

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: PS20/6: Pension transfer advice: feedback on CP19/25 and our final rules and guidance

Lead regulator: FCA

Date of assessment: 31 July 2020

Commencement date: 15 June 2020 and 1 October 2020

Origin: Domestic

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

Which areas of the UK will be affected? All

Brief outline of proposed new or amended regulatory activity

Wider market context and our previous interventions

Since the pension freedoms were introduced in 2015, we have regularly assessed the suitability of advice of firms advising on pension transfers. In CP19/25, we explained that we had carried out thematic reviews of defined benefit (DB) pension transfer advice in firms we considered to be potentially high-impact, ie those we consider pose the greatest risk of harm mainly due to the volumes of advice they give. We found that only around 50% of the advice we reviewed was suitable. We also explained that our market-wide data collection showed that 69% of all advice resulted in a recommendation to transfer. This is significantly higher than we would expect, given our view that transferring is not in most consumers' best interests. We said we consider that the current situation is unsustainable. Too many consumers are being given unsuitable advice, resulting in too many of them transferring against their best interests. This has serious consequences for consumers who may find themselves considerably worse off in retirement as a result. We pointed out that our thematic work showed that some advice firms were failing to demonstrate competence. We also know that most firms use charging models that create conflicts between the advisers' interests and those of a client.

We have intervened previously with rules designed to improve the quality of pension transfer advice to consumers - see [Policy Statement PS18/6](#) and [Policy Statement PS18/20](#) - but we believe too many advisers are still giving poor advice. Our thematic reviews and other supervisory work shows that some advisers are unclear about what they need to consider when giving advice. We are also concerned that charging structures create an obvious conflict of interest when giving advice.

Summary of changes made by our final rules in PS20/6 and what they seek to achieve

Given the advantages of DB schemes, the proportion of consumers that advisers have advised to transfer to defined contribution (DC) schemes remains too high. We are concerned that contingent charging – where advisers are only paid if a transfer proceeds - creates an obvious conflict of interest. In [Consultation Paper CP19/25](#), we consulted on a ban on contingent charging.

[Policy Statement PS20/6](#) summarises the feedback we received to CP19/25. It sets out our final rules and guidance, including a package of measures to:

- address initial conflicts of interest by banning charges for advice that consumers only pay when a transfer or pension conversion proceeds (contingent charging), except in certain limited, identifiable circumstances which we describe as the ‘carve-outs’
- address ongoing conflicts of interest and reduce the number of transfers that incur unnecessarily high ongoing adviser and product charges, by requiring firms to consider an available workplace pension scheme (WPS) as a receiving scheme for a transfer and to demonstrate why any alternative destination scheme is more suitable
- amend our perimeter guidance (PERG) to improve consistency in the content of triage services, by clarifying that firms should not use decision trees and traffic-light RAG-rated questionnaires within a non-advised triage service.
- enable firms to give a short form of advice (abridged advice)¹ to help consumers access initial advice at a more affordable cost, even if they may be unwilling or unable to pay for full advice
- empower consumers to make better decisions by improving how advisers disclose advice charges and requiring checks on consumers’ understanding of the risks and benefits as part of the advice process
- enable advisers to give better quality advice and improve professionalism by introducing continuing professional development specific to the activities of a pension transfer specialist
- set up new data collections that advice firms must give us to improve our ability to supervise the sector
- amend technical areas of our rules and guidance to clarify and extend existing requirements

PS20/6 forms part of a wider package to improve the suitability of pension transfer advice. We have published this alongside [Guidance Consultation GC20/1](#) and the findings of our [multi-firm review](#) into the suitability of pension transfer advice. The changes to our guidance on triage services and using estimated transfer values came into effect on 15 June 2020 and the remainder of our changes come into force on 1 October 2020.

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

Using data gathered from our fourth thematic review of DB-DC pension transfer advice (DB4), we have assumed that 2,426 firms will be affected by our rule changes. 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 new rules 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 final rules apply.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2019	2020	10	-7999.0	929.3	4646.4

¹ We have not assumed a cost for our new rules and guidance on triage and abridged advice, as these services 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.

