FINANCIAL CONDUCT AUTHORITY

Evaluation Paper 25/1: Our ban on contingent charging and other remedies in 2020: effects on market structure, pricing, and uptake of advice

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Contents

Executive summary

In June 2020, we introduced a package of remedies in the defined benefit (DB) pension transfer advice market. This included a ban on contingent charging - a model where advisers only get paid if the client went on to transfer from a DB pension to a defined contribution (DC) pension. The FCA Economics Department has carried out the evaluation into the impact of this as part of our Rule Review Framework. This evaluation has been peer-reviewed by an academic expert on the econometric analysis, along with support from colleagues across the FCA.

This paper investigates the effects of our intervention on market structure, pricing, and uptake of advice. It is not however a comprehensive evaluation of the ban. That could only be achieved by measuring the suitability of advice, which is difficult and costly, including for the firms who would need to provide us with the information to undertake a review. As a result, we decided that this full evaluation would be disproportionate. However, we thought it worthwhile to look at some of the potential impacts we recognised could result from the ban on contingent charging and the other remedies we introduced in the DB transfer market in 2020 and determine whether we had properly gauged them.

Most of the analysis in this report relies on descriptive analysis (that is, non-causal) of market-wide data. Various factors, such as our intensive supervisory efforts, increasing gilt yields, insurance costs, and other market influences, have also contributed to changes in the market. There is still merit in analysing the available data to explore what has occurred in the market. We also conduct an econometric analysis to identify the causal impact of the ban on the number of firms providing DB transfer advice.

Overall, we find that our package of policies has had the intended impact. However, the findings are nuanced as we set out below. This paper presents our methodology, results and lessons learned from the evaluation.

The intervention

In CP19/25, 'Pension transfer advice: contingent charging and other proposed changes', we identified that the DB pension transfer advice market was not delivering good outcomes for consumers. This was because of the prevalence of information asymmetries, advisers mismanaging conflicts of interest and behavioural biases from consumers themselves. These market failures meant some consumers were paying more in initial and ongoing charges than they otherwise should have. The contingent charging structure also meant that many consumers received poor quality advice and transferred to a DC scheme when it was not in their best interests to do so.

Our DB transfer advice intervention, finalised in PS20/6, 'Pension transfer advice: feedback on CP19/25 and our final rules and guidance', was a package of policies to address these concerns. It had 6 main elements:

- **Banning contingent charging**, with exceptions for consumers with certain personal circumstances (known as the 'carve-out').
- **Introducing abridged advice.**
- **Addressing ongoing conflicts of interest** by requiring firms to consider an available workplace pension scheme (WPS) as a receiving scheme for a transfer.
- Improving disclosures and consumer understanding to **enable consumers** to make better decisions.
- **Enabling advisers** to give better quality advice and improve professionalism.
- Setting up new data collections to ensure **effective regulation**.

Our approach

Our intervention came into force on 1 October 2020. We analyse the impact over a 4-year period (2018 to 2022). Most of our analysis uses firm-level data on the DB transfer market, 2 years before and after the intervention came into effect.

We expected our intervention to have several impacts, some of which we have not evaluated in this report. The analysis in this evaluation is limited by the available data, as we have not made a bespoke data request to evaluate this intervention. We wanted to minimise the burden on firms and so used only the data they submit through regulatory returns, which primarily support effective firm supervision.

Despite these constraints, we used the available data to perform a before-and-after comparison of 'monitoring indicators'. These indicators help us answer certain questions and compare actual outcomes against the expectations in CP19/25 and PS20/6.

The methodology we used includes:

1. Before-and-after analysis of available monitoring indicators
    a. This is an analysis of why certain monitoring indicators may be different from our expectations and a short discussion of the possible implications.
2. Econometric analysis
    a. We causally evaluate the effect of the contingent charging ban on the number of firms providing DB transfer advice and the probability of firms providing DB transfer advice.
3. Qualitative assessment of the interventions impact on suitability
    a. We have considered relevant findings from consumer surveys, particularly our Financial Lives survey. We have also used the insights from various supervisory and regulatory initiatives. We have included some commentary on the suitability of advice but have not undertaken a detailed assessment of the suitability of DB transfer advice.

Our findings

We evaluate the impact of specific elements of our interventions against our expectations in CP19/25 and PS20/6. We find that our package of policies has had the intended effect, with some exceptions.

We have particularly focused on assessing the impact of the intervention on:

- The size of the market for providing DB transfer advice.
- Consumers' uptake of DB transfer advice and the fees they paid for full DB transfer advice and abridged advice.
- The level of ongoing product and advice charges consumers continue to pay and broader impacts.

The size of the market for providing DB transfer advice

In the CP19/25 and PS20/6, we said we expected the contingent charging ban would lead to fewer firms providing DB transfer advice.

Our econometric analysis shows evidence that the ban reduced the number of firms providing this advice. The number reduced by about 129 firms in the year after the announcement of the intervention and 195 firms up until the end of September 2022. We also find evidence to suggest that firms are less likely to offer DB transfer advice since our intervention. However, our econometric findings are not conclusive. Furthermore, our analysis also suggests that other market forces may have had an impact on the decline of firms offering DB transfer advice.

Our econometric analysis also suggests that the ban announcement may have affected firm behaviour, with some firms leaving the market in anticipation of the ban. Qualitative information from our pensions and supervision teams supports this, with many firms ceasing to offer DB transfer advice after the announcement of our final rules on 5 June 2020.

Other factors, such as our intensive supervisory work in this area, falling transfer values, and rising gilt yields, have also contributed to reductions in the market.

In addition to firms leaving the market, revenues for full DB transfer advice have also fallen. Across the market, these revenues were £236m in the year before the intervention and £174m in the year after; a reduction of £62m. This reduction is smaller than our estimated range in the cost benefit analysis (CBA). The difference is due to several factors, including:

- Firms left the market in anticipation of the ban and the total industry revenue for full DB transfer advice had already started to decline. The reduced availability, and increases in cost, of professional indemnity insurance (PII) also contributed to firms leaving the market.
- Where advice charges were expressed as a percentage of transfer values, these may have been affected by falling transfer values from rising gilt yields over this period.

