Financial Conduct Authority

FCA

FINANCIAL CONDUCT AUTHORITY

FCA pension freedoms data collection exercise: analysis and findings

April - June 2015

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1. Introduction

1.1 This report sets out the results of the FCA data collection exercise that gathered information across a number of areas of the pensions and retirement income market:

- Consumer access to pension freedoms.
- Financial advice requirements and the treatment of insistent clients.
- The pension transfer procedures.
- Exit charges.

1.2 We collected this data to provide an essential further input into our ongoing supervisory and policy work. It will also assist us in providing input into HM Treasury's consultation on pension transfers and any barriers by customers seeking to access the new pension flexibilities. We have worked closely with the Pension Regulator who have undertaken similar activity in relation to occupational pension schemes.

Summary

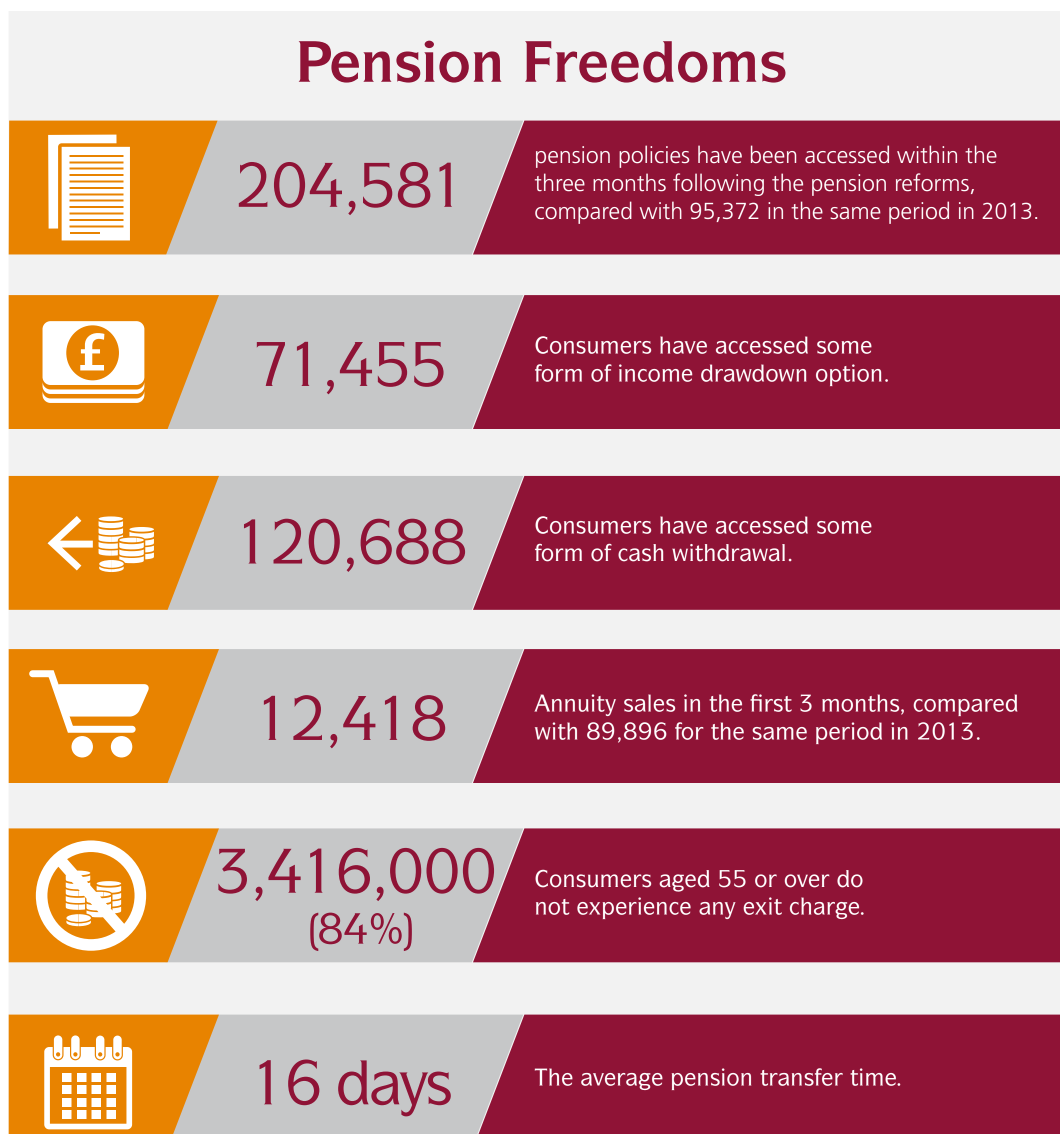
1.3 The data we received gives an important insight into the working of the new pension freedoms in the first three months of their operation. Over 200,000 pension policies have been accessed in a period of three months (Figure 1). Between 80% to 90% of people could access their pension through drawdown or uncrystallised fund pension lump sum (UFPLS) without needing to transfer providers (Figure 3). In practice a majority of consumers (particularly those seeking drawdown) need to transfer to a new contract within their existing provider to access their money in their preferred way (Figure 4). While firms are continuing to develop new options for their customers, with many expected to be available within the next six months, we expect many consumers will continue to need to transfer to a new contract when accessing their pension savings (Figures 5 and 6).

1.4 Most providers require[1] consumers transferring into their pension products from another provider to take advice, particularly among the largest firms (Figure 7), which goes beyond statutory requirements. Usually, legislative and regulatory requirements were noted as the reasons for requiring advice (Figure 8), though more detailed comments also referred to firms' strategies and product structures. Many consumers seeking to transfer their Defined Contribution (DC) pension would find that their transfers were not accepted by a significant number of providers, particularly where they wished to transfer safeguarded pensions (Figure

1 See section 4 for details of the statutory requirements.

9). Similarly, only a quarter of providers (and only 15% of the largest 15) said that they would accept transfers from Defined Benefit (DB) pensions in all circumstances (Figure 10).

1.5 Transfer times were on average 16 days (Figure 13), a low figure largely due to the efforts of the industry to speed up the process through Origo[2] (the average transfer time is for those providers using Origo systems is six days). Our data includes both transfers using Origo and those which do not. 3,416,000 (84%) of consumers eligible to access their pension savings are not charged on exit, despite the administration costs faced by firms in facilitating a cash payment or transfer. Of the remainder, 358,000 (around 9%) of consumers aged 55 or over would face a charge of 0% to 2%, 165,000 (4%) would face a charge of 2% to 5% and around 147,000 (around 3-4%) would face a charge greater than 5%. This analysis represents a snapshot of the current potential exit charge position across all personal pension policies in the included firms as of 30 June 2015.



2 Origo is an e-commerce standards and services body for the UK financial services industry which, among other roles, works with financial services companies to facilitate fast pension transfers.

1.6 The remainder of this report includes[3]:

- Section 2 setting out the background to, and the methodology of the FCA's data collection exercise.
- Section 3 presenting our analysis and findings of the scale of consumer access to the pension freedoms, by reference to the options offered by pension providers.
- Section 4 presenting our analysis and findings of the financial advice requirements firms place on consumers seeking to access the pension freedoms, and also the approaches firms take to the treatment of insistent customers.
- Section 5 presenting our analysis and findings of the current pension transfer process, including firms' views on how the process may be improved.
- Section 6 presenting our analysis and findings of exit charges that might be levied on consumers by firms.

3 It should be noted that this report does not cover all the data collected by the FCA on pensions. We have regular supervisory contact with firms, and we have also committed to a follow-up review of our retirement income market study in early 2016.

2. Background to data collection exercise

2.1 On 1 July 2015 we sent a request for data to all pension and retirement income (accumulation and decumulation) providers seeking information on the four areas referred to in Section 1. The firm population for the data request was determined by selecting all firms that held the FCA permissions for establishing, operating or winding up a personal pension scheme.[4] The time period covered by our data request was 6 April to 30 June 2015 – the three months following the introduction of the pension freedoms.

2.2 As a result of our data gathering exercise we received 116 responses. The analysis and findings we have undertaken and set out in this report is based on 107 of those responses.[5] Firms responding to the survey consist of three main groups: life insurers; investment companies and SIPP providers.

2.3 We have analysed the responses for this report in two ways. The first is an unweighted sample of all 107 firms (in which a small SIPP firm would count for the same as a large life insurer). The second presents the results for the largest 15 firms by number of pensions policies for customers aged 55 or over[6] (which represents over 90% of the pension policies for consumers aged 55 and over, according to the survey responses received).

4 A personal pension scheme is any scheme or arrangement which is not an occupational pension scheme or a stakeholder pension scheme.

5 A small number of firms' responses (9) were excluded from this analysis due to issues with the robustness of the data provided by those firms.

6 Specifically: Standard Life; Royal London; Phoenix; Friends Life; Aviva; Zurich; L&G Mature; L&G Workplace; ReAssure; St James Place; Abbey Life; Old Mutual; Aegon; Prudential; and Lloyds Banking Group Insurance.

3. Consumer access to pension freedoms

Our data shows that take-up of the pension freedoms is high, with providers making most of the pension freedoms available to their customers. While firms reported that the new products are expected to be introduced within the next six months, it remains likely that most consumers will need to transfer their pension contracts to take advantage of many of the retirement options now possible.

Overview of data requested

3.1 Section 1 of our data request asked firms to provide us with the following information on the options they offered to their customers aged 55 or over, in the period 6 April to 30 June 2015:

- The options offered by the firm, whether directly to customers or indirectly through a third party.[7]
- The total number of the firm's customers who could access each of those options.
- The percentage of the firm's overall customer base that could access each of the options, and those that needed to change their contract in order to access each of the options.
- The total number of the firm's customers who did access each of those options.
- Whether the firm was intending to provide further options for individuals seeking to access pension savings, and if so on what timescale.