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

Baseline and key assumptions

We use standard assumptions to estimate firm costs based on the FCA's standardised costs model. Further details on our approach and underlying assumptions can be found in Annex 1 of '[How we analyse the costs and benefits of our policies](#)'. Based on our most recent DB Pension Transfer Advice Data Request to firms, we have made the following assumptions about the DB pension transfer advice market:

- 100,000 advice transactions for DB to DC transfers each year (based on our supervision data)
- average size of transfer value is £350,000 (based on our supervision data)
- on average, 7 in 10 consumers who receive advice choose to transfer – ie a 70% 'conversion rate' (based on our supervision data).

Summary of costs

The table below sets out a summary of the estimated one-off and ongoing costs to business arising from our new rules in PS20/6. These costs include both direct compliance costs arising from our interventions and the loss of revenue for firms arising from the reduction in demand for and lower cost of DB transfer advice, as well as reduced charges received for ongoing advice due to more consumers transferring into WPSs. Our analysis of costs is based on average estimates and, by definition, some firms will experience higher and lower costs than those estimated in the table below:

Estimated direct costs to business	One-off	Ongoing
Familiarisation and gap analysis	£3.1m	-
Training and compliance	£8m	-
Ban on contingent charging: IT project costs	£12.2m	-
Ban on contingent charging: governance/change costs	£56m	-
Ban on contingent charging: sales processes	-	£0.2m – £0.5m pa
Ban on contingent charging: reduction in adviser revenue	-	£371m – £448m pa
Incorporating workplace pensions into advice processes	-	£3.2m pa
Workplace pensions: reduction in fee revenue	-	£399m – £598m pa
Empowering consumers: disclosure requirements & checks on consumer understanding	£2.5m	£1m pa
Continuing Professional Development	-	£6.4m pa
Data gathering	£3m	£0.2m pa
Technical amendments	£1m	-
TOTAL	£85.8m	£781m - £1.057.3bn

Where there is a cost estimate range in the 'Ongoing' column above, we have used the middle figure in the range as the 'Best Estimate', which forms the basis for our BIT score calculations outlined in Section 3a above.

Monetary Impacts – one-off & ongoing costs

Familiarisation & gap analysis: one-off costs

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 new rule changes.² Using these assumptions, we expect a total industry-wide one-off cost of around **£1.1m for familiarisation**.

As our package of rules includes many new requirements, we would also expect firms to incur costs from a detailed gap analysis of the new rules. To estimate these costs, we have assumed the legal instrument will be around 50 pages.³ Using our underlying assumptions, we expect a total industry-wide cost of around **£2m for gap analysis**.

Training and compliance: one-off costs

We consider that all advice firms will 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 advice firms would need to provide 1 day of bespoke training to their employees on how to comply with our new rules. 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 the Retail Mediation Activities Return 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. As set out in our standardised costs model, we have assumed that all large firms will undertake in-house training, small firms will use external training providers, and medium firms will use a mix of in-house 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. Including all these elements, we expect total industry-wide costs of around **£8m for staff training**.

Ban on contingent charging - IT project: one-off costs

We are introducing a ban on contingent charging for advice on pension transfers and conversions, with 'carve-out' exceptions for consumers with specific personal circumstances which mean they are more likely to benefit from advice and may be unable to afford non-contingent advice charges. The amount that these carved-out consumers pay for a transfer, and for ongoing services, must be no greater than it is for those consumers whose transfer advice is charged on a non-contingent basis. The ban will 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. It 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. We have taken a conservative assumption that all firms will need to undertake one-off IT systems changes to update their accounting systems. 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. Our standardised costs model assumes that IT projects contain the following elements: business analysis, design, programming, project management, testing and involvement of senior management. Applying our standard calculation for a moderate project, we estimate

² Using our standardised cost model, we assume that it would take around 2 and a half hours to read the document. 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, assuming 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.

³ 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.

that the IT systems changes are likely to cost the industry **£12.2m**, with a total IT project cost per firm of: £412,502 for large firms, £113,820 for medium firms and £553 for small firms.

Ban on contingent charging - governance/change: one-off costs

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 rule changes. 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 per firm as: £577,242 for large firms, £388,466 for medium firms and £17,109 for small firms.

Ban on contingent charging - sales processes: ongoing costs

We assume that in 20% of cases, the length of the sales process will increase when firms assess whether a consumer is eligible for the carve-outs. 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 carve-out 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 the ongoing cost to industry from a longer sales process will be **£0.2m - £0.5m each year**.