The uptake of DB transfer advice by consumers and the fees paid for advice

In the CP19/25 and PS20/6, we expected:

- The intervention to reduce the number of consumers who proceed to a transfer following advice.
- An estimated average reduction in the price of full DB transfer advice of £2,500 - £3,500 for consumers that transferred, and a rise in the price for those that did not transfer.
- The introduction of abridged advice would help consumers access initial advice. And abridged advice would be charged at a more affordable cost.

The intervention appears to have reversed the number of customers proceeding to transfer their pension. Before the intervention, the number of consumers transferring their pensions was steadily increasing. This trend reversed following the intervention's announcement and implementation. The reduction in consumers proceeding to transfer could also be due to other factors, such as lower transfer values, as well as publicity about widespread unsuitable DB transfer advice. This makes it difficult to isolate the intervention's precise impact.

The impact of the intervention on the fees consumers pay for full DB transfer advice has been mixed. The intervention did coincide with the disruption of the steady upward trend in fees per consumer for those that were recommended to transfer. However, these fees did not decline as we expected. Nominal fees per consumer that were recommended to transfer increased from about £5,500 to £6,900 in the 2 years before the intervention. These fees then fluctuated but generally stabilised after the intervention, reaching a peak of approximately £7,300 in March 2022 and concluding the evaluation period at £7,100. In real terms, fees per consumers that were recommended to transfer peaked in October 2020 and fell in the two years after the intervention.

Before the ban, many consumers did not pay for advice after receiving a recommendation not to transfer. Our changes required firms to charge the same fee for DB transfer advice, whether the recommendation is to transfer or not. We find that, after the intervention, fees paid for consumers who received a recommendation not to transfer increased.

We also found that the introduction of abridged advice has helped consumers access initial advice. This has helped to offset the fall in full DB transfer advice to some extent. Those consumers who got abridged advice and were recommended not to transfer paid on average between £600 to £900. The data also indicates that many consumers received abridged advice for free.

Generally, we note that customer complaints suggest some consumers find it difficult to get advice on transferring their DB pensions or are unhappy they must seek advice to be able to transfer. Abridged advice was introduced to help consumers access initial advice. However, the difficulty in getting advice may partly be due to broader factors outside the scope of this evaluation, such as the effects of rising PII costs and changing market conditions.

The level of ongoing product and advice charges consumers continue to pay and broader impacts

In the CP19/25 and PS20/6, we:

- Expected that transferring to the default arrangement of a WPS reduces the need for, and costs of, ongoing advice.
- Expressed concern that the 'carve-out' provisions and the insistent client basis could be subject to gaming by firms.

In CP19/25, we pointed to the longer-term conflict of interest arising where clients sign up for an ongoing advice proposition. This can result in charges being paid throughout a 20 to 30-year retirement period. The number of consumers that agreed to an ongoing advice service was increasing before we announced the intervention. A large decline then followed in the periods where we announced the final rules and when these rules first came into force. While the number of consumers transferring into a WPS has increased, they remain a small portion of the market.

We saw no evidence of gaming of the 'insistent client' basis or the 'carve-out' exemption.

Lessons learned

We view evaluations as an opportunity to learn from previous interventions and to feed any insights into our current and future work.

The main lessons we learned from this evaluation are:

- The intervention had a far greater impact on the volume of advice provided than on fees for advice.
- The analysis in the CBA remains broadly valid and supported the intervention.
- The announcement of the ban may have had a larger impact than the rules coming into force.

1 Why are we evaluating our pension transfer advice intervention

The pension transfer advice market

There are key differences between defined benefit (DB) and defined contribution (DC) pension schemes. Table 1 sets out some of these.

Table 1: Defined benefit (DB) and defined contribution (DC) pensions

Defined benefit (DB)	Defined contribution (DC)
A pension that pays out a 'defined benefit' or 'guaranteed' specified amount	A pension that pays out a non-guaranteed and unspecified amount
Income in retirement based on factors such as the salary and how long someone has worked for the employer	Income in retirement depends on factors such as 'defined contributions' made and investment performance
Guaranteed lifetime income that usually increases each year to protect against inflation	DC schemes allow flexibility to decide how to take benefits, including how much money to draw down

In 2015, pension freedoms gave DC pension savers more flexibility in how they could access their pension savings. To protect consumers who might otherwise seek to transfer out of DB schemes and other schemes with safeguarded benefits, legislation introduced mandatory advice where the value of the safeguarded benefits given up exceeds £30,000.

The intent was that DB pension transfer advice would ensure that all pension fund members are fully informed before taking any decision, reducing the risk that pension scheme members act against their own best interests. However, consumers may lack the knowledge to make complex financial decisions which have a significant and long-lasting impact on their retirement. Once a consumer transfers from a DB scheme to a DC scheme, this is permanent. Receiving reliable advice allows consumers to understand the key issues in reaching retirement goals, and how the transfer decision will affect their long-term financial strategy.

The ban on contingent charging and other pension transfer advice interventions

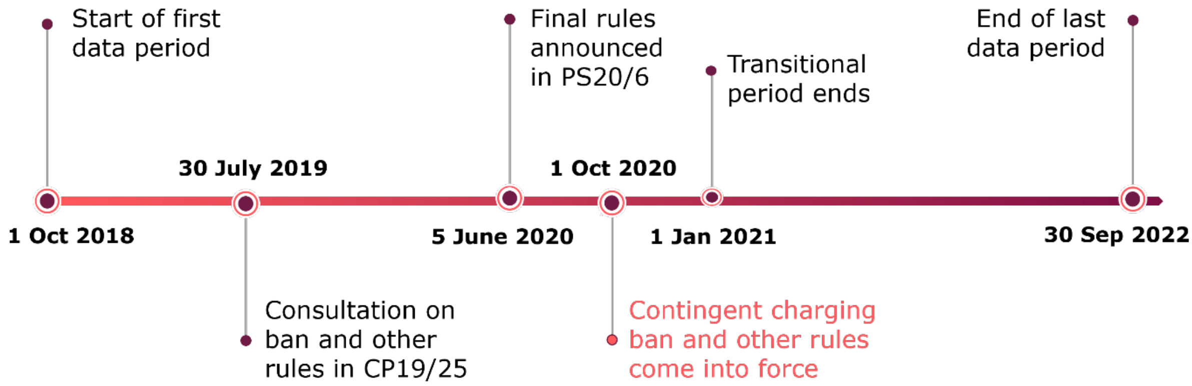
Our DB transfer advice intervention, finalised in PS20/6, aimed to address key market failures and harms. The package had 6 main elements:

- **Contingent charging ban**. We banned contingent charging, with exceptions for consumers with certain personal circumstances. Firms are required to charge the same amount for DB-DC advice, and associated services, regardless of whether the consumer transfers.