Data and analysis

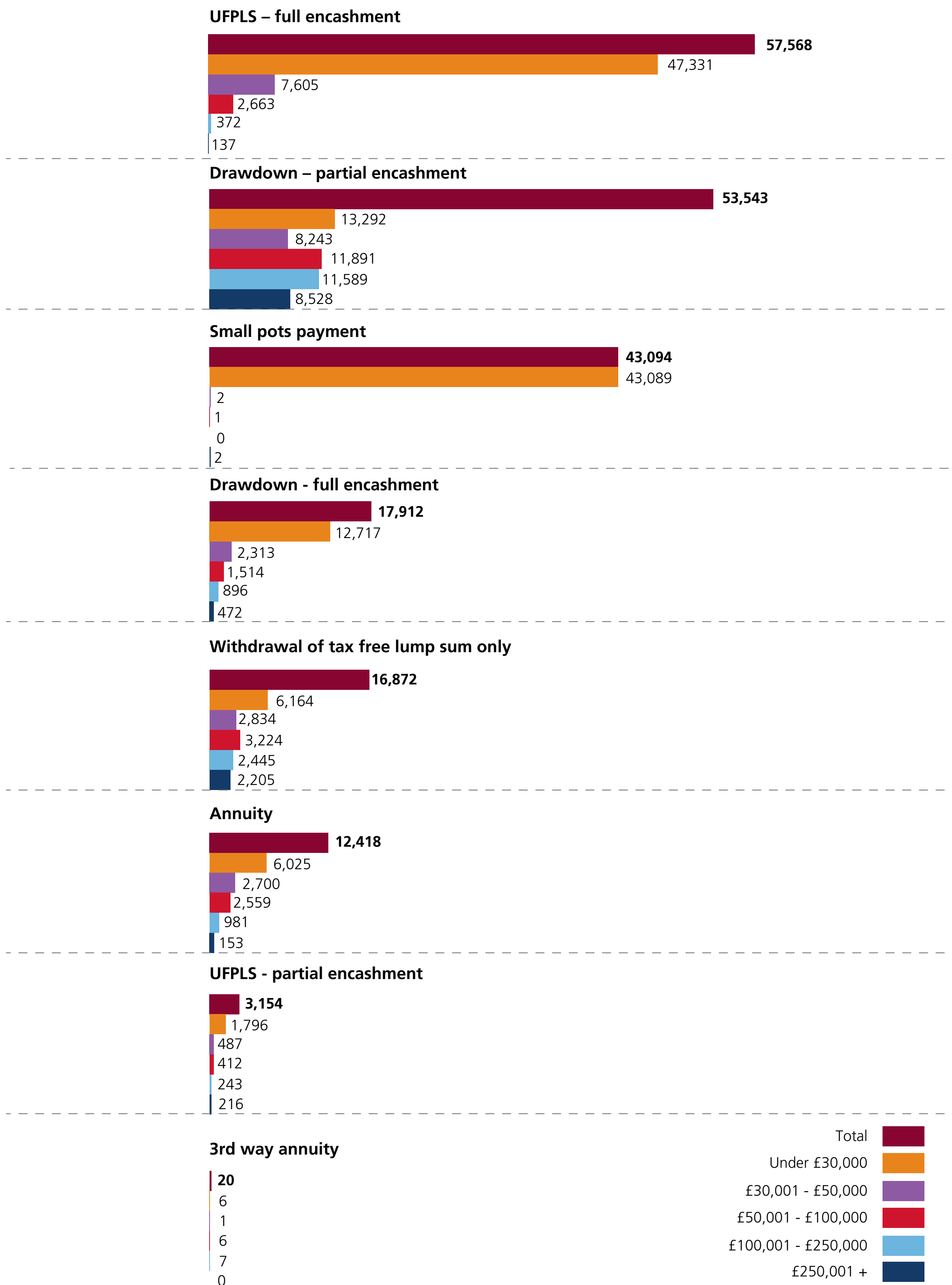
Customer access to pension freedoms

3.2 In the first three months following the introduction of the new pension freedoms, over 204,581 customers accessed their pension savings – almost 70,000 people a month – compared with fewer than 95,372 during the same period of 2013 (one year before the reforms were announced). The data we have received indicates that across all firms, and particularly among the largest 15 firms in our sample, the most popular options in the early months have been UFPLS full encashment and income drawdown. The popularity of these options may reflect pent-up demand from consumers planning to withdraw their savings in full since the reforms were announced in 2014.

3.3 We will continue to track choices made by individuals through a new quarterly provider survey. Figure 1 below shows the number of consumers who have accessed decumulation options by type of option.

7 The options listed in this section of our data request were: (1) Small pots payment; (2) Withdrawal of tax-free lump sum only; (3) UFPLS – full encashment; (4) UFPLS – partial encashment; (5) Drawdown – full encashment; (6) Drawdown – partial encashment; (7) Annuity; (8) Third way annuity (which refers to all products with some element of lifetime guaranteed income; (9) Other.

***Figure 1: Number of customers aged 55 or over who have accessed decumulation options*[8]**



8 There are references throughout this document to third way annuities. These were defined in our data request to firms as all products with some element of lifetime guaranteed minimum income. See Annes 1 for an explanation of all the product options referred to in Figure 1.

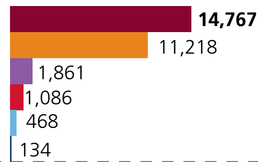
How many customers aged 55 or over (of those who have accessed their pension savings since 6 April 2015) are taking each of the available options? [largest 15]*

UFPLS – full encashment

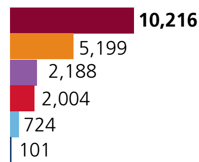
Small pots payment

Drawdown – partial encashment

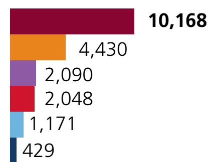
Drawdown - full encashment



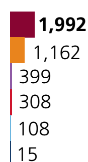
Annuity

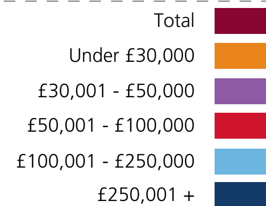


Withdrawal of tax free lump sum only



UFPLS - partial encashment

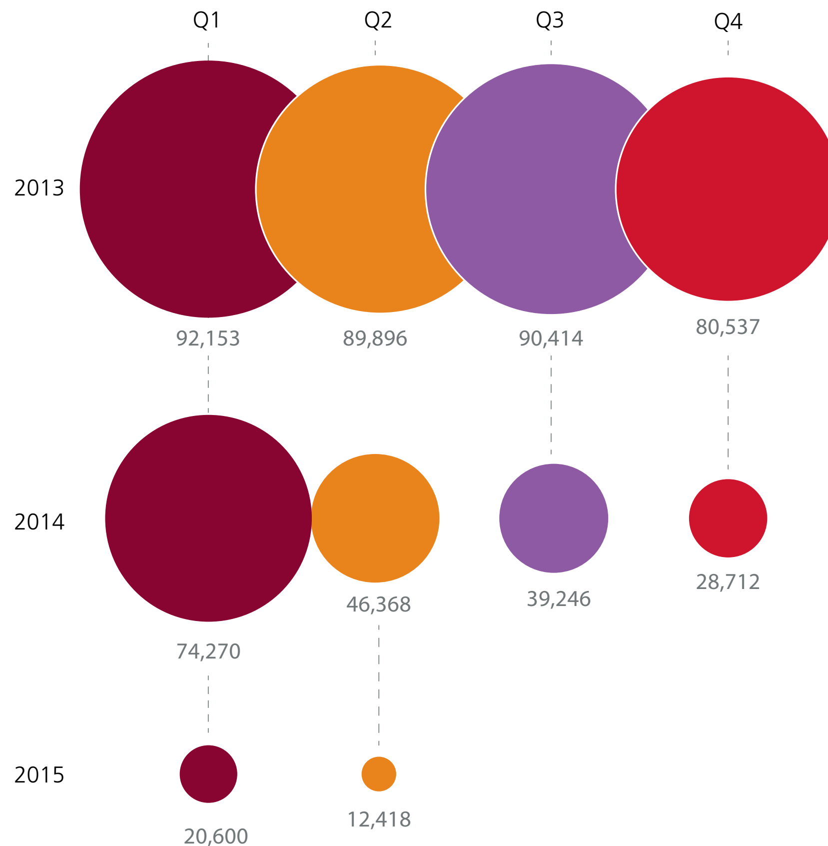




* No consumers accessed third way annuities from the 15 largest firms.

