Regulator Assessment: Qualifying Regulatory Provisions

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

Lead regulator: FCA

Date of assessment: 9 May 2018

Commencement date: 1 April 2018

Origin: Domestic

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

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

Brief outline of proposed new or amended regulatory activity

Defined Benefit (DB) pensions, and other safeguarded benefits providing guaranteed pension income, give valuable benefits so most consumers will be best advised to keep them. But we recognise the pension's environment is changing, particularly since the introduction of the pension freedoms in 2015 which gave consumers more options to access their pension savings. As a result, there is increased demand for pension transfer advice. Given this, we wanted to ensure that those providing regulated financial advice fully consider the client's circumstances and properly consider the various options available to them.

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

In June 2017, the FCA issued a consultation (CP17/16) which set out proposals to update our requirements. Following consultation, we introduced new rules and guidance aimed at providing advisers with a framework which better enables them to give good quality advice so that consumers make better informed decisions. The new framework was set out in PS18/6, published in March 2018.

Some of the new rules and guidance come into force later in 2018 and will be covered by a separate Impact Assessment. The main change coming into effect in April 2018 is the one which requires all advice on pension transfers to be a personal recommendation[1]. In view of the complexities when considering a transfer of safeguarded benefits, we believe that, for advice to be meaningful, it is important it looks at the consumer's individual circumstances and provides a specific recommendation. Most regulated advice in this area is currently already given as a personal recommendation so this rule will reflect the majority of current practice and will make the requirements on advisers clearer. It also means that everyone is now ensured the protection of getting a personal recommendation.

The vast majority of respondents to CP17/16 agreed with our proposal regarding personal recommendations.

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

Financial advisory firms advising on pension transfers. There are around 5,000 advisers with the Pension Transfer Specialist permission, and they are employed by an estimated 2,500 firms[2].

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2018	2018	10	-58.7	6.8	34.1

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

The vast majority of consumers are already receiving a personal recommendation.

- We believe that, at most, 5%[3] of advice transactions have not been carried out without a personal recommendation.
- Based on industry data [4] we estimate that there are 80,000-100,000 advice transactions per year. Therefore, we believe that 4,000-5,000 transactions per year will be affected.
- We estimate that a customer will pay, in average, for a personal recommendation £1,625 more than a non- personal recommendation.[5] These additional cost incorporates

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[1] The Handbook definition of Personal Recommendation: 'A recommendation that is advice on P2P agreements, advice on conversion or transfer of pension benefits, or advice on a home finance transaction and is presented as suitable for the person to whom it is made, or is based on a consideration of the circumstances of that person'

[2] From data held on the Financial Services Register

[3] Estimate based on findings from our ongoing supervisory work

[4] Based on industry data from a variety of sources from provider data, FCA data and information from the Pensions Regulator

[5] Based on Unbiased's guide to the cost of advice (Unbiased are an independent directory of advisers). We decided that the most conservative way to quantify the cost to advisers of compliance with our new rules is to assume that they are likely to pass on the totality of compliance costs to consumers (see also CP 17/16). We note that this figure is likely to overestimate the cost of compliance with our new rules as it includes the adviser's profit margin when providing a personal recommendation to a client. We are not in a position to quantify this profit margin and reduce our cost estimate accordingly as profit margin is not information that we would normally require businesses to reveal given its business sensitive nature. Therefore, for the purpose of this impact assessment, we have taken the most conservative approach and we have assumed that the average cost for a consumer to purchase a personal recommendation also represents the average cost for a firm to provide a personal recommendation in compliance with our new rules.

the cost of additional compliance work as well as software required to provide advice which includes a personal recommendation in line with our new rules.

- Therefore, the additional annual cost to adviser firms is estimated to be in the range of £6.5m-£8.125m per annum, with a best estimate of £7.312m.

The derivation of these estimates is set out in the Consultation Paper, and we outlined in the Policy Statement that we had carefully considered the responses on the published CBA and considered the estimates a fair assessment of the impact of the proposed change.

We believe that the benefits to consumers of this rule significantly outweigh the extra costs to firms. We consider that there is a significant risk that, in the case of pension transfers, advice that is not a personal recommendation results in action that is not in the best interest of the client. The cases we have seen where advice is given without a personal recommendation have often been associated with high risk transactions and scam activity. While these benefits are not included in our reporting duties under the Enterprise Act, we note that our CBA in CP 17/16 estimates annual benefits to consumers to be in the £16m-£30m range, on the basis of average redress as proxy for the monetary values of these benefits.

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

Link to Policy Statement - https://www.fca.org.uk/publications/policy-statements/ps18-6-advising-pension-transfers

Link to Consultation Paper - https://www.fca.org.uk/publication/consultation/cp17-16.pdf