- **Abridged and triage advice**. We enabled firms to give a short form of advice (abridged advice) and added to our perimeter guidance on triage.
- **Addressing ongoing conflicts** by requiring firms to consider an available WPS as a receiving scheme for a transfer.
- **Enabling consumers** to make better decisions by improving how advisers disclose charges and requiring checks on consumers' understanding during the advice process.
- **Enabling advisers** to give better quality advice and improve professionalism by introducing specific continuing professional development on DB transfer advice.
- **Effective regulation** by setting up new data collections that advice firms must give us to improve our ability to supervise the sector. These data collections are used in this evaluation.

We published our finalised pension transfer advice rules on 5 June 2020 in PS20/6. The changes to triage services and using estimated transfer values came into effect on 15 June 2020 and the remainder came into force on 1 October 2020. Firms who had commenced the process of charging on a contingent basis before 1 October 2020 were allowed to finish the advice during a transition period that ended on 1 January 2021. See Figure 1.

Figure 1: Timeline of our intervention and evaluation period



For this evaluation, we use the terms 'DB transfer advice' or 'pension transfer advice' to refer to both pension transfers and pension conversions. While these processes are similar, they have distinct differences:

- Pension transfers generally involve exchanging safeguarded pension benefits for flexible benefits in a different pension scheme.
- Pension conversions generally involve exchanging safeguarded pension benefits for flexible benefits in the same pension scheme.

Why we are evaluating this intervention

Testing the effectiveness of our remedies helps us assess the impact of our rules and make better future decisions. The 2023 Rule Review Framework (the Framework) sets out our approach to monitoring and reviewing our rules, including impact evaluations. This evaluation assesses how much of the change in the market for DB transfer advice can be attributed to the package of remedies introduced in PS20/6.

Our contingent charging ban was an important intervention on the provision of advice. An evaluation potentially allows us to draw lessons for interventions in other markets providing advice, as well as specific lessons on the banning of certain charging models. The provision of quality financial advice has been a long-term focus for us, and we have undertaken several pieces of supervisory and policy work in recent years. We therefore believe it is important to evaluate aspects of this package of work where appropriate.

We are assessing the impact the following interventions have had for consumer outcomes - banning contingent charging, the introduction of abridged advice and how advisers consider an available WPS.

To understand if these interventions have improved outcomes to the extent that we initially expected, we focus this evaluation on the impact of the intervention on:

- The size of the market for providing DB transfer advice.
- The uptake of DB transfer advice by consumers and the fees paid for advice.
- The level of ongoing product and advice charges consumers continue to pay and unintended consequences.

The harm we sought to address

In CP19/25 and PS20/6, our analysis identified that the market for DB transfer advice was not delivering good outcomes for consumers. Before the intervention, different firms used different charging models for DB transfer advice. Contingent charging is a model where advisers were paid if the client transfers from a DB pension to a DC pension. We intervened because this fee structure was creating conflicts of interest for advisers, by creating a strong incentive to recommend a transfer. This resulted in many consumers receiving unsuitable advice.

The contingent charging model meant that those who transferred were often cross subsidising the cost of advice to those who were recommended not to transfer. However, our intervention was not due to cross-subsidisation, but because this fee structure was creating conflicts of interest for advisers, resulting in poor-quality and often overpriced advice.

Our supervision work showed that, between April 2015 and September 2018, 69% of consumers were advised to transfer despite our belief that most customers would have been better off not transferring (see CP19/25).

These poor outcomes were due to information asymmetries, conflicts of interests for advisers and consumer behavioural biases. The contingent charging structure meant that firms were paid contingent on consumers transferring funds out of their DB pension scheme. As a result, many consumers received poor quality advice and transferred to a DC scheme when it was not in their best interests to do so. This was coupled with consumer behavioural biases that favoured recommendations to transfer.

Ideally, consumers should choose advisers based on charges and reputation for high quality advice. However, consumers rarely sought DB transfer advice and usually had – and have - little experience to draw on when assessing the quality of advice. They also found the ‘price’ of advice difficult to determine as most advice firms did not publish charges online and offer different charging structures.

These market failures meant consumers were more likely to receive unsuitable advice and those that transferred would pay more in initial and ongoing charges. Harm to consumers included:

- Unsuitable advice:
  - Some consumers were advised to transfer their DB pension when it is was not in their best interest. Because of the transfer, they may have been more likely to run out of money early or had to compromise their standard of living.
  - Consumers were transferred to other pension products, resulting in the loss of 'longevity insurance' provided by DB schemes and having to accept 'investment risk' which was previously borne by the sponsoring employer of the scheme.
- Poor value:
  - Consumers that proceeded to transfer after a recommendation to do so paid higher fees and charges. This was because charges for advice on a non-contingent basis were almost always lower than on a contingent basis. The transfer also created the prospect of further ongoing advice fees.
  - Limited transfers to existing WPS. Typically, we would expect the use of WPS to incur lower ongoing costs for consumers.

We have not evaluated the impact on the suitability of advice

One of the main expected benefits from the policy is an improvement in the suitability of transfers. We expect a lower proportion of consumers giving up income from DB schemes where it is not in their interest.

In PS20/6 we noted the difficulty of proving a statistically causal link between contingent charging and suitability. We considered at the time whether we could use the data from our file reviews to prove such a link. But the data does not allow us to distinguish whether unsuitable advice was driven by the initial conflict of interest, the transfer charge, the ongoing conflict of interest, ongoing advice charges or from other factors.