3.4 The change in take-up of different decumulation options is particularly striking when analysed against historic sales data. For example, ABI data shows that in Q2 2013, 90,000 annuities were sold; by Q1 2015 this had fallen to a little over 20,000. Our data suggests that in Q2 2015 annuity sales had fallen to 12,418 (see Figure 2 below).[9]

Figure 2: Sales of pension annuities



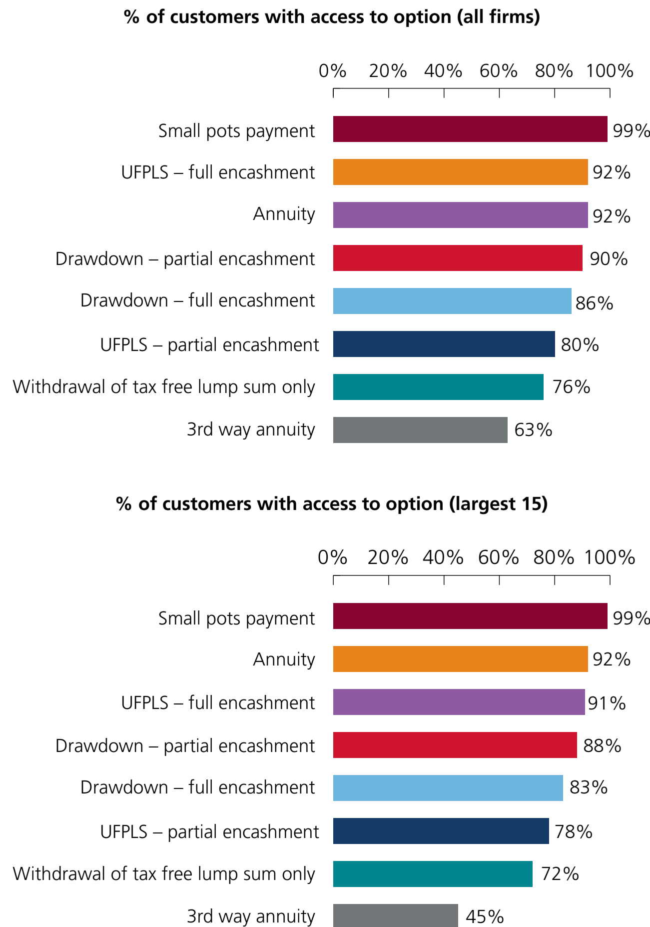
Note: ABI data except Q2 2015. Data may not be directly comparable due to possible differences in collection methods.

Potential access to options offered by pension providers

3.5 The data from firms outlining the options available to their customers aged 55 or over in the period 6 April until 30 June 2015 in Figure 3 suggests that the firms are offering a wide range of choices to consumers and that take-up in the early months is not likely to have been reduced by a lack of access to the new product options available as a result of the pension freedoms (despite the need to change pension contracts in many cases). The results below show that large numbers of consumers have access to the full range of decumulation options, both across all firms and the largest 15 firms in our sample. Further, many firms are in the process of developing further decumulation options for their customers (see Figure 5).

9 Recent data published by the ABI for Q2 2015 points to annuity sales of around 17,800. Inevitably differences arise in the exact numbers given the two data collection exercises collected figures on different basis from different sets of companies at different times. As the ABI press notice states that figures from some providers have been re-stated since ABI published statistics for the first two months of the reports, so firms may have restated or recalculated figures since supplying our data. Despite this caveat, both our data and the ABI published data indicate the same clear and sharp downward trend in annuity sales even if there are differences in the exact numbers of annuities sold.

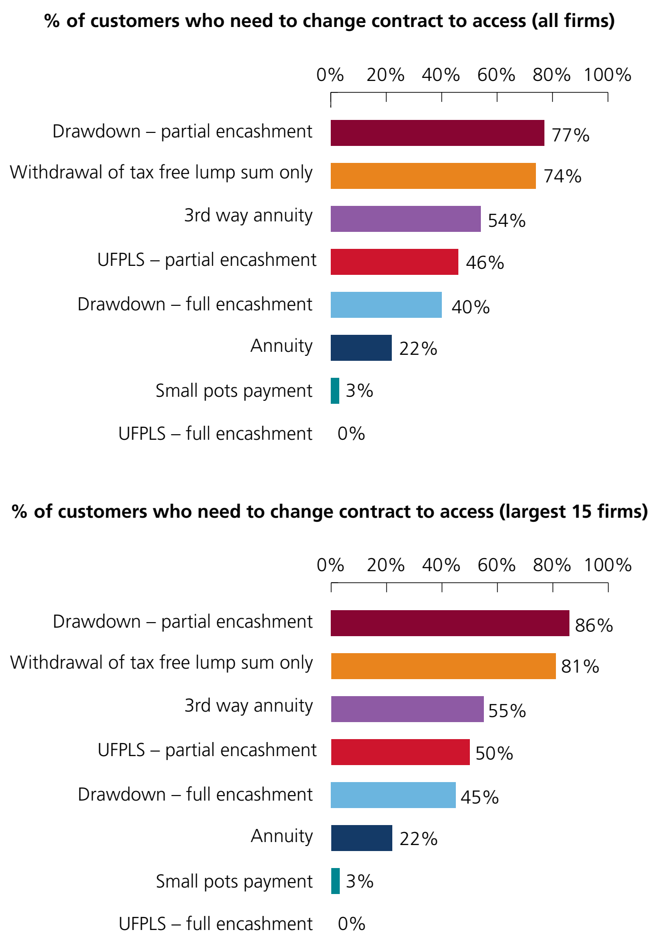
Figure 3: percentage of customers aged 55 or over who could access decumulation options



3.6 In contract-based pensions, options available for accessing pension savings will be determined both by the options made available by the firm and those available through the specific pensions contract which the customer has with the firm. For many individuals, accessing the options will require them to terminate their existing contract and move to a new pension scheme (with a new contract) to access some of the decumulation options. The charts above capture all of the options available to the customer, both in their existing contract and in alternatives that the firm may offer. We therefore also asked firms to provide data on the number of their customers who would be required to change contracts in order to access each of the decumulation options they offer.

3.7 As the results below show, the options where customers are most frequently required to change contracts are income drawdown and the withdrawal of the tax free lump sum only. Annuity and small pot payments[10] require contract changes far less frequently. This is consistent with a situation in which a large proportion of customers are in older pension schemes, where the existing contract is designed to provide customers with an annuity at the point of decumulation (sometimes with Guaranteed Annuity Rates (GARs)), rather than the full range of pension flexibilities now permitted.

Figure 4: percentage of customers needing to change contracts to access decumulation options

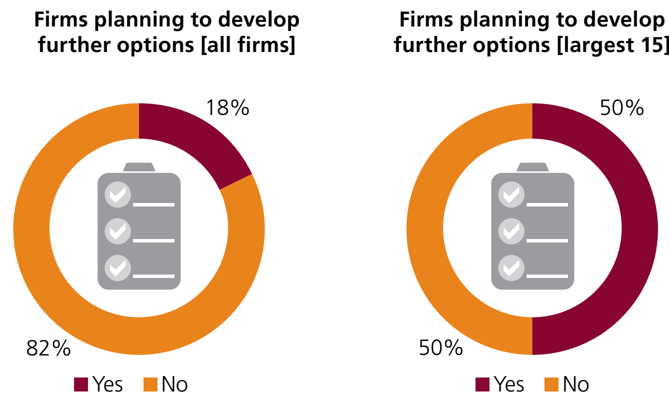


10 In relation to small pot payments, we asked firms to respond to this question on the basis of if the customer had a pension pot that qualified for the payment in size terms, whether the consumer's contract would give them the right to the small pot payment option. Our data shows that 1% of customers would not have access, and to obtain access would need to either change their contract with their existing provider or transfer to another pension provider.

Future product development

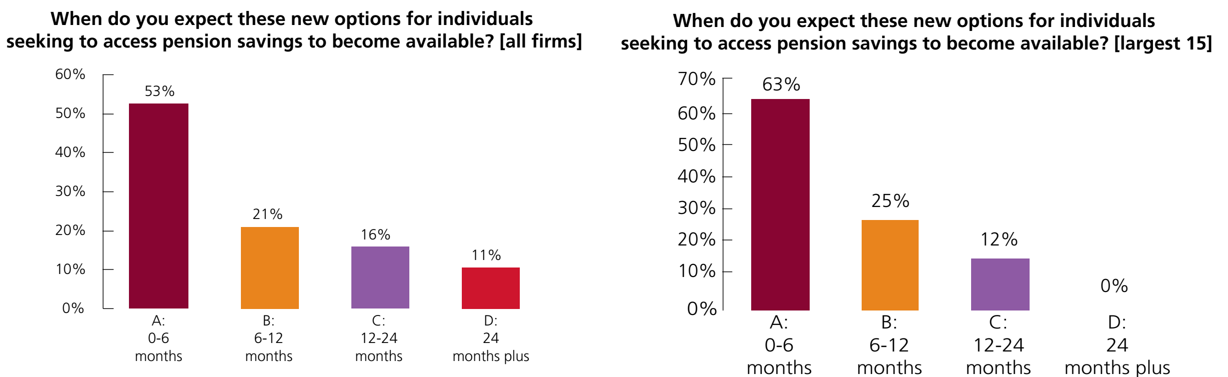
3.8 In addition to asking firms for information on their current offering of options, we asked firms to provide details of any further options being developed to help consumers access their pension savings. 18% of all firms and 50% of the largest 15 firms in our sample stated that they were planning to develop further options. The range of products in development includes flexi-access drawdown, partial designation/phased drawdown, UFPLS, third way products, and fixed term, with-profits and long-term care annuities.

Figure 5: product development intentions of firms



3.9 We also asked firms developing new product offerings to indicate the expected timescale for when these options would become available to their customers. As shown in the charts below, around half of all firms and around 60% of the the largest 15 firms in our sample developing new product offerings expected them to reach the market within the next six months.

Figure 6: timescales for new product development by firms



4. Financial advice requirements and insistent clients

Given the importance and irreversible nature of the decision, providers will commonly require that consumers take advice before accepting transfers from customers seeking to access their pension savings, particularly if they seek to access their savings over time through an investment vehicle. This is in addition to the statutory requirement on ceding scheme providers to check that advice has been taken for safeguarded benefits of more than £30,000. Firms have the discretion not to accept transfers, and one in five providers do not accept transfers from DB pension schemes with almost a third of all firms not accepting transfers from insistent customers.

