Please Select]

Past business

Future business

Past and future business

Drop-down menu for PII exclusion type

[Please Select]

All business

Volume of business

Type of consumer

Type of business

Sub-limit of cover

Jurisdiction of insurers used

Rating of insurer used

Other

Annex E

Amendments to the Perimeter Guidance manual (PERG)

In this Annex, underlining indicates new text.

8 Financial promotion and related activities

…

8.30A Pre-purchase questioning (including decision trees)

…

8.30A.16 G …

(3) The table in *PERG* 12 Annex 1 includes an example of when the use of pre-purchase questioning (including, decision trees) in the course of a triage conversation with customers is likely to be *advice on conversion or transfer of pension benefits*.

…

12 Guidance for persons running or advising on personal pension schemes

…

12 Annex 1 Examples of what is and is not advising on conversion or transfer of pension benefits

Examples	**Is this advising on conversion or transfer of pension benefits?**
Firm A has a triage conversation with customers. It gives them factual information about *safeguarded benefits* and *flexible benefits* and describes the requirement to take *advice on conversion or transfer of pension benefits* and the cost of transfer. In addition, the *firm* explains the features of pension schemes with *flexible benefits* and pension schemes with *safeguarded benefits* that make them more or less suitable for general groups of people. The *firm* also explains the cash equivalent transfer value.	
…	
(6) Before or during the course of the triage conversation with customers, the *firm* uses a form of pre-purchase questioning (such as decision trees and	Yes. This is likely to be advice as the pre-purchasing questioning process accumulates personalised information tailored to individual customers, which is presented in such a way that is objectively likely to influence the customer's

RAG-rated questionnaires) as set out in *PERG* 8.30A. The *firm* leaves it to the customer to decide whether or not to take advice.	decision to transfer or convert their *safeguarded benefits*.

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