We expected the rate of suitable advice to increase to be more in line with the rest of the investment advice market. In PS20/6, we assumed the rate of suitable advice was almost 70%. This is low compared with the suitability rate in the rest of the investment advice market, which we estimated is around 95%.

The exercise needed to collect and analyse information on the suitability of advice would have imposed unreasonable burden on industry, and even then, would have faced strong methodological challenges. Different FCA teams review and address the suitability of advice. They use a risk-based approach to identify firms, meaning resources are focused on alleviating the worst outcomes.

Our supervisory activities monitor the suitability of advice and have developed robust methodologies for assessing suitability. Our Supervision teams use a 2-stage approach to file selection to identify higher-risk firms. Their findings suggest that unsuitable advice has been decreasing. However, given the small sample size and potential selection bias, we are cautious about the conclusions that can be drawn. Furthermore, findings from file reviews are used in conjunction with other evidence from broader supervisory activities.

The Financial Lives survey asks consumers who have a DC pension in accumulation and chose to transfer money from a DB pension to a DC pension in the last 4 years how satisfied or dissatisfied they are with their choice. The May 2024 survey shows a net satisfaction rate of 68%. However, we advise interpreting this result with caution for several reasons:

1. **The negative consequences from transferring when it is against the consumer's interest may not become apparent until years later.** DB schemes offer lifetime income security, effectively providing longevity insurance. A major risk of unsuitable DB transfers is the potential depletion of retirement savings.
2. **Present bias.** In CP19/25 we looked at present bias in the context of DB transfer advice:

   'Present bias leads a consumer to overlook their long-term needs and focus on the satisfaction of more immediate, desires and aspirations. This encourages consumers to underestimate the benefits of a safe stream of income in the future, when compared with a more appealing 'large amount' they can receive in one go following a transfer and later monetisation of the pension pot. Evidence suggests that a quarter of schemes included an estimated transfer value in their retirement pack.'

3. **Sampling limitations.** The result relies on a relatively small sample size of 218 (given the small numbers of people transferring from DB to DC). They may not capture the severe cases of inadequate advice where consumers have received redress.

We have not evaluated the impact of the suitability of advice due to the potential burden on firms and FCA resources, alongside significant methodological challenges. While some data exists, it has severe limitations and should be interpreted with caution. Specialist teams conduct suitability reviews separately, using a risk-based approach to target the most serious issues and allocate resources effectively.