Overview of data requested

4.1 In sections 2 and 3 of our data request we gathered data from firms on the extent to which they require consumers seeking to access the pension freedoms to take financial advice, including where firms are going over and above the regulatory and legislative requirements and their willingness to accept pension business from insistent customers.[11] Specifically, we requested data on:

- The circumstances in which advice requirements are in place for customers transferring out of firms' pension products in order to access the pension freedoms, and the rationale for requiring advice.
- The circumstances in which advice requirements are in place for customers transferring into firms' pension or decumulation products, and the rationale for requiring it.
- The circumstances in which firms accept transfers from DC pensions, DB pensions and insistent customers.

Data and analysis

Overview of firm advice requirements

4.2 For safeguarded benefits of more than £30,000, section 48 of the Pension Schemes Act 2015 requires that the trustees or managers of a scheme check that a member has received appropriate independent advice before allowing a conversion or transfer of safeguarded

11 Those customers wishing to pursue a course of action against the advice they have been given by their financial adviser.

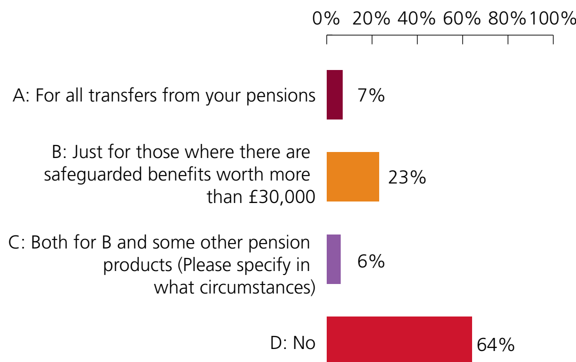
benefits to flexible benefits. We asked firms to confirm whether or not they required advice for customers transferring out of their pension products in circumstances other than where there are safeguarded benefits.

4.3 Some firms require advice over and above the legislative requirements, with a small number of firms outside of the largest 15 requiring advice for those seeking to transfer in all cases, and some firms requiring advice in other circumstances, which we explain in the section below. Firms' responses might suggest that some do not require customers to take advice in circumstances when this is required by legislation. In practice we do not consider this to be the case, since their responses appear likely to suggest that:

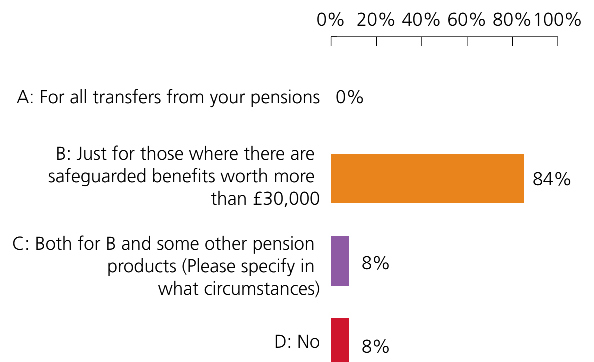
- many of the firms responding do not offer pension schemes with safeguarded benefits
- firms responding believe that the receiving firm is responsible for imposing the advice requirements on the consumer, despite the fact that the legislative requirements relate to trustees or managers of a scheme (see paragraph 4.2 above).

Figure 7: advice requirements for transfers in/out of pension products

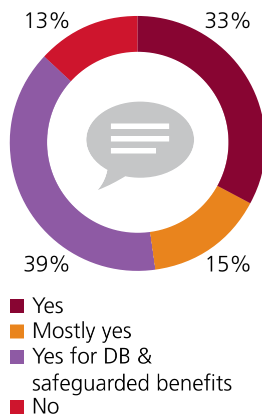
Do you require advice for customers transferring out of your pension products in order to access the pension freedoms? [all firms]



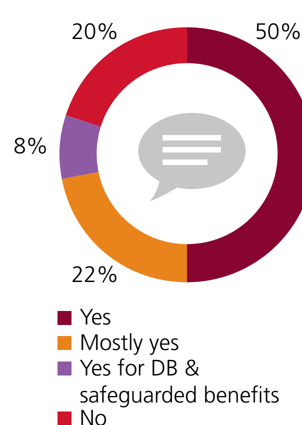
Do you require advice for customers transferring out of your pension products in order to access the pension freedoms? [largest 15]



Do you require advice for consumers transferring in to your pension products? [all firms]



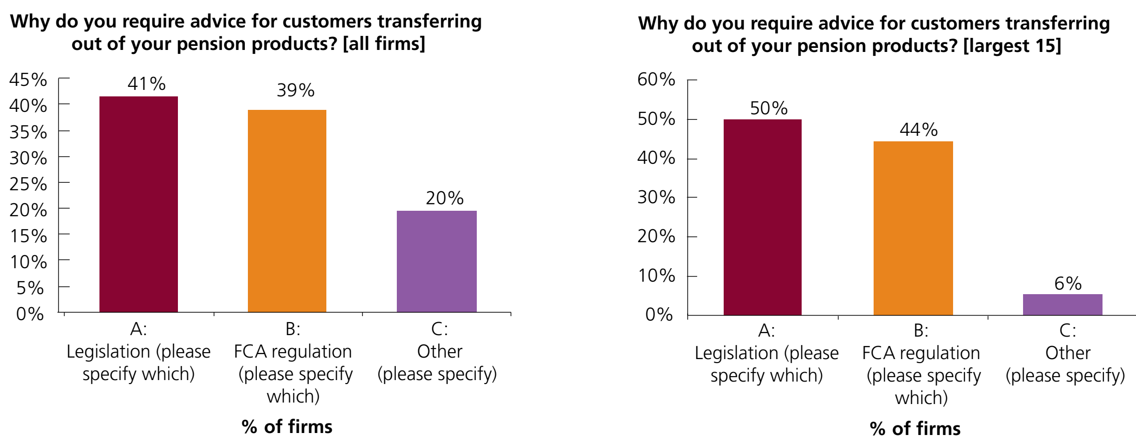
Do you require advice for consumers transferring in to your pension products? [largest 15]



Firm rationales for advice requirements

4.4 We asked firms to state the reasons for advice requirements they had in place for customers transferring out of their pension products. The results are below, which are very similar across all firms and the largest 15 firms in our sample.

Figure 8: reasons for firm advice requirements for transfers out of pension products



4.5 Qualitative responses from firms specified a number of reasons for the advice requirements they had in place. The primary reason given was legislative or regulatory requirements relating to transfers from Defined Benefit schemes and schemes with safeguarded benefits of over £30,000 (categories A and B in Figure 8 above). This indicates some confusion among firms with regard to whether regulation or legislation drives advice requirements. While there are some regulatory requirements such as the need to use a pension transfer specialist, the requirement to take advice comes from legislation. Nevertheless, the combination of legislation and regulation suggest that most firms are requiring advice for policy rather than business reasons.

4.6 The other main reasons cited for the existence of advice requirements (category C in Figure 8 above) were unrelated to regulatory or legislative requirements and instead imposed on firms' own initiative, as set out below:

- The firm's business strategy includes a general requirement to seek advice on all products or transfers, or similarly, because the firm's business model operates on an advised-only basis (either providing the advice itself or by only accepting business through financial advisers).
- Certain product offerings required advice, and the specific products cited in this regard were SIPPs and income drawdown (both flexi-access and guaranteed). In relation to SIPPs, some firms explained that their product had been designed with a view to being accessed through a financial adviser.
- Where funds were above a certain level, for example minimum fund levels for accessing a specific types of product, or minimum fund sizes when seeking to access decumulation more generally.
- Finally, in circumstances where customers were transferring from occupational schemes.

Transfers from DC and DB pensions

4.7 We asked firms to confirm whether they accepted transfers from DC pensions, DB pensions and from insistent customers. In terms of DC pension transfers, 56% of firms accepted transfers in all circumstances, and 12% did not accept transfers in any circumstances. For DB pensions, 56% of firms accept transfers in some circumstances, with 25% of firms accepting transfers in all circumstances and 19% not accepting transfers in any circumstances. The results are shown in Figures 9 and 10 below.

