

22 March 2019

Dear CEO

Managing the risks of Defined Benefits to Defined Contribution transfers

Over the past year we have carried out work to evaluate and reduce the risks of harm to consumers arising from the transfer of funds from their defined benefit (DB) schemes to defined contribution (DC) products. Much of this work so far has focused on financial advisers.

We have now completed our review of pension product providers and identified the key drivers of harm. Below we set out what we expect from you.

What firms need to consider when designing, marketing and providing pension products

Product design and target market – Your processes for regularly reviewing DC products should be able to show how you have taken the needs of customers transferring from DB schemes into account. This is particularly important if the products were developed before pension freedoms were introduced in April 2015. Providers should also make sure their management information identifies target audiences appropriately and any weaknesses in support services, e.g. training, they need to address. These reviews should be of a sufficient standard to provide the appropriate senior manager function holder with the information they need to be confident they are dealing with incoming DB business appropriately.

The information you give to distributors – You should ensure your processes for review, governance and quality assurance (QA) for the messages you provide to adviser firms are accurate and unbiased. Your messaging should be balanced, clear and accurate. We expect you to have appropriate measures in place to ensure that products are being recommended responsibly and appropriately, in accordance with the Treating Customers Fairly Principle. We also expect you to ensure that your messages to firms put good customer outcomes at the forefront, and do not encourage firms to make inappropriate recommendations to consumers.

FCA Permissions procedures – Providers largely use manual processes, usually retrospectively, to check whether advisers have the relevant permissions to advise on pension

transfers. If during a retrospective review you identify a case where adviser permissions have been changed or removed, we expect you to check that the firm still has the correct permissions and act accordingly.

Management Information (MI) – You need to ensure your MI is sufficiently detailed to enable management to fully understand and manage the risks from DB pension transfers. You should use metrics that allow meaningful oversight, specifically on customer/adviser behaviour. This should identify negative trends, such as a high volume of transfers from a single scheme over a short period or customers transferring out of new DC arrangements soon after transferring from DB schemes. You should also assess MI for completeness. For example, where you monitor insistent customers, this should cover all applicable transfers including those accepted through platforms. Without this, the MI cannot accurately reflect your overall risk profile. Where you identify negative trends, we expect you to investigate and assess what action you may need to take, including notifying us.

Remuneration structures – Staff carrying out frontline business development may have their pay and bonuses linked to many different measures. You should consider the need for meaningful measures of quality, rather than solely relying on quantitative factors. So, for example, weightings based on clearly defined customer outcomes, rather than a reliance on line management assessments only. You should ensure that remuneration incentives drive outcomes which are in consumers best interest.

Governance and risk management – You should consider completing second and third line reviews of DB activity since pension freedoms were introduced, to assess the systems and controls in place to mitigate operational, regulatory and conduct risks posed by pension transfers. When these reviews are completed, we expect you to complete any appropriate follow-up actions and ensure they are fully embedded.

Documentation and tools – Any tools or documentation that you give to advisers need to be up to date. You should review these regularly to ensure they take into account any regulatory changes. For example, any triage services you promote must reflect relevant publications such as PS18/20. You should also assure yourself that all documentation, case studies etc provide a balanced view of the benefits and drawbacks of DB to DC pension transfers.

Next steps

We expect providers to gain assurance that they have appropriately implemented and fully comply with the recommendations of PROD, the RPPD and all relevant rules and regulations.

Yours faithfully,

Debbie Gupta
Director