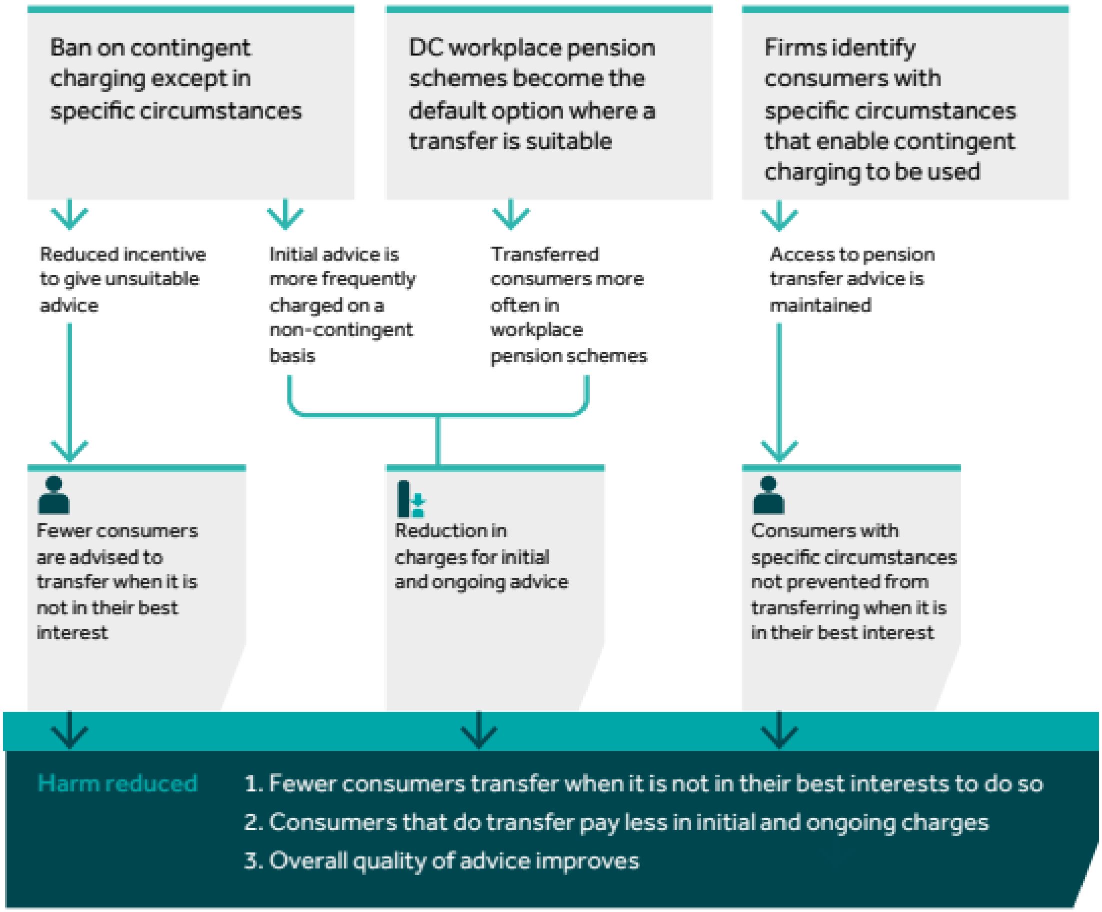
2 Our evaluation approach

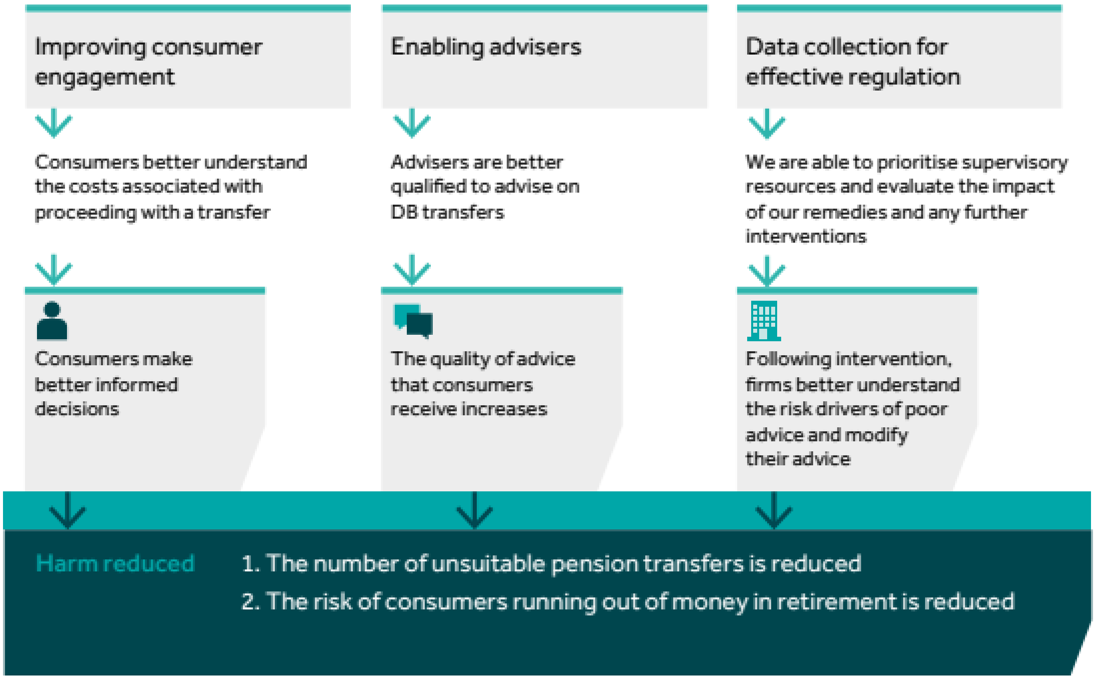
This section sets out how we approach the evaluation of our 2020 pension transfer advice intervention, and what the approach allows us to conclude about our intervention.

The expected outcomes from the intervention

Figure 2 presents the causal chains for the contingent charging and our other interventions. The ultimate aim of our rules was to contribute to higher rates of suitable advice at an appropriate price, and a lower proportion of consumers giving up income from DB schemes where it is not in their interests. We used scenario analysis to estimate overall net benefits to consumers from reduced advice costs, changes in unsuitable advice and forfeited gains in PS20/6.

Figure 2: Causal chains of our remedies





Note: Causal chain from CP19/25.

We estimated benefits from reduced advice costs between £371m and £448m, and benefits from changes in unsuitable advice and forfeited gains between £-62m to £1,040m. We expected these benefits to materialise in several ways, including:

- The ban on contingent charging leading to fewer advisers, providing better advice and therefore fewer transfers out of DB pensions.

Non-quantified benefits included:

- The introduction of abridged advice would provide an alternative source of regulated initial advice at a lower cost.
- Reduced ongoing advice and product costs.

Our analysis assesses how our expectations were met. It also includes consideration of additional impacts that were not explicitly set out in the policy causal chain. We use existing data to perform a before-and-after comparison of available 'monitoring indicators'.

Establishing how well the intervention has worked

To see how well our intervention has worked, we test the outcomes against the expectations in the causal chains above. We assess how well our intervention has worked relative to what would have happened without it.

This is our counterfactual. For many reasons, it can be hard to identify a clear counterfactual, and we highlight these instances throughout the report. In these cases, we offer reasons, and analysis of how the market has changed over time (that is, a non-causal analysis).

Table 2 shows how we expected the intervention to work to meet its intended objectives. For each row in Table 2, we set out a question against which the answer helps us understand the extent to which the intervention has worked and our expectation (informed, where relevant, by the CBA).

Table 2: Questions to answer and pre-intervention expectations

Chapter	Section	Evaluation question	Expectation set out in CP19/25 and PS20/6
3	A comparison of market participation by firms and consumers	Does the contingent charging ban lead to the market shrinking (through firms exiting the DB transfer advice market)?	We expected a reduction in the number of firms providing DB transfer advice. We estimated a reduction in advice revenue of between £371m and £448m per annum.
		Has the intervention led to a reduction in the number of customers that are recommended to transfer?	We expected a decrease in the number of consumers receiving advice by half to two-thirds.
4	The uptake of abridged advice	Has the introduction of abridged advice helped consumers to access initial advice?	The introduction of abridged advice would help consumers access initial advice.
	The provision of DB transfer advice to consumers	Has the intervention led to a reduction in the number of customers that are (i) recommended to transfer and (ii) transfer from a DB pension?	We expected the intervention to reduce the number of consumers who proceed to a transfer following advice.
	Comparison of fees paid for DB transfer advice	What impact has the introduction of abridged advice had on the fees consumers pay for advice?	We expected availability of abridged advice should help consumers to access initial advice at a more affordable cost, even if they may be unable or unwilling to pay for full DB transfer advice.
		Did the fees paid by consumers that were recommended to transfer fall?	Depending on the scenario, we estimated an average reduction in the price of advice of £2,500 - £3,500 for those consumers that transferred.
		Did the fees paid by consumers that were recommended not to transfer rise?	We expected these fees to potentially increase as any cross-subsidisation between consumers recommended to transfer and not to transfer would be affected by the ban.
5	Ongoing services	What impact has there been on ongoing conflicts (incl. ongoing charges)?	We did not state any expectation around the number of consumers that agree to an ongoing advice charge. However, an intention of the intervention was to reduce the

Chapter	Section	Evaluation question	Expectation set out in CP19/25 and PS20/6
			significant conflicts of interest that arise from ongoing charges.
	Workplace Pension Schemes	How many consumers transferred into a WPS?	Transferring to the default arrangement of a WPS reduces the need for, and expected costs of, ongoing advice.
	Broader impacts	Are there unintended consequences? Have the 'carve-out' provisions and the use of the insistent client basis been gamed?	We were aware of potential broader impacts of the intervention but were uncertain as to whether these would materialise. We expressed concern that the 'carve-out' provisions and the insistent client basis could be subject to gaming.