Figure 9: Transfers from DC pensions

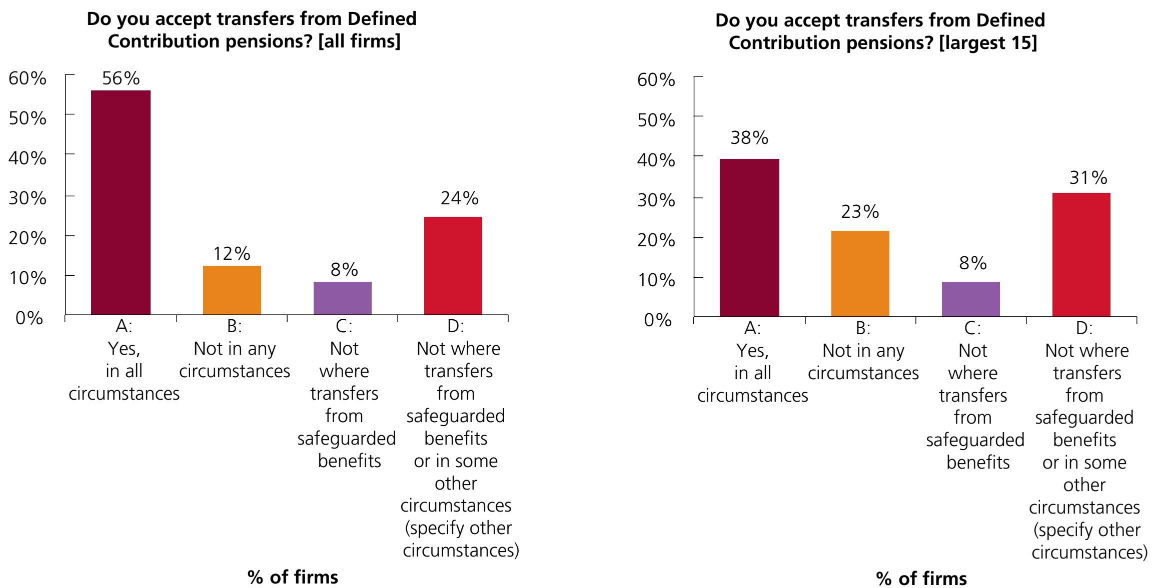
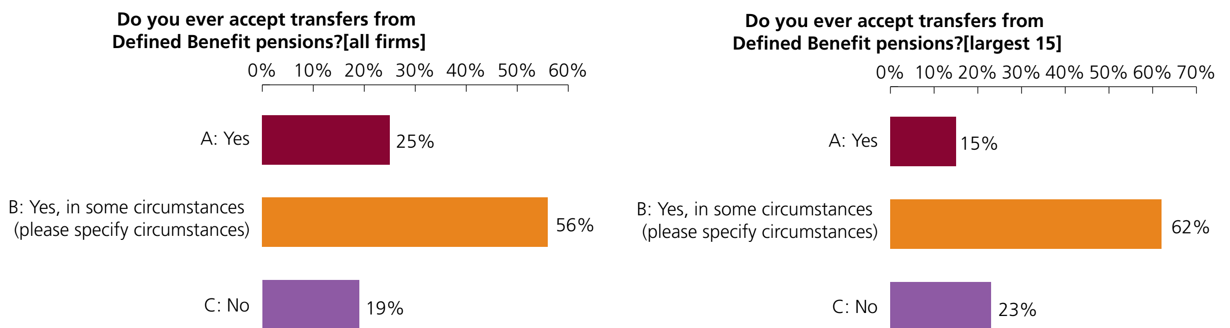


Figure 10: Transfers from DB pensions



4.8 Firms provided the following reasons to explain why they might want to refuse a transfer:

- Where the firm suspected fraud, pension liberation (or other scam activity), financial crime or there were other due diligence concerns, such as where the transfer was from overseas or a non-habitual UK resident, or where the transfer was not being facilitated by an independent financial adviser with the correct FCA permissions, or the scheme in question was not authorised.

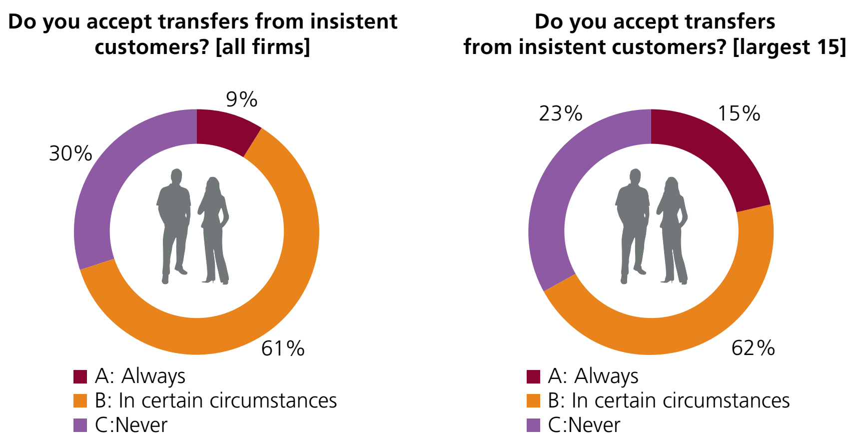
- The intentions of the customer regarding product choices. For example, where the transfer in question was being made with a view to moving into income drawdown, or to withdrawing the whole fund, or the transfer in question was below the firm's minimum value requirements, or because the scheme to which the consumer wishes to transfer is closed book business.

- The suitability of the transfer – some firms referred to circumstances where the size of the fund being transferred and the charges that would be incurred by the consumer would appear to make the transfer not economically beneficial for the consumer. In the context of SIPPs, firms referred to situations where the assets being proposed for transfer were deemed unsuitable by the SIPP provider for their product.

Treatment of insistent customers

4.9 We asked firms to confirm whether they accepted transfers from insistent customers, that is those customers wishing to pursue a course of action against the advice they have been given by their financial adviser. The aggregated results of firm responses to this question are similar across all firms and the largest 15 firms in our sample, and are set out in Figure 11 below.

Figure 11: insistent customer transfers



4.10 Two main reasons were given by firms regarding the circumstances in which they refuse to accept transfers from insistent customers: first where the transfer concerned a DB scheme or one with other safeguarded benefits (where we would expect most insistent customer situations to arise); and second where the transfer is not facilitated by a financial adviser. Other circumstances mentioned by firms included where:

- The investment type concerned was deemed unsuitable (in SIPPs).
- Due diligence conflicts were present.
- The transfer is from an occupational scheme.
- Where the financial adviser could not show adherence to FCA guidance.

4.11 We also asked firms whether there was any variance of their approach to insistent customers by type of customer or the type of option the consumer was seeking to access. Nearly all firms stated that there was no variance in their approach, but of the firms that did vary their approach, the reasons cited were:

- The firm takes a case-by-case approach to the issue, for example considering the broader suitability requirements.
- As a result of the minimum fund requirements of the firm, or due to the type of legacy plan held by the consumer.
- Where the transfer was from an occupational scheme – in this regard, responses did not differentiate between DB and DC occupational schemes.

4.12 In practice, following up with firms to explore their treatment of insistent clients, it is apparent that most firms that state that they do not accept insistent clients or will only do so in certain circumstances, do not ask advisers whether they are acting on an insistent client basis. If a customer is able to find an adviser willing to act on their behalf[12], it is likely that providers will accept the transfer.

12 The Financial Advice Market Review will consider the current regulatory legal framework governing the pension of financial advice and guidance to consumers and its effectiveness in ensuring that all consumers have access to the information, advice and guidance necessary to empower them to make effective decisions about their finances.

5. Pension transfer process

Pension transfer times are generally low (average 16 days), though in a minority of cases, specific features of the transfer result in transfer times significantly higher than average (the longest in our data sample was as much as 191 days). Firms have a range of suggestions for improving the speed of pension transfers.

Overview of the data requested

5.1 In section 4 of our data request, we gathered data from firms on the pension transfer process, in particular:

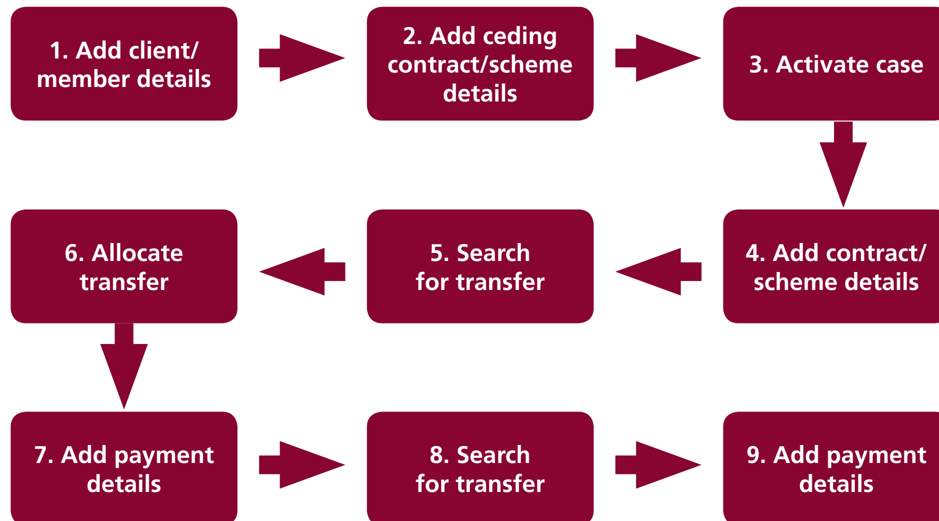
- The steps typically involved in processing transfers out of pensions and/or into decumulation.
- Firm average, target and longest pension transfer times.[13]
- Firms' views on the steps that could be taken to improve access to flexible decumulation options and the efficient operation of the transfer process in connection with accessing those options.
- Firms' views on the potential savings, process improvements or improved customer satisfaction from developing a standardised approach to pension transfers.

Firm transfer process

5.2 A number of firms explicitly referred to using the Origo Options pension transfer service. 70 pension providers currently participate in this process, including all of the largest 15 firms in our sample.[14] An overview of the Origo pension transfer process is set out below.

13 Defined in our data request as the time from a member's initial request to the point the funds leave the scheme.
14 www.origoservices.com/OurServices/OptionsTransfers/Options_Transfers_Customers.aspx

Figure 12: overview of Origo Options pension transfer process



5.3 The Origo transfer process begins once a consumer has received a transfer application form and returned it to their provider. At that point, the information is inputted into the Origo system. The next stage is for the ceding provider or scheme to input the relevant details to enable the receiving provider/scheme to re-register the assets and/or facilitate the cash transfer. The necessary due diligence checks are completed prior to the transfer taking place. A transfer case is marked as completed on Origo when the funds have been received by the receiving provider/scheme and the ceding provider/scheme closes the case on the Origo system.