Ban on contingent charging - reduction in adviser revenue: ongoing costs

In PS20/6, we revised the market-wide advice suitability rate assumptions in our CBA to 68% suitable and 32% unsuitable. This was based on the latest data received from our most recent [supervisory work](#). We focused on DB transfer advice given by firms in 2018 and 2019 to update these figures, as this would take account of our previous Policy interventions (set out in [PS18/6](#) and [PS18/20](#)). To estimate the reduction in adviser revenue, we took account of the revised market-wide advice suitability rate assumptions above, the assumption changes relating to our contingent charging ban carve-outs (see paragraphs 8.19 - 8.25 in PS20/6), as well as the other assumptions used in the original CBA (see paragraphs 96 - 97 in CP19/25) which remained unchanged in our final CBA. Our updated analysis estimates that consumers would benefit from reduced advice costs **between £371m and £448m each year**, depending on each of the scenario models tested in our CBA (see paragraphs 8.26 - 8.29 in PS20/6). These reduced advice costs represent a loss of revenue for firms and a saving for consumers.

Incorporating workplace pensions into advice processes: ongoing costs

Advisers will need to assess the appropriateness of WPSs, explain their features to clients and 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. To calculate the cost of the new requirement, we assume that an extra 60 minutes would be required to undertake the assessment. Assuming 80,000 (80% of 100,000) consumer interactions each year involve considering a WPS⁴ and using our standardised cost model (which gives costs per hour of around £40), it is estimated that the ongoing cost to industry from a longer sales process is **£3.2m each year**.

Workplace pensions - reduction in fee revenue: ongoing costs

⁴ We estimate around 20% of DB transfers are for people over 60. We have assumed 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.

In CP19/25, we calculated that for a WPS, the lifetime fees and charges for a sample DB scheme member (described in paragraph 133 of CP19/25) amount to £77,000. This compares to £115,000 in a non-WPS solution, a saving of £38,000. Assuming between 30% and 45% of consumers would have access to a WPS that should be suitable for them (see paragraph 131 of CP19/25 for how this proportion was calculated), across all consumers transferring, 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 new rules. This may reduce over time if the volume of transfers reduces. However, in the absence of data on firms' response to our intervention and the uncertainty in making a forecast of market developments, we have assumed the volume of interactions⁵ to remain the same for the next 10 years, so it is likely to be an overestimation. This figure is, in effect, a transfer of wealth from advice firms and providers to consumers, and will result in some lost profit for certain firms. These are considerable savings for consumers who, in many cases, are paying substantially more in ongoing advice fees than they need to, given their needs and objectives. We consider this transfer of wealth to consumers to be appropriate justification for the new requirements.

Empowering consumers - disclosure requirements & checks on consumers' understanding: one-off and ongoing costs

These remedies 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 changes will affect all firms that provide pension transfers. We anticipate they will require firms to change the structure of their advice process and carry out a change project.⁶ We expect a total industry wide one-off cost of **£2.5m** for combined process changes.

We expect the length of the sales process to increase, and the number of consumer queries to rise, because of our new rules for enhanced sustainability reports and checking clients 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.⁷ It is estimated that the ongoing cost to industry from a longer sales process is **£1.0m each year**. There are already requirements on firms to provide information to new customers about their fees and services, so we have not assumed that providing the letter of engagement will put any additional ongoing costs, such as postage, on firms.

Continuing Professional Development: ongoing costs

This new requirement is designed 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. We have assumed that 5,000 active individual PTSs will undertake 15 hours of CPD each year, focused specifically on the activities of a pension

⁵ Assuming 100,000 advice transactions for DB to DC transfers each year, based on our Supervision data

⁶ 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.

⁷ Based on our Pension 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.

transfer specialist. 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 there will be an additional cost of **£6.4m each year**. We do not estimate any additional costs of recording, as we would expect this to be a business as usual activity.

Data gathering: one-off and ongoing costs

We are introducing new, enhanced data collections from firms, relating 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.

We expect that large and medium firms will need to undertake one-off IT systems changes to produce the new data required by our new rules. We have assumed that small firms will not implement a technology solution for submitting the new data return required 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. For our measure 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**. For our measure 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**. So, we estimate the combined impact on the industry to undertake these IT systems changes is **a total one-off cost of £3.0m**.

