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Dear Sir / Madam,

CP17/16 - Advising on Pension transfers Consultation

The Financial Services Consumer Panel welcomes the opportunity to respond to the consultation on pension transfers.

We recognise that the world of pension freedoms has resulted in an increase in demand on behalf of consumers to consider new options for their savings and sometimes decide to transfer their savings and this does pose a significant risk given the inherent complexities and the one way decision this can entail. Consumer protection in the context of this liberalisation remains an important role for the FCA and in any consideration of changes to the rule book this must be an overriding consideration.

We believe that broadly the FCA has sought a sensible path to meeting consumer needs in the new environment but we remain concerned about the availability of appropriate advice to assist consumer decision making.

The evidence of the FCA as reflected in section 2.1 of the consultation is that currently some consumers have given up pension benefits reducing later life income as a result of adviser behaviour. We support the view that the onus when advising on a transfer is for the adviser to prove that a transfer is in the best interest of the consumer. The FCA accepts that transfers and conversions of safeguarded benefits remain unlikely to be in the best interests of most consumers and we consider that is the best way to approach advice.

Section 3 giving advice and assessing suitability

Q1 Do you agree with our proposal to require all advice on the conversion or transfer of safeguarded benefits to be a personal recommendation? Please provide the reasons for your response.

Transferring a pension is a complex decision and consumer protection should not be weakened. We strongly believe advice must be in the form of a personal recommendation. History suggests that where a personal recommendation has not been given there have been cases where the advice did not meet the current analysis requirements.

Q2 Do you agree with our proposals for new guidance on assessing suitability? If not, what guidance do you think would be helpful?

Safeguarded benefits are likely to be in the best interest of the consumer but pension freedoms have created new options not hitherto available. The existing rules start from a view that a transfer would be unsuitable and the FCA now proposes to move to a position whereby the adviser has to demonstrate that the transfer is in the best interest of the consumer. We welcome the additional guidance for advisers. Advisers may require more clarity to be able to take the relevant wider circumstances into consideration.

Q3 Do you agree with our proposals to amend the glossary definition and to add guidance to the Handbook to clarify what a pension transfer specialist is expected to do when checking advice on transfers or conversion of safeguarded benefits?

Yes insofar as this adds to consumer protection. Advice cannot be purely a mechanistic exercise which is why suitability testing and a personal recommendation are so important.

Q4 What are your views on how the current requirements for pension transfer specialists operate in practice?

Q5 Do you have any comments on our explanation of advice firms and pension transfer specialists?

No comment

Q6 Do you have any comments on our explanation of the responsibilities of advice firms and independent pension transfer firms?

Suitability is key to advice in this area.

Section 4 Analysis to support advice

Q7 Do you agree with our proposals on the introduction of an appropriate pension transfer analysis? If not, how could we amend it?

We support the introduction of an appropriate pension transfer analysis. However we do not have the expertise to know if this proposal is the right one.

Q8 Do you agree with our proposals on preparing and presenting the client with a mandatory transfer value comparator within the appropriate pension analysis?

We support the principle that advice on giving up safeguarded benefits should be based on sound modelling of the circumstances of the consumer and the relevant existing benefits. A focus on suitability is key.

In the consultation it is clear that the FCA expectation is that advice will include quantitative assessments of benefits given up as well as other factors such as risk appetite. It is intended to help frame a decision. It is therefore important that the language used to advise the consumer is in a plain English form.

Q9 Do you agree with the proposed changes to the assumptions for the rolling annuity interest rate, non-annuity mortality, the growth rate and the inclusion of charges?

No comment

Q10 What are your views on the use of stochastic tools within appropriate transfer analysis? How could the outcomes be presented in a way which results in good consumer understanding, given the format and outcomes presented in other mandated documents?

We have no evidence on consumer understanding of stochastic modelling but given the FCA requirement that information to consumers is consistent with the KFI provided at the point of transfer we would be concerned about information confusion with the provision of different projections based on different methodologies.

However deterministic modelling in itself may be limiting. We would like to see some evidence from the FCA that substantiates whatever approach it mandates.

Q11 Do you have any comments on our explanation of the responsibilities of advice firms in relation to software?

To protect consumers, Adviser firms must bear responsibility on the efficacy of software and that it does not create a conflict of interest when supplied by a provider or platform.

Q12 Do you have any views on the assumptions for CPI and for benefits with caps and collars?

No comment

Section 5 Other issues

Q13 Do you agree with our proposal for the application for the additional requirements for pension opt-outs to be restricted to opt outs where they are potential safeguard benefits available?

We do not have the expertise to comment on the proposal specifically. However, at a high level we agree with the policy intention.

Q14 Do you agree with our proposal that the new TVC analysis should not be required for any pension opt-outs?

No comment

Q15 Do you have any thoughts on the impact of these proposals on overseas transfers?

The transfer of pension assets overseas where the policyholder resides overseas already more complex than for an individual residing in the UK, even if the pension assets are to stay in the UK.

We understand firms need specific permissions depending on where the individual resides, so for example firms that can deal with customers residing in EU countries, may not be able to deal with pension transfers where the customer resides in Canada or the USA.

There is also the issue of obtaining the necessary professional indemnity insurance and many adviser firms seem to be deciding that providing advice to overseas customers is simply too risky and are not offering a service. This is causing considerable frustration and difficulty for those individuals now residing overseas who genuinely need or want to transfer their pension assets to a legitimate product in their country of residence.

We understand that consumer protection is even harder to maintain when an adviser is dealing with a customer remotely, however we do believe the particular issue of overseas transfers needs to be considered by the FCA in more depth, working with the few financial advisers currently working in this area.

Q16 Do you have any comments on our expectations for the provision of streamlined advice when advising on safeguarded benefits?

If streamlined advice is provided such as in the ETV market any advice must remain suitable.

Q17 Do you have any comments on our cost benefit analysis?

The consultation document starts in the cost benefit analysis from the following premis, "it is our view that transfers and conversions of safeguarded benefits remain unlikely to be in the best interests of most consumers". This underlines the fact that any rules must start from the intention that protection of the consumer is the highest priority.

Yours faithfully

Sue Lewis
Chair, Financial Services Consumer Panel