

Pension transfer update – suitability

The FCA published an update on 6 December 2018 focusing on work regarding defined benefit pension transfers and suitability. You can find the official publication [here](#).

Although the FCA admits that the update is based on targeted work and a small number of firms, 18 of those firms had given advice on 48,248 clients since the introduction of pension freedoms, resulting in 24,919 actual transfers. As Benjamin Fabi of Principled Paraplanning commented on social media – akin to an “industrial scale process.”

Staggeringly, less than 50% of the DB transfer advice the FCA reviewed was suitable (the remaining files were split between unsuitable and unclear). Contrast that with the 2017 general suitability review of pensions and investments where over 90% of advice met this basic requirement.

Assuming the regulator already views a risky sector with a healthy degree of cynicism – I think there is a lot to be drawn from the continual use of ‘disappointed’, ‘unacceptable’ and ‘concerned’ in relation to the work they reviewed. These feelings are also echoed by the advice industry itself – including those who have been behind initiatives to promote good practices and processes in pension transfer advice, such as the Pension Debate.

So where are these particular advisers falling down?

Suitability

The FCA found that suitability failings in relation to files and reports were persistent when compared to the results of other work.

In some cases, full information on other pension arrangements was not gathered at all, or where it was gathered, was not fully considered in any recommendations.

In terms of objectives, the general theme was the use of generic or template objectives such as ‘flexibility’ and ‘death benefits’ without specific reference to the client’s own situation and no exploration of the motivation behind them and their relative importance. Even if verbal discussions were had and real, meaningful objectives fleshed out – if it isn’t in the file, it didn’t happen.

The use of template objectives isn’t an issue exclusive to pension transfers, but collecting details of a client’s income and expenditure position when assessing how they might meet future liabilities, their desired lifestyle in retirement as well as details of other arrangements is absolutely crucial. In some cases income in retirement was assumed to be the

same income now, without exploring options, dates, goals and aspirations.

The stated need for ‘increased death benefits’ was often not matched with an analysis of how that could alternatively be met (for example, by the use of insurance). Assessments of the sustainability of drawdown funds in the proposed receiving schemes were lacking, particularly how the costs of the recommended wrappers and solutions would eat further into assumed investment returns. Increased death benefits are of no use if they are not available from a drawdown fund that won’t even last a client’s lifetime.

Firms also used attitude to investment risk results as a reason to justify a transfer without always assessing the specific risks of transferring a guaranteed income stream. Where attempts were made to address specific pension transfer risk, it was using language that steered answers in a particular direction.

Communication and disclosure

Over 60% of communications and disclosure by firms to clients was found to be non-compliant. The disclosure failings were largely in relation to standard documentation and in some cases, exactly what fee(s) were payable. It could be argued that fee disclosure is another issue that is not exclusive to pension transfer advice but the prevalence and persistence of it in the most active firms in this sector is interesting when compared with the larger sample of firms in 2017’s general suitability review.

Turning back to suitability and reports – communication and documentation of the reasons for transferring, and information about scheme solvency, employer strength and the Pension Protection Fund was not presented in a manner that was clear, fair and unbiased.

The language in suitability reports was often confusing and in some cases so unclear that it was impossible to understand what the actual advice was amongst long lists of generic risks and benefits of transferring pensions.

2019 and beyond

As firms active in pension transfers will be aware, the FCA has now collected data on all transfers since 2015 and this recent communication contains a clear warning shot that work in this area will continue. Firms have been reminded of the ongoing basic requirement for suitability and communications as well as the new framework for pension transfer advice that has been in place since 1 October 2018.

What stood out in the findings were the level of suitability and disclosure issues by a small number of firms providing high volumes of transfer advice, particularly given industry efforts to highlight issues and promote best practice prior to and since the new rules framework.

To understand why, maybe we need to take a step back. Many advisers and industry figures have been highly vocal about DB transfers, with a view to improving client outcomes. The debates have been detailed, well covered and widely available, and at times very heated. The FCA itself has been criticised for not issuing guidance on 'best practice' quickly enough. The reality suggests, however, that there is a minority of firms that aren't interested in making their good advice great advice, don't read papers or guidance issued by anyone, and simply want to make a quick buck and disappear before the consequences are felt.

Perhaps whilst some of us were arguing about the differences between stochastic and deterministic models, a small number were charging tens of thousands for a template report and two-page fact find, while working to a business model predicated on speed and brevity, not long-term relationships or reputational and regulatory risk.

For those firms that are looking to make their good advice great, Rory Percival, ex FCA regulator and founder of Rory Percival Training and Consultancy, has written an article and full report that covers the FCA's rules and guidance. This, along with a wealth of other information and case studies on issues around suitability and controls, is available now on the AJ Bell Investcentre hub.

This document must not be copied or reproduced, in part or whole, without permission. Whilst efforts have been made to ensure accuracy, neither the publisher, site host, author or his employer accept any responsibility or liability whatsoever in relation to the contents of this document.

AJ Bell Management Limited (company number 03948391), AJ Bell Securities Limited (company number 02723420) and AJ Bell Asset Management Limited (company number 09742568) are authorised and regulated by the Financial Conduct Authority. All companies are registered in England and Wales at 4 Exchange Quay, Salford Quays, Manchester M5 3EE. See website for full details.

AJBIC/TU/DD_PTS/20190121