Under our new rules, firms will 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 new rules will be £4,190 each year for large firms, £942 each year for medium firms and £269 each year for small firm. So we estimate an ongoing cost to industry of **£0.2m per year**.

Technical Amendments: one-off costs

We are amending technical areas of our existing rules and guidance to provide firms with additional clarification on how to apply our rules and guidance in practice. We expect that software providers preparing transfer value comparators (TVC) and cashflow modelling tools will need to make one-off IT systems changes 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. 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.

Non-monetary impacts

Overall market impact

In CP19/25 we acknowledged that some firms may leave the market due to reduced demand or because firms identified, from the descriptions in CP19/25, that they were a firm we might

have concerns about, 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. While it is difficult to predict with certainty how many firms will remain in the market, as well as the type and the quality of those that may leave, we still expect that good firms will be able to continue to offer advice profitably. We have evidence and reports that suggest some firms are withdrawing from this market despite our interventions, because of increased insurance premiums. This may mean that, in the near term, consumers will find fewer firms willing to give them advice. In our view, the advice market is unlikely to work well for consumers or firms in the longer term unless the proportion of unsuitable advice is substantially reduced, and insurance costs for firms, and charges to consumers, can also begin to fall again. So we think our interventions are important to maintain consumers' access to a competitive market for DB transfer advice in the longer term.

Impact of WPS rules on restricted firms and independent firms that use panels

In our original CBA in CP19/25, and as described earlier above in this Assessment, we calculated the ongoing cost of our WPS requirements on all firms, both restricted and unrestricted. This included restricted firms that only advise on a limited range of products and independent firms that use panels. We did not attempt to quantify the impact on different types of firms in detail. However, we said that 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. Based on the feedback received to CP19/25, restricted firms and independent firms that use panels may need to undertake further familiarisation work and gap analysis to assess the impact of our WPS requirements. This includes considering how to change their business model, for example in a way that would allow them to recommend WPS providers that are outside the firm's current commercial limitations, or considering whether to continue operating in the market.

We do not have information to quantify these additional one-off costs for restricted firms and independent firms that use panels. In a similar way to the ban on contingent charging, affected firms will need to consider whether to continue operating in the market and, if so, how to make changes to their internal processes, for review by their Boards. Overall, we believe this additional amount of work will lead to a marginal increase in costs for a small number of firms, thus only marginally affecting the total CBA estimates. However, as indicated at the start of this paragraph, it would not be reasonably practicable or proportionate to produce this additional cost estimate for affected firms.

Non-monetary benefits to business

Triage and Abridged Advice:

We expect that our rules introducing additional guidance on triage will make it easier for firms to operate an appropriate triage service without stepping across the advice boundary. We also consider the introduction of '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. Abridged advice will also provide firms with a means of assessing whether consumers qualify for the carve-out to our requirement to charge on a non-contingent basis.

Data gathering

By collecting data as a regular return rather than as a series of ad-hoc requests, we 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. We expect our amendments to Professional Indemnity Insurance (PII) Self-certification (RMA-E, FSA031, FSA032 and FIN-APF) data collection will make it easier for firms to understand our requirements, and so improve the efficiency of completing the return.

Technical Amendments

In general, our technical amendment rule changes mean that firms and consumers will benefit from a more consistent approach being adopted by firms. Our guidance 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.

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

PS20/6:

<https://www.fca.org.uk/publication/policy/ps20-06.pdf>

CP19/25:

<https://www.fca.org.uk/publication/consultation/cp19-25.pdf>

Accompanying publications:

GC20/1:

<https://www.fca.org.uk/publications/guidance-consultations/gc20-1-advising-pension-transfers>

Defined Benefit (DB) transfers – further update on our work:

<https://www.fca.org.uk/publications/multi-firm-reviews/defined-benefit-transfers-further-update>

Previous publications changing our rules on giving pension transfer advice:

PS18/20:

<https://www.fca.org.uk/publications/policy-statements/ps18-20-improving-quality-pension-transfer-advice>

PS18/6:

<https://www.fca.org.uk/publications/policy-statements/ps18-6-advising-pension-transfers>