5.4 Where the Origo transfer process is not used, then firms' responses show that transfers are completed via paperwork and post. While each firm's process will vary, the responses show that there are common steps in the paperwork process across firms, such as:

- Relevant paperwork is sent to the consumer, which is completed and returned to the pension provider.
- The provider will then check whether the forms are completed correctly and conduct necessary due diligence checks, including assessing the validity of the receiving scheme.
- Risk warnings are delivered to the customer and processing takes place. Once these steps are completed payment takes place.

5.5 In the context of SIPP providers, the process can vary depending on whether the transfer is in cash or in specie (i.e. transfer as assets). If in specie, there is an additional stage in the process whereby the asset holdings must be assessed to confirm that the receiving provider is capable of holding them. Firms may not be capable for a number of reasons including that they do not allow an asset class into their SIPP; they may have issues with the specific asset for example, it is hard to value or not allowed by HMRC; or the asset may have costs that they are unwilling to accept. Some platforms may choose not to allow any in specie transfers due to the complexity of the transaction.

Firm transfer times

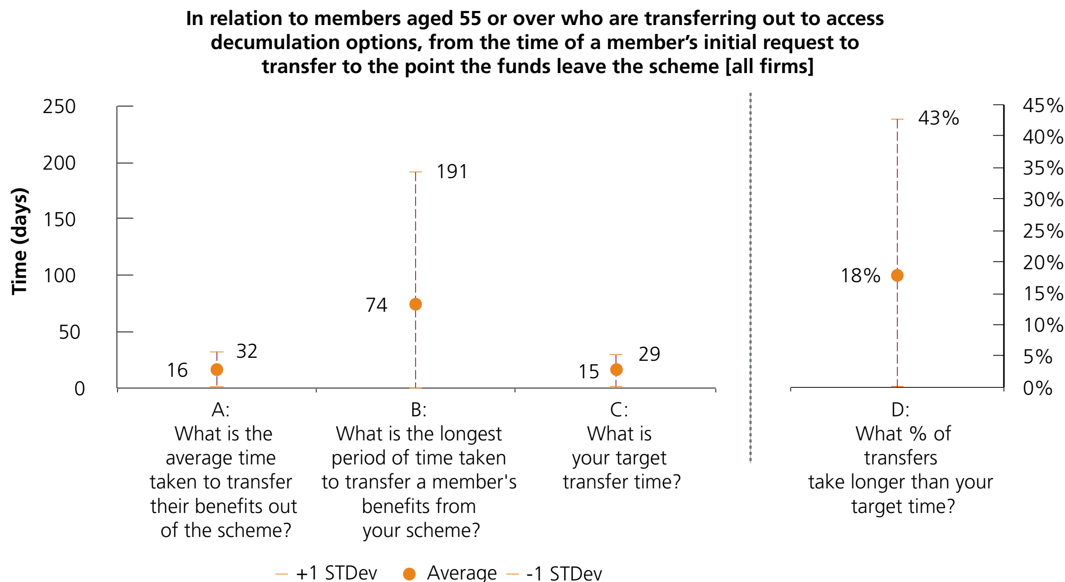
5.6 According to Origo statistics, the average transfer time using the Options service is six days, although some transfers are completed in less than one hour. Before the development of the

Origo service, Origo states that pension transfers took over 50 days to complete.[15] Certain external factors can affect the length of the Origo transfer process in a given case, for example:

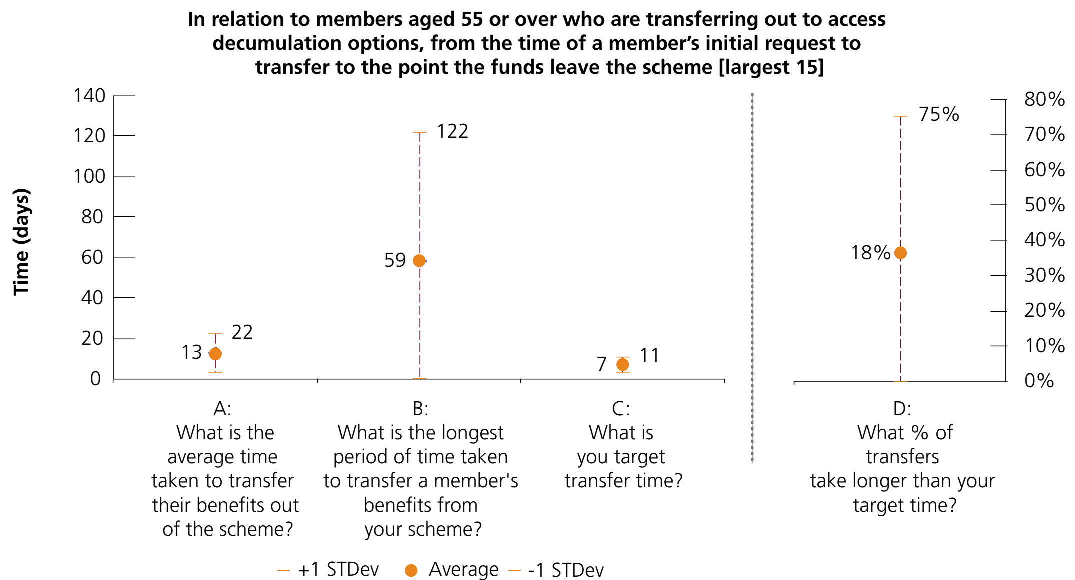
- The level of integration that the provider's administrative systems have with Origo's Options service.
- The extent of the due diligence checks required by the firm (for example, money laundering checks).
- In relation to SIPPs, where some of the non-standard investments are more illiquid, this can delay the disinvestment and consequently the transfer.

5.7 Firms were asked to provide us with data on average, target and longest pension transfer times. This data also incorporates transfers where systems such as Origo are not used and the transfer is typically processed by paper and post. An aggregated view of the data we received is set out below. The charts illustrate in each case the average and plus/minus one standard deviation from the average to indicate the variance in time taken as experienced by customers. At 16 days (across all firms), the average time taken to transfer is generally low, but is significantly higher than the Origo average of six days whose transfers are included within our dataset (the six days will require both sides of the transaction to be using Origo systems).

Figure 13: aggregated view of pension transfer times



15 www.origoservices.com/OurServices/OptionsTransfers/OptionsTransfers_About.aspx



Improving access to decumulation products

5.8 We asked firms to provide their views on the barriers to accessing decumulation products and also any steps that could be taken to improve access. We received a wide range of feedback to the survey outlining the issues experienced with transfers and some potential solutions.[16] We have grouped the feedback into four categories:

- *The role of financial advice in decumulation.* Some firms noted the impact of the cost and requirement to access financial advice given the complexities of decumulation. Some firms suggested removing the advice requirements for savings with safeguarded benefits over £30,000, with efforts instead to promote greater media and consumer awareness of the issues around, and value of, safeguarded benefits. Linked to financial advice, some firms also referred to the lack of a 'regulatory safe harbour' for providers on dealing with insistent customers as hampering their ability to provide access to decumulation options.

- *Consumer education and provision of information.* Some firms stated that there should be continued customer education on the complexities of retirement through the use of online tools and the Pension Wise service. There should also be a standardised process for consumer access to advice and/or Pension Wise and a standardised certificate to show evidence of access – this would be a new regulatory requirement. At the point at which firms and consumers interact, it was suggested that there should be prescriptive set of steps that each provider should undertake when processing decumulation requests. The standardisation of retirement risk warnings was also suggested.

- *The impact of regulatory and policy change on decumulation access.* Some firms believed that benefits could be achieved by simplifying access to flexible decumulation though removing the lifetime allowance and capped income drawdown.

- *Removing or mitigating barriers to exit and access.* It was suggested by some firms that consumers should have the right to move providers free of charge (including exit charges) if their existing provider does not offer all decumulation options. Another firm stated that all schemes should offer one flexi-access drawdown or UFPLS option. Conversely, it was also suggested that there should not be a statutory override requiring providers to offer all decumulation options. In the context of SIPPs, firms thought that there should be an improved process for exiting illiquid investments.

16 The information provided by firms to the FCA neither reflects nor purports to reflect any opinion on the FCA's part about good or poor practice by firms, or what if any action will be taken in the future by the FCA.

Improving the pension transfer process

5.9 We also asked firms for their views on how to improve the efficient operation of the transfer process in connection with accessing decumulation options, as well as their views on the benefits and risks from developing a standardised approach to pension transfers. Firm responses provided a number of suggestions for improving the pension transfer process, in particular:

- Setting maximum timescales for transfers to take place, such as the ten working day deadline introduced by HMRC in relation to ISAs.[17] Firms suggested that timescales could be introduced including maximum turnaround times for each stage in the process. In the context of SIPPs, this could include introducing deadlines for the transfer of standard assets and improving the speed of the transfer process for non-standard assets.

- Standardising and digitalising the transfer process was suggested by firms. They believed this could be achieved through mandatory requirements on providers to use the Origo Options system or one of a number of other interoperable transfer providers in order to have a single, consistent transfer process. Other firms suggested changes included agreeing a standard set of information to be provided by ceding providers/schemes, and a requirement to provide this information in a standardised format. It was also proposed that the Department for Work and Pensions develops automatic transfers[18] further and consider extending it to other schemes.

- Streamlining the transfer verification process in a number of areas was also suggested by firms, in particular using web-based technology for proving member identity and scheme registration; and removing the requirement for signed customer declarations for transfers via the Origo Options service (some advisers are content to use verbal authority in their record-keeping).

