

FCA sees 'signs of improvement' in transfer advice but key challenges remain



What you **need to know**

- The Financial Conduct Authority (FCA) has released a summary of data collected in relation to defined benefit (DB) pension transfer advice provided between October 2018 and March 2020. This follows the previous summary covering the period from March 2015 (the introduction of Freedom and Choice) to September 2018.
- The FCA believe the new data 'shows some signs of improvement in the DB transfer advice market'. An example is the proportion of individuals who are advised to transfer, which has fallen from 69% to 57%.
- However, the data also shows only 1% of individuals are advised into workplace arrangements, despite these often being well governed and low-cost. This tallies with XPS research in this area.
- In addition, the data shows a significant contraction in the pensions transfer advice market. The number of firms able to advise on pension transfers has halved since the previous summary.
- The FCA has also released a Defined Benefit Advice Assessment Tool (DBAAT) to help firms to ensure their advice is likely to be considered suitable by the FCA.



Actions you can take

- **Help your members to understand what good financial advice looks like**, perhaps through training sessions or member communications.
- **Help your members to find high quality and cost-effective financial advice**, potentially appointing a financial adviser to work with your scheme's members.
- **Introduce a low-cost receiving vehicle** and communicate this to members to ensure that any financial adviser will consider this in their advice.
- **Review your scam protection arrangements** to ensure they are fit for purpose.

How helping members to access high quality unbiased advice can help

25% VS 57%

Fewer members are advised to transfer when trustees and employers help members to access high quality unbiased advice.

30% VS 1%

More members are advised into existing workplace arrangements where members have access to high quality unbiased advice.

Source: XPS survey of financial advisers compared with FCA data on DB pensions transfer advice market



The finer detail: Key statistics from the FCA summary

Advisers with DB transfer advice permissions

1,521 firms hold DB transfer advice permissions

The number of advisers authorised to advise on DB pensions transfers has halved since October 2018, with the figure now standing at 1,521 firms.

Whilst some believe the quality of advice will have improved over this period, members may now struggle to find a reputable adviser if left to their own devices.

Transfer recommendation rate

57% of individuals taking advice during the period were advised to transfer

This compares with a recommendation rate of 69% in the previous summary.

Some advisers provide a 'triage' service which educates individuals about a pension transfer with the intention of avoiding them taking unnecessary advice if a transfer clearly is not in their interest. Allowing for members who leave the advice process as a result of triage, this reduces the recommendation rate to 46%.

Insistent clients

8% of individuals advised not to transfer, proceeded on an insistent basis

This compares with an insistent client rate of 13% in the previous summary.

This is a key focus of the FCA, who want to see few individuals transferring against advice. Many advisers will not process insistent customers.

Transfers to a workplace scheme

1% of transfers were into an individual's workplace scheme

This is a figure that concerns the FCA, considering that workplace schemes are often low-cost and well governed.

It has been a requirement for some time that advisers need to consider a workplace arrangement, where one is available. The FCA reiterated this requirement in its most recent guidance, which came into effect in October 2020.

This disappointingly low proportion agrees with our research in this area, which found that many members transfer into high charging vehicles. Where individuals are not utilising the additional functionality associated with high fees, this could have a significant detrimental impact on their retirement income.

Professional Indemnity insurance

9% of firms advising on pension transfers over the period did not have insurance

Having appropriate professional indemnity insurance cover is a requirement to provide pension transfer advice. The FCA has reiterated its expectations that firms either have appropriate cover or do not advise on pension transfers.

Contingent charging

60% of firms charged individuals on a contingent basis

Contingent charging is where an individual only pays for the advice if they transfer. This was banned by the FCA in October 2020, largely due to the potential conflicts.

Average transfer values

£336,000 was the average transfer value advised upon

This is slightly lower than the £352,000 from the previous summary.

The transfer values for those advised to transfer was £405,000, compared to £268,000 for those not advised to transfer.

For further information, please get in touch with **Mark Barlow** or **Rachel Trickett** or speak to your usual XPS Pensions contact.



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