Evaluation approach and data

We have used different methodological approaches and data to test the pre-intervention expectations in Table 2.

Data

As stated in our Rule Review Framework, we are committed to maximising the use of information we already collect, or have access to, when monitoring rules and conducting reviews. The analysis in this report is dependent on the data firms submitted through regulatory returns which we primarily use for effective firm supervision. We use data from a new section of the RMAR regulatory return (RMA-M) covering data on DB transfers and other safeguarded benefit advice which was introduced with PS20/6. We have not conducted a bespoke data request for this intervention.

Our analysis is therefore restricted to the data submitted by firms and does not cover all aspects of the intervention. We expected our DB transfer advice rules to have additional affects, such as enabling consumers to make better decisions and advisers to give better quality advice. However, due to data limitations we are unable to evaluate the impact of these in this report.

This evaluation therefore uses 6-monthly data from October 2018 until the end of September 2022. We base our analysis on four 6-month data periods before the intervention and four 6-month data periods after the intervention.

We have chosen not to use 2023 data. The gilt crisis had a significant impact on the DB pension transfer market in 2023 which affected our ability to assess the impact of our intervention (Chapter 2 discusses the impact rising gilt yields had on the DB transfer market). It is also likely that the impacts of the intervention will have reduced by the third year post-intervention. This evaluation therefore assesses the impact of the intervention in the first 2 years after implementation, to give a clearer insight into how well the policy has worked.

Methods used to evaluate the impact of the intervention

We use a mixture of quantitative and qualitative techniques to evaluate the impact of the intervention on the following 3 aspects:

- The size of the market for providing DB transfer advice.
- The uptake of DB transfer advice by consumers and the fees paid for advice.
- The level of ongoing product and advice charges consumers continue to pay and broader impacts.

Descriptive statistical analysis
Descriptive statistics provide context on what has happened in the market. They set out overall trends and changes after our intervention. We present this data using summary statistics, charts and tables in the report.

We have used this data to perform a before-and-after comparison of different 'monitoring indicators'. This has allowed us to discuss why some monitoring indicators are consistent with our expectations while others have deviated.

Econometric analysis of firms' data
Econometric analysis helps us diagnose whether there is evidence that our intervention has led to changes in the market. We provide evidence of the causal impact of the contingent charging ban on the:

- The number of firms providing DB transfer advice.
- The probability of offering DB transfer advice at the firm-level.

To isolate the effect of the contingent charging ban from other factors we used a Difference-in-Differences (DiD) design. This approach allows us to estimate the Average Treatment Effect on the Treated (ATT). The ATT is the causal impact of the ban on the firms who were subject to it (the 'treatment group'). Unobserved factors might affect the outcome. But, if they do not affect trends in the outcome, then the trends for both groups in the absence of a policy will be the same. DiD is a well-known, often-used, econometric approach when evaluating policy interventions.

We distinguish between our 'treatment group' (firms subject to the contingent charging ban), and a 'control group' (firms that were already complying with the ban). This allows us to, for example, compare the extent to which firms were affected by the ban on contingent charging, based on how they responded to our intervention. We constructed treatment and control firms based on information on the charging structure at the firm level. The treatment group are firms who charged at least 1 consumer on a contingent basis in the 2 years before the intervention. The control group includes only firms that charged no consumers on a contingent basis in the 2 years before intervention. Our Technical Annex details the data we've collected and how we've used it to reach the findings in this report.

Insights from consumers and supervisory work
We have considered relevant findings from consumer surveys, particularly our Financial Lives survey. We have also used the insights from various supervisory and regulatory initiatives. Chapter 3 summarises the various relevant insights. This helps us understand the impact of our intervention from various perspectives and provides a valuable sense-check of our data analysis.

3 The market for DB transfer advice

This section describes the market for DB transfer advice from 2019 to 2024 and key factors that are relevant to this evaluation.

Market overview

In 2019/20 (the financial year before the intervention), firms provided DB transfer advice on funds worth £21.6bn to around 59,000 consumers.

Table 3: Financial year summary statistics for DB transfer advice

Statistics	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Number of consumers	58,956	40,701	36,216	23,549	9,239
Number of transfers	32,452	25,126	22,434	13,765	3,981
Total transfer revenue (£mn)	239.1	184.4	192.3	119.6	25.1
Total transfer value (£mn)	21,602.2	17,430.2	15,530.6	7,509.9	1,796.0
Pension transfer specialists	3614	3596	2926	2357	1646

Note: Firms provide data for 2 distinct 6-month reporting periods: 1 April to 30 September and 1 October to 31 March. Consequently, we use the 12-month period from 1 April to 31 March of the following year as a proxy for the financial year (for example, 1 April, 2020, to 31 March, 2021, represents FY20/21). It's important to note that FY20/21 includes 6 months preceding and 6 months following the rules coming into force. Data may be different to similar data quoted elsewhere for many reasons including different reporting periods, excluded observations due to quality issues and different methodologies.

Table 3 provides summary statistics for each financial year since 2019. The market for providing DB transfer advice has changed over the last 5 years, with significant change coinciding with the introduction of the above remedies. As explained in the next section, our analysis looks at the impact of the intervention over a 4-year period - 2 years before and after the intervention.

Nevertheless, these market changes could be due to our intervention, as well as several broader trends and developments since we made our rules. These include the pandemic, rising gilt yields, the cost-of-living crisis and broader regulatory changes.

Rising gilts yields

Gilt yields started rising at the end of 2021 and continued through FY22/23 and FY23/24. This significantly reduced the transfer values offered by DB schemes and contributed to a decline in the market. The dramatic decreases seen in the number of consumers seeking advice and in overall DB transfer values during these 2 years are likely attributable to rising gilts.