- Providing easier access to the information necessary to facilitate a more efficient transfer process was another idea given in response to our survey. In particular, firms wanted: access to occupation scheme rules made available freely to all, rather than having to request them on an individual member basis; the creation of an up-to-date, accurate register of occupational schemes; and, extending the availability of risk information (such as credit and liquidity risk) on counterparty schemes/providers to transfers beyond authorised firms, in order to facilitate more efficient due diligence.

5.10 The benefits cited by firms from a standardised approach to pension transfers were primarily a reduction in transfer delays (as evidenced in relation to ISAs and General Investment Accounts); more effective management of consumer expectations from a mandatory transfer deadline; and, greater customer satisfaction as a result of improved timescales. It was also suggested that risks to consumers would be reduced as a result of a standardised approach, for example reductions in error risk during the due diligence process, or the risk of the client transferring into an inappropriate scheme.

5.11 That said, the responses highlighted a number of perceived potential risks to consumers from a standardised and faster pension transfer process, in particular:

17 In addition to the comments of firms regarding the ten working day deadline for ISAs, the FCA has also recently reviewed the effectiveness of the Current Account Switching Service which aims to simplify the process of switching current account providers. Our review found that the vast majority of switches are completed within seven days and without error, and that most consumers who have used the service rated it positively. See www.fca.org.uk/about/what/promoting-competition/current-account-switch

18 See Annex 1 for the definition of the automatic transfers initiative.

- The need to balance improved timescales with increased risk of fraud, particularly if the process incorporated the use of online transfer submission and/or customer signatures. Faster transfer times may also give rise to the risk of consumers not receiving appropriate advice, particularly if requirements around DB pensions and safeguarded benefits are removed.

- In a SIPP context, responses suggested that there was less scope for standardisation, as there was a need to retain the flexibility for transfers of illiquid assets, although this would only affect customers of those products holding such assets. As noted earlier, in specie issues also create an additional stage in the process whereby the asset holdings must be assessed to confirm that the receiving provider is capable of holding them.

- Firms felt that there was a risk that if participation in the process was not mandatory, consumer benefits would not be realised. For example, there was a risk of a two tier system or overlapping processes if firms did not implement the necessary changes at the same time, or some firms took different approaches to the level of technology development undertaken to participate in the service. Additionally, some providers may decide to reduce their decumulation activity rather than invest in their legacy systems to facilitate a standardised transfer service. This could result in consumers having less choice when accessing decumulation options. Equally, a single provider of pension transfer services could pose competition issues.

6.
Exit charges

We looked at all consumers for this section of our data collection and analysis (including those that are not eligible to access the pension freedoms at this time) rather than just those who had made pension choices in the last three months. 3,416,000 (84%) of consumers eligible to access their pension savings are not charged on exit, despite the administration costs faced by firms in facilitating a cash payment or transfer. Of the remainder, 358,000 (around 9%) of consumers aged 55 or over would face a charge of 0% to 2%, 165,000 (4%) would face a charge of 2% to 5% and around 147,000 (around 3-4%) would face a charge greater than 5%. This analysis represents a snapshot of the current potential exit charge position across all personal pension policies in the included firms as of 30 June 2015.

Overview of data requested

6.1 Given the findings of our data analysis on the percentage of customers who have to change contract in order to access the new decumulation options offered by firms, it is also important to consider the extent to which those customers face exit charges when seeking to change contract. In section 5 of our data request, we gathered data from firms to understand the following:

- The types of charges that can be levied on customers in personal pension policies currently on firms' books and the rationale for them.
- The costs that firms incur in administering pension transfers out and the cashing in of pensions by customers.
- The range of reductions that different types of customers would face if they were all to transfer or cash in their pensions.

6.2 Given the time available, we have prioritised our analysis of exit charges levied by life insurance companies, given their greater coverage of the market (as noted earlier, over 90% of pension policies held by customers aged 55 or over). The analysis in this section is based on the data submitted by 23 firms (including the largest 15 firms)[19] unless otherwise stated – for example, our analysis of estimated administration costs (Figure 14) is based on all 107 firms in our sample relative to the largest 15 firms, where we were able to generate comparable data. The analysis in the remainder of this section is based on the data submitted by 23 firms, including the largest 15 firms in our sample.

19 Specifically, the largest 15 firms and: AXA, Canada Life, MetLife, Mobius, NFU, Police Mutual, Sanlam, Scottish Friendly, Teachers Provident and Wesleyan Assurance.

Data and analysis

Qualitative overview of types of charges levied on customers

6.3 A number of (typically smaller) insurers have no pension product lines on which exit charges would be applied. The larger insurers typically have a number of charging structures and as a result there are product lines where no exit charges are applicable (either because the charging structure doesn't include an exit charge or due to the passage of time since the policy began) and product lines where exit charges are applicable. Depending on the charging structure (and in some cases premium type), charges may be applied on exit, either before a certain time period has elapsed since the policy start (for example five years), or if benefits are taken at any time before the retirement date selected at the outset of the policy.

6.4 Only one life insurer referred to a fixed charge in relation to administration of an early exit in their response to our survey. This charge of £25 (unchanged since the applicable policies were launched) related to additional administration work required for early terminations, relative to the highly automated process in place for maturing contracts. All other charges were some form of 'early' exit charge built into the charging structure.

6.5 A range of terminology was used by firms to describe their charges, including surrender charges, early withdrawal adjustments, discontinuance charges and early retirement charges. While the data we have collected shows that there is a significant number of differing charging structures behind the exit charges however, capital/accumulation units structures[20] were common. This is reflective of the 'back-ended' nature of this type of charging structure. 'Front-ended' charging structures such as those where there is little or no allocation of early premiums to the customer's fund typically do not incorporate exit charges.

Qualitative overview of firm rationales for exit charges

6.6 The most commonly cited reason for the existence of exit charges was to cover outstanding initial expenses and/or initial commission. That is, the charges are intended to recover sunk costs rather than the administration cost to the firm of the customer transferring or cashing in their policy. The other reasons provided by firms were as follows:

- To recoup the outstanding charges that would have been deducted over the remaining term of the plan. Some firms explicitly referred to this charge recovering part of the future 'margin' on the policy exiting early. For other firms that cited this reason but were not explicit on the issue of profit recovery, we would also expect their charges to include at least some element of profit as well as recouping outstanding expenses.

- Some firms highlighted that, when designing and pricing products, the company would have been seeking to ensure that a combination of all charges (including any exit charges) were sufficient to recoup all expenses, as well as achieving a desired competitive position at an appropriate level of profit. The charges over the lifetime of the product would have been considered in aggregate relative to the anticipated overall level of expenses and usually also considered across broad cohorts of the firm's business (for example various terms, premium levels and payment patterns).

20 This is a charging structure which has a higher annual management charge (AMC) for units purchased by regular premiums received in the first one or two years of a contract. These units are often referred to as capital (or initial) units, with units purchased by other contributions referred to as accumulation units.

- In a small number of firms, the rationale for exit charges was to put the individual into the position of an identical individual who would have chosen the shorter duration of the policy at the outset. To do this, policy values on some product lines are reduced on early exit to remove the impact of an enhanced allocation rate that would not have applied had the policy been taken out for the shortened term originally.

- Finally, some firms explained that specific charges would not have been aligned to cover specific types of cost. As such, their position was that the charging structure was designed based on the aggregate position of the firm over the lifetimes of the contracts written rather than with reference to administration costs on exit. This may also apply to firms that did not explicitly make this point in their responses. Our survey did not collect data on Market Value Reductions or transfer values.

Firm assessments of whether charges are commensurate with intended rationale

6.7 Firm responses to this section of our data request stated that the current charges were in proportion with the intended reason for the charge. However, it was clear from our analysis of firm responses that they were predominantly confirming that the charges were calculated as originally intended. Their responses did not contain a view as to whether the current level of the charge was commensurate with the intended purpose of the charge.

6.8 Where a firm had conducted analysis of charge levels relative to intended purpose, they stated that factors were set according to charges at the outset and had been subject to review. Additionally, another firm had conducted an analysis of the capital unit charging structure, which had shown that the capital unit AMC combined with exit charges was, in its view, reasonable when compared with initial commission and other initial expense assumptions on a similar product line. Other comments submitted by firms in response to this question are below. Again, this information does not reflect or purport to reflect any opinion on the FCA's part as to whether charges are commensurate with the intended rationale:

- Because many of these products were designed more than 25 years ago, the original actuarial pricing work for most of these products is no longer available. Therefore, it is not straightforward to answer the 'intended reason' question (and consequently also the 'judgemental assessment' question).

- If firms failed to deduct exit charges, it would mean those who leave early do not cover their costs, which is unfair to those who do stay until maturity date. This firm did not state the grounds on which they considered the position 'unfair'.[21] It is possible that charges are used in a number of firms to put certain policyholders in a broadly similar position to if they'd taken out a shorter duration policy originally – but they did not tend to say that this was the case. However, some firms' charges did put their customers back in exactly the position of having taking out a shorter duration policy originally and said so in their response to the questionnaire. Additionally, another firm said that no material profits were made from these charges and indeed firms might in fact incur a loss if they were removed.

- One firm stated that they considered their charges were fair as they approximated to the charges taken on products with a front-ended structure.

