

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

John Reynolds
Strategy and Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

14 April 2015

Dear John

This is the Financial Services Consumer Panel's response to the Financial Conduct Authority's (FCA's) proposed response to pension transfer rules.

Overall, the Consumer Panel supports the proposed changes. The pension reforms will make advising on pension transfers significantly more complex and so we see the merit in requiring specialist qualification for professionals giving advice on all transfers from DB to DC schemes. It is crucial that those moving away from a DB scheme are aware of the potential benefits they are giving up, as well as the potential risks associated with DC schemes. Especially as transfers will not, in many cases, be in the member's interest.

We note that the FCA estimates that about 35,000 people will be looking for transfer advice, based on Her Majesty's Treasury Research. Other commentators however estimate higher demands, for example Hargreaves Lansdowne estimate around 500,000. It will be useful if the FCA could conduct its own research to ascertain the likelihood of need in this area and to assess future need against qualification requirements, so that the demand for advice is not stifled by lack of professional expertise.

The Consumer Panel's answers to the consultation questions

Q1: Do you agree, that, in general, we should require that advice under the new specified activity be provided by or checked by a Pension Transfer Specialist?

Yes. We agree that this complex area which already has additional permissions and qualifications attached to it requires specialism. Whilst it is possible to give general advice on many issues, the knowledge required to understand the complexities associated with the transfer of valuable safeguarded benefits is extensive and therefore requires specialism.

Q2: Do you have any comments on the proposed new definition of pension transfer and subsequent requirements?

We agree with the FCA's proposed position to amend the existing definition of pension transfers to incorporate the transfer aspect of the new specified activity under Article 53E and to require a transfer value analysis for advice on all transfers of safeguarded benefits to flexible benefits. However, we are disappointed to note that transfers of benefits from policies with GAR's are excluded from this – see our response to Q5. We also agree with the continued inclusion of transfers from occupational DC pension in the definition of pension transfers (see Q3).

Q3: For future consideration, do you have views on whether or not we should continue to include transfers from occupational DC schemes without safeguards in our definition of pension transfers?

We are pleased that the definition of pension transfers will continue to include transfers from occupational DC schemes. Many occupational DC schemes are large, well established and well governed but the protection of such a scheme may not always be evident to scheme members who take such governance as a matter of course. Therefore we feel the decision to transfer from occupational DC schemes is still a complex one – even if there are no safeguarded benefits. Occupational DC schemes may, in time, develop default options for decumulation which members will lose the benefit of if they transfer. Also members may not understand the implications of transferring from a low cost occupational scheme to a scheme offering flexible benefits where the administration and investment charges and potential for loss may be much higher. We would therefore support continuing to include transfers from occupational DC schemes without safeguards in the definition of pension transfers so they continue to benefit from the protections that definition provides.

Q4: Do you have any comments on the proposed new definition of pension conversion and subsequent requirements?

These proposals seem reasonable.

Q5: Do you agree that we should not require a Pension Transfer Specialist for advice on the conversion or transfer of benefits from pension policies with a GAR?

No, we are not agreement with this proposal. In paras 2.28 to 2.30 you confirm that pension policies with a GAR do fall within the definition of safeguarded benefits and transfers of pensions with safeguarded benefits do fall within the remit of the Pension Schemes Bill 2014-15 and therefore there is the requirement that advice should be taken. Given that all other transfers under the new regime require advice to be provided or signed off by a Pension Transfer Specialist we cannot see the logic of excluding GAR's from this requirement.

We accept that under the current rules advisers providing advice to transfer benefits from a pension policy with a GAR must still prominently highlight the value of the GAR to the client. However, that aside, we feel the expertise of advisers who are already working in this complex area and already have the required permissions and qualifications would be of huge value to individuals considering 'cashing in' valuable guarantees for the attraction of so-called flexible benefits.

You have stated the reason for not extending the requirement that this advice must be given or signed off by a Pension Transfer Specialist to be one of cost to the customer for the additional analysis required, however surely this analysis is crucial if an informed decision is to be made. Also there is no evidence that we can see that Pension Transfer Specialists charge more for this advice than advisers with ordinary investment advice permissions.

Also, this will add to the complexity of choice facing consumers at this crucial time. It is imperative that consumers are given clear, consistent messages about what type of adviser to seek help from and when. If consumers with GAR's can seek advice from Level 4 qualified advisers who are not required to have additional specialisms, but members of occupational pension schemes and DB pension schemes must seek advice from specialists – that is confusing for both consumers and for the industry supplying the advice. There is already confusion between restricted advisers and independent advisers and what are defined as "pension transfers" and what are defined as "pension switches". This proposal will therefore add another layer of complexity as to who can and cannot advise on transfers of safeguarded benefits.

As there will be a large number of individuals with GAR's who may be attracted to the benefits of transferring we would strongly suggest that, at least initially, this advice should be provided or signed off by a Pension Transfer Specialist. If nothing else it will help to slow consumers down in their decision making and by having to seek advice from a specialist may highlight to them just how important a decision this is.

The increased levels of people seeking this type of advice may well encourage more advisers to seek additional qualifications thereby increasing professionalism and expertise within the industry and raising standards.

Q6 DO you have any comments on our proposed approach to permissions and grandfathering firms?

Under other circumstances the Panel would not be in favour of grandfathering firms to a new regime, but in this instance individual advisers have already gained the necessary permissions and qualifications. Pension transfers are already a highly complex area requiring additional qualifications and expertise and as the new regulations are simply adding additional activities to an existing regime it seems sensible to draw on the existing resource of more qualified professionals who are already deemed competent to provide advice in this area.

Q7 Do you agree with our proposal that all advice on DB to DC pension transfers – including any provided for the purpose of crystallising the benefits being transferred must be carried out or checked by a Pension Transfer Specialist?

Yes. In most circumstances transferring from a DB pension will not be in an individual's best interest, but such will be the hype around the new pension reforms many consumers may be led into believing that this would be a good choice for them. A Pension Transfer Specialist has much to lose by providing bad advice and is already aware of the pros and cons of such a transfer. In additional, as pointed out in the consultation document, Transfer Specialists are more likely to spot a potential scam.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sue Lewis', written in a cursive style.

Sue Lewis,
Chair, Financial Services Consumer Panel