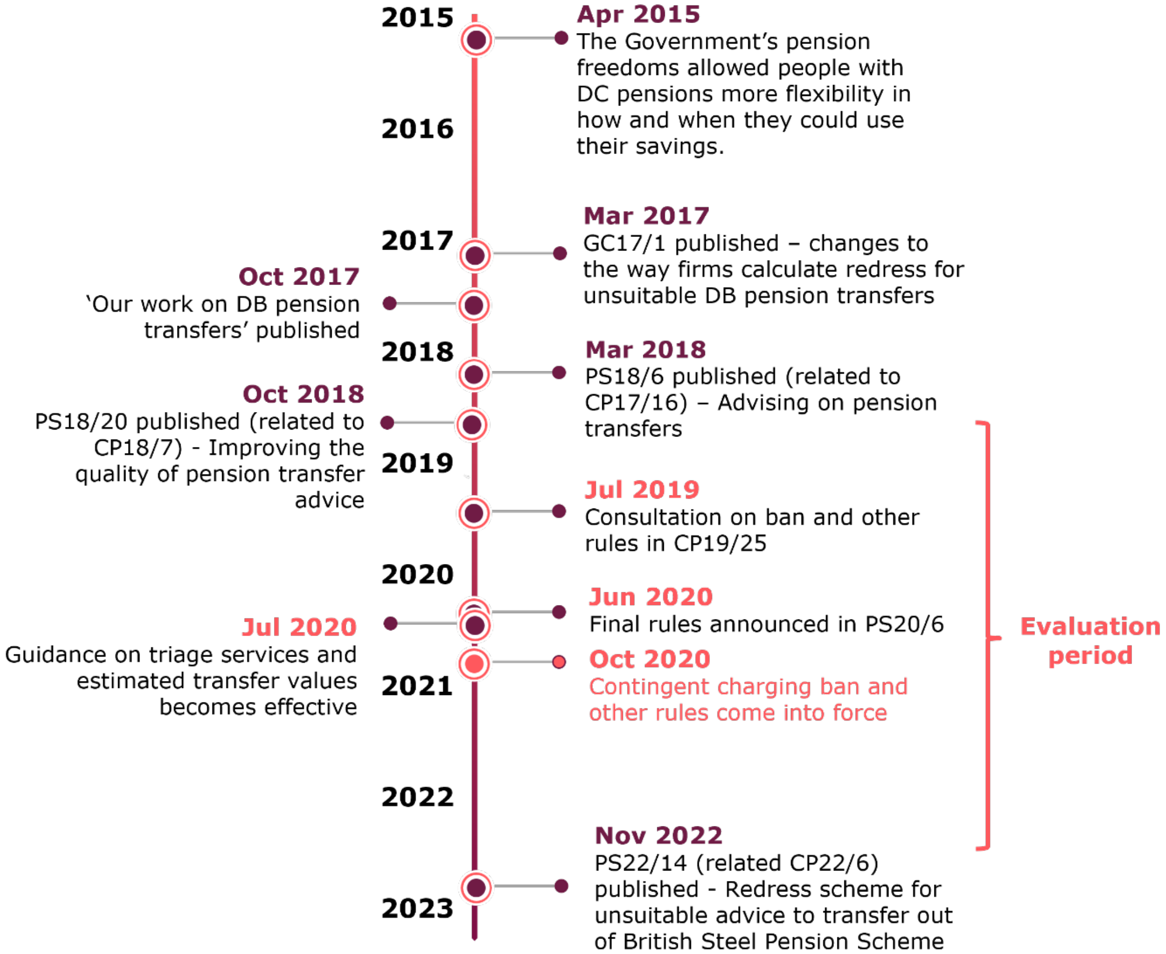
In a high inflationary environment, total transfer values are likely to fall. When gilt yields are increased, the discount rate used to calculate the present value of future pension benefits rises. A higher discount rate results in a lower present value of those future benefits. Consequently, pension transfer values decrease in this scenario.

Other regulatory interventions not in scope of this evaluation

The pension transfer advice market was also subject to other regulatory changes, both by the FCA and other regulatory bodies. Figure 3 provides a timeline of some of these interventions. These are outside the scope of this evaluation but are important to note as they are part of the policy context around our remedies.

Changes in market conditions before and after our intervention were likely influenced by other interventions we introduced, supervisory activities, and broader economic shifts. Although we control for these factors in our causal analysis (see Chapter 4), they might still affect our before-and-after analysis. To mitigate these factors, we limited our evaluation period to 2 years before and after the introduction of our ban and other pension interventions in 2020.

Figure 3: Timeline of other interventions and our evaluation period



4 Impact of the ban on the market for DB transfer advice

This section outlines the findings on how the intervention has changed the size of the market for DB transfer advice.

A comparison of market participation by firms and consumers

Before our ban on contingent charging, firms providing DB transfer advice could charge consumers contingently, partially contingently or non-contingently. The firms affected by our intervention were those charging wholly or partly on a contingent basis. Some firms also switched to a non-contingent model before the intervention came into force.

In CP19/25 and PS20/6, we said we expected the ban on contingent charging would reduce the number of firms providing DB transfer advice. We therefore consider how the ban has affected the:

- **Number of firms providing DB transfer advice:** a change indicates whether the ban is associated with the exit of firms from the DB transfer advice market.
- **Firm-level DB transfer advice status:** whether the ban affected firm probability of offering DB transfer advice.
- **Number of customers receiving DB transfer advice:** a change indicates whether the intervention is associated with fewer customers obtaining DB transfer advice.

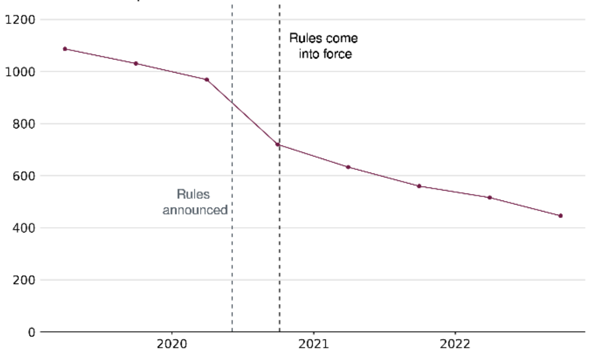
Trends in the provision of DB transfer advice

Figure 4 shows that the number of firms providing DB transfer advice fell significantly following the 2020 announcement of the new rules. The sharpest decline coincided with the announcement of the contingent charging ban. The number of consumers receiving full DB transfer advice approximately halved to about 15,000 consumers after 12 months (Figure 5). This reduction aligns with the lower end of our initial expectations.