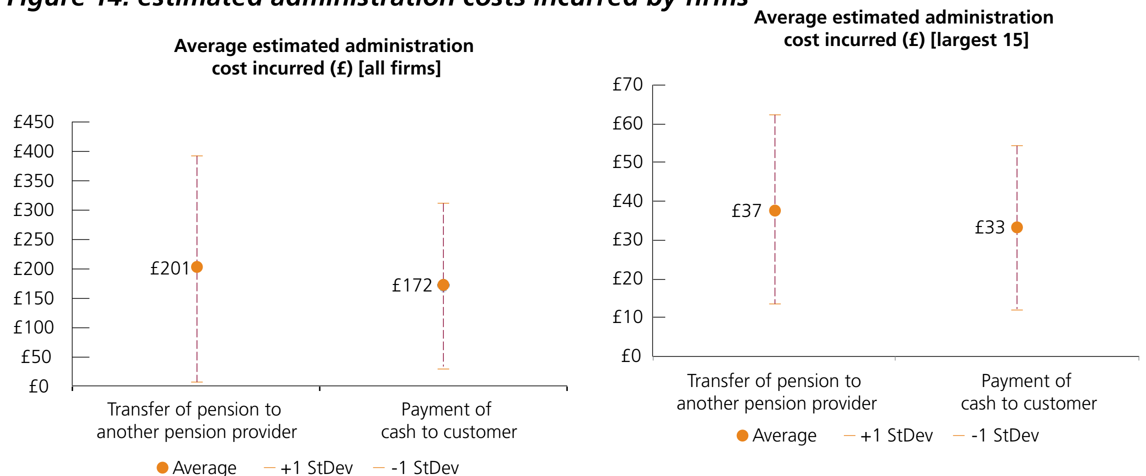
21 This fairness consideration differs depending on where the business is written. If the business is written in a with-profits fund, any reduction/removal of exit charges would impact on the fund (most likely reducing the estate). Removal/reduction of charges on business written outside of a with-profits fund would impact on shareholders.

- Finally, at the time of writing this business, other companies were writing contracts with a nil allocation period. A nil allocation period would not appear unfair in terms of this survey as the units were never allocated and thus there is no penalty. Arguably, having the capital units is fairer than just a nil allocation period, even though it might appear as a penalty on transfer now.

Firm estimates of administrative costs

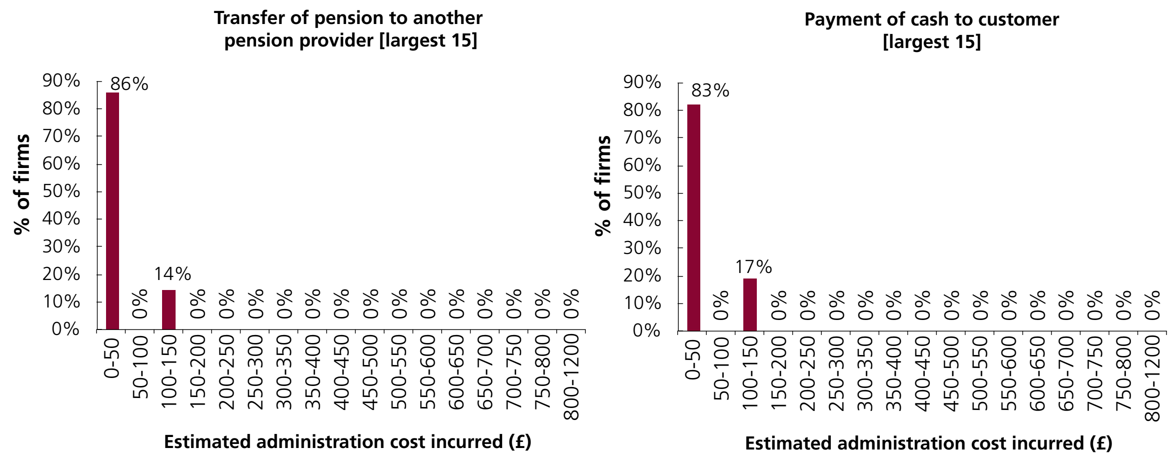
6.9 As part of our analysis of exit charges, we also asked firms to provide us with information on the estimated administrative costs incurred for (a) a pension transfer to another provider and (b) the payment of cash to a customer. The results in Figure 13 show that the administrative costs incurred by the largest 15 firms are far lower than across all firms (from which we were able to draw comparable administration charges), which one would expect given their economies of scale and the greater complexity that we might expect to see in SIPPs.

Figure 14: estimated administration costs incurred by firms



6.10 As our analysis of exit charges focuses on life insurance providers, we have considered how the administration costs of the largest 15 firms (which are predominately life insurance providers) relates to the monetary reduction in fund values experienced by consumers subject to exit charges (see below for further analysis on this issue). The results show that the estimated administration costs incurred by these firms are primarily in the £0 to £50 bracket, consistent with the majority of the monetary reductions in fund values experienced by consumers (with 91% of consumers experiencing a fund value reduction of £100 or less on exit).

Figure 15: estimated administration costs incurred by largest 15 firms



Note: These charts are based on a sub-sample of the largest 15 firms where they were able to provide this data

Relative impact of exit charges in terms of reduction in fund value

6.11 Firms were asked to provide information (by number of policies) as to the size of exit charges – both as a % of fund value and as a £ amount – should all their customers with unitised pension policies[22] have transferred or cashed in their pension as at 30 June 2015. The data was split by business type (unit-linked and unitised with-profits), customer age (55 and above, younger than 55) and by premium status (single premium, recurring premium, paid-up).

Exit charges as a percentage of fund value

6.12 Our data collection showed that, while there are some large charges (as a % of fund value), most customers do not incur any charge on exit (Figure 16) below. It is also worth noting that some of the large percentage reductions will translate to small monetary amounts, while some of the small percentage reductions could be quite significant in monetary terms.

Figure 16: numbers of customers incurring exit charges (by charge as percentage of fund value)

Charge as % of fund value	Customers aged 55 or older		Customers aged less than 55	
	%	# ('000s)	%	# ('000s)
No exit charge	83.6%	3,416	89.6%	13,684
0-2%	8.8%	358	2.8%	431
2-5%	4.0%	165	2.7%	408
5-10%	2.0%	81	2.3%	345
10-20%	1.1%	45	1.4%	216
20-40%	0.4%	17	0.8%	128
40% +	0.1%	4	0.4%	58
Total	100%	4,086	100%	15,270

22 Unit-linked and unitised with-profits contracts - conventional with-profits business is excluded from this analysis.

6.13 The higher proportion of those under 55 not attracting an exit charge may be as a result of their being more likely to be invested in newer products which tend to have different charging structures. Those most likely to incur an exit charge are those who have made their policy paid-up. Such policies are also likely to suffer larger exit charges (as a % of fund value). Of the almost 200,000 policies with a charge greater than 20% of fund value, around 170,000 of the policies were paid up. There is little difference in size of exit charge (relative to fund value) incurred on single and recurring premium business.

Exit charges in monetary terms

6.14 The distribution of exit charges in monetary terms is detailed below (Figure 17). Note that we do not have information on pot size so it is difficult to put the charges into a broader context other than through using the analysis above. However, as noted previously, some of the large percentage reductions will translate to small monetary amounts, while some of the small percentage reductions could be quite significant in monetary terms for larger fund amounts.

Figure 17: numbers of customers incurring exit charges (by charge as monetary value)

	Customers Aged 55 or older		Customers Aged less than 55	
Size of Charge	**%**	**# ('000s)**	**%**	**# ('000s)**
No exit charge	83.6%	3,416	89.6%	13,684
<£250	9.2%	375	4.0%	615
£250-£500	2.5%	103	1.9%	290
£500-£1,000	2.1%	86	2.1%	322
£1,000-£3,000	1.9%	77	1.9%	286
£3,000-£5,000	0.4%	15	0.3%	46
>£5,000	0.3%	13	0.2%	26
Total	100%	4,086	100%	15,270

Annex 1
Glossary of terms used in this document

Term	Definition
Accumulation	The phase during which a consumer saves into a pension pot during his/her working career to build up a pension pot for their retirement.
Annual Management Charge (AMC)	Charges paid by consumers to firms in return for manging the client's investment fund.
Annuity	A product that allows a consumer to convert his/her pension savings into a regular guaranteed income that will last for the rest of his/her life.
Automatic transfers	The Government introduced a legislative framework to enable pension pots to follow members as they move employment in the Pensions Act 2014. This will see the automatic consolidation of members' small pots into the workplace scheme they are actively saving in.
Capital/accumulation unit structures	A type of charging structure which has a higher annual management charge for units purchased by regular premiums in the first one or two years of a contract. These units are often referred to as capital (or initial units), with units purchased by other contributions referred to as accumulation units.
Decumulation	The process of converting pension savings into a retirement income.
Defined Contribution (DC) pension	A scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service. Also known as 'final salary' or 'salary-related' scheme.
Defined Benefit (DB) pension	A scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service. Also known as 'final salary' or 'salary-related' scheme.
Income drawdown products	Products which allow individuals to take an income from their pension fund, while the remainder of the fund remains invested. Retirement income from income drawdown can increase or decrease according to the volatility of funds. Types of income drawdown products include flexi-access drawdown, partial designation drawdown and phased drawdown.
Nil allocation period	A specific period on a regular contribution policy/plan where no money is invested in your plan, for example three to six months.
Self-invested personal pensions (SIPPs)	A pension 'wrapper' that holds investments until an individual retires and draws a retirement income. It allows individuals to make their own investment decisions from a range of investments approved by HM Revenue and Customs (HMRC).
Third way annuities/ products	All products with some element of guaranteed minimum income.
Uncrystallised Fund Pension Lump Sum (UFPLS)	An authorised lump sum which can be paid from uncrystallised funds under a money-purchase or Defined Contribution arrangement to individuals aged 55 or over, without the requirement to buy a decumulation product

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