

16 January 2018

To all firms holding the pension transfer and opt out permission

Pension Transfer Advice – reminder of our requirements

As you may be aware pension transfer advice is a key area of focus for the FCA. We have reviewed advice provided by firms active in this area and, as we have publically stated, we are continuing our supervisory work in relation to pension transfer advice. As part of this we are writing to all firms which hold the permission to advise on pension transfers and opt-outs. Later this year we will also be collecting data from all firms who hold the pension transfer permission with the intention of assessing practices across the entire market to build a national picture. We may therefore review in the future any pension transfer advice you have given, or may give.

We are aware that firms offering a commoditised approach to pension transfer advice are more likely to give unsuitable advice or fail to recommend a suitable destination fund. By a commoditised approach, we mean an approach which does not entail a complete analysis of a client's personal circumstances or needs and may include some generic assumptions in order to arrive at a personal recommendation.

Commoditised business models do not adequately focus on the clients' needs and personal circumstances and can result in a high incidence of unsuitable advice to transfer. Our recent work in this area, which is summarised in the October 2017 Alert (see link over the page), identified that in only 47% of files reviewed, transfer advice was suitable. This is a serious concern to us, hence our ongoing focus on this area.

Documents to read

We have published several documents relevant to pension transfer advice. We expect you to consider these when assessing the way you provide pension transfer advice and consider if any changes are required. A summary of these documents is provided below.

You should also be aware of the relevant COBS pension transfer rules at COBS 19.1 and our suitability rules at COBS 9.

Introducers: August 2016 alert

We have issued an alert highlighting some of the risks arising from authorised firms accepting business from unauthorised introducers/lead generators and/or other authorised firms. This is set out at: <https://www.fca.org.uk/news/news-stories/investment-advisers-responsibilities-accepting-business-unauthorised-introducers-lead-generators>.

You should also consider your obligations when accepting introductions from any unauthorised introducers or lead generators given that some may target individuals in vulnerable situations.

January 2017 Alert

In our alert published in January 2017 (<https://www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations>) we set out our expectations of firms providing pension transfer advice. The main points are:

- 1) We expect a firm advising on a pension transfer from a defined benefit (DB) scheme to consider the assets in which the client's funds will be invested as well as the specific receiving scheme. This should take into account the type of assets they will be invested in and the charges that would apply and how these might impact the client's fund over time.
- 2) The comparison should explain the rates of return needed to replicate the benefits being given up and should be illustrated on rates of return which take into account the likely expected returns of the assets in which the client's funds will be invested and the costs and charges. The associated risks should also be highlighted.
- 3) We do not expect to see transfer advice based solely on critical yield. We would expect the firm to consider the likely expected returns of the assets in which the client's funds will be invested relative to the critical yield as well as the client's wider circumstances including income needs and other sources of income in retirement.
- 4) Only firms with the relevant FCA permission may advise on pension transfers. A firm without the permission may refer a client to a firm with the permission. However, it is not acceptable for that second firm to claim to be advising on the pension transfer without taking into account the assets in which the client's funds will be invested as well as the specific receiving scheme. Where both firms may be responsible for different elements of advice given, firms are expected to liaise for consistency. The outsourcing should be clearly explained to the client so they are clear where responsibility lies.

Insistent Clients

We have handbook guidance, effective from 3 January 2018, on how firms can meet their regulatory obligations when dealing with insistent clients. Firms should be aware of the guidance in COBS 9.5A.

Consultation CP17-16

We have also recently consulted on pension transfers

<https://www.fca.org.uk/publications/consultation-papers/cp17-16-advising-pension-transfers>

and this consultation provides details of the areas of our proposals where we believe change may be required. We intend to finalise our rules in the first quarter of 2018.

October 2017 Alert

An alert was published in October 2017 detailing the findings from our supervisory work.

<https://www.fca.org.uk/news/news-stories/our-work-defined-benefit-pension-transfers>.

We found:

- Generally, when two firms were involved in the process, there was insufficient liaison between the two firms leading to, for example, insufficient sharing of information.
- Where the introducing firm did not share information about the client's objectives, needs and personal circumstances with the specialist transfer firm, this often resulted in unsuitable advice.
- Where the adviser or transfer specialist made a recommendation without knowing where the transfer proceeds would ultimately be invested, the transfer specialist was not able to produce accurate comparisons between the DB scheme and the receiving scheme.
- At some firms the transfer analysis was routinely based on 'default' schemes and/or funds in the knowledge that these would not be the actual receiving schemes.
- Many of these firms had seen a significant growth in DB transfer business, but the compliance/transfer resource had not increased appropriately.

You should use this information to evaluate the way you provide pension transfer advice so this is in line with our expectations.

Yours sincerely

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