On these measures alone we cannot conclude that a reduction in firms is solely attributable to the ban on contingent charging. The pandemic, the introduction of our other interventions, supervisory activities and broader economic shifts is likely to have also contributed to the decrease in firms and consumers receiving full DB transfer advice.

Figure 4: The number of firms providing DB transfer advice fell

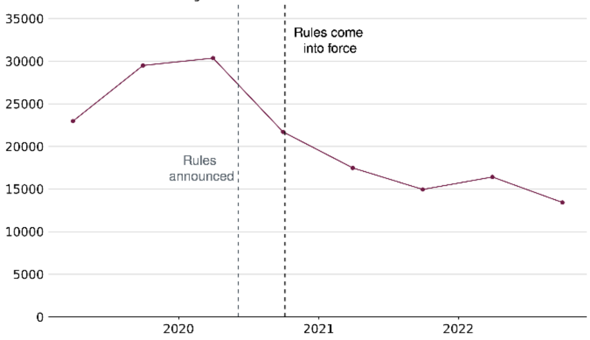
Number of firms that provided DB transfer advice to consumers



Source: FCA analysis of data requests and regulatory returns

Figure 5: There was a large fall in consumers receiving full DB transfer advice

Number of consumers receiving full DB transfer advice



Source: FCA analysis of data requests and regulatory returns

A comparison of those firms affected by the ban and those that were not

To better understand how the ban has affected customer outcomes, we compare the outcomes for those firms that are affected by the ban (treatment group) to those firms that were not (control group).

Before undertaking a detailed comparison, we have examined the data to understand how firms have complied with the ban. As expected, almost all firms in the control group did not charge consumers on a contingent basis. In contrast, just under 70% of firms who charged consumers on a contingent basis no longer did so in the 6-months after the intervention. This rose to 90% in the second 6-month period ending September 2022. The reason why some firms may have charged contingently post-intervention is because of the 'carve-out' exemption (see Chapter 6 for further discussion of the 'carve-out' exemption).

Table 3 provides some pre-intervention summary statistics for the 2 groups of firms:

- The number of consumers receiving full DB transfer advice, number of pension transfer specialists (PTS) and transfer values are not significantly different (they are not statistically different when conducting a Welch two-sample t-test for equality of means).
- The mean values for DB transfer revenue and the associated DB transfer revenue to income ratio differ notably (they are statistically different when conducting a Welch two-sample t-test for equality of means). However, we expect this to be the case as contingent charging was associated with higher fees.
- PII premiums to income ratios do not differ across the two groups (they are not statistically different when conducting a Welch two-sample t-test for equality of means). However, the median premium-to-revenue ratios for both contingent and non-contingent firms followed a similar pattern. There was a sharp upward trend in 2019 and 2020, which then levelled off in 2021 and 2022. As outlined below, contingent firms generally face higher median premiums as a proportion of their income.

Table 4: Summary statistics for treatment and control

	Control	Treatment	Welch test
	Non-contingent	**Contingent**	**P -value**
Number of consumers (full DB transfer advice)			
Mean (SD)	26.9 (230.7)	23.5 (117.8)	0.684
1 pct, 99 pct	[1, 291.7]	[1, 437.2]	
Number of PTS			
Mean (SD)	3.3 (8.1)	2.8 (5.4)	0.154
1 pct, 99 pct	[1, 23.5]	[1, 25]	
Transfer values (£mn)			
Mean (SD)	8.3 (61.8)	8.5 (53.9)	0.929
1 pct, 99 pct	[0, 106.2]	[0, 105.0]	
PII premium to income ratio			
Mean (SD)	41.8 (232.7)	156.9 (1455.0)	0.000
1 pct, 99 pct	[0, 489.1]	[0, 1917.1]	
DB transfer revenue (£'000)			
Mean (SD)	3.2 (6.9)	3.4 (4.5)	0.473
1 pct, 99 pct	[0.1, 23.4]	[0.1, 19.1]	
DB transfer revenue to income ratio			
Mean (SD)	7.5 (23.6)	12.4 (24.9)	0.000
1 pct, 99 pct	[0, 116.0]	[0, 128.9]	
Observations	856	2169	

Note: We have used 1st percentile and 99th percentile as opposed to min and max to account for a small number of outliers in the tails of the distribution for some data variables.
Source: FCA analysis of data requests and regulatory returns

To isolate the effect of the ban on contingent charging from other factors, we use a DiD design. DiD estimates the impacts of our ban by comparing outcome variables before and after the intervention for the treated group and the control group. From the DiD, we are able to identify what would have happened to the treated firms without the intervention. See the Technical Annex for a further discussion on the econometric analysis and the different specifications used for the regression analysis (Models 1 to 4 in Table 4 below).

Table 4 provides a summary of the results from 4 different models. Models 1 and 2 suggest the ban reduced the number of firms providing DB transfer advice by around 129 firms in the year after its announcement and 195 firms up until the end of September 2022, respectively.

Model 3 suggests the ban led to a decrease in the probability of offering DB transfer advice by 2.8 percentage points (taking into account those firms that left after the rules were announced and came into effect). Although the direction of the effect is as expected, the result is not statistically significant, suggesting other market forces may have had a larger impact on the decline in the market. Model 4 suggests that the ban on contingent charging is associated with a decrease in the probability of a firm providing DB transfer advice by around 6 percentage points.

Table 5: Summary of results from different methodological approaches

	Model 1	Model 2	Model 3	Model 4
Data	**Aggregated**	**Aggregated**	**Firm-level**	**Firm-level**
Model	**DiD formula**	**Linear regression**	**LPM**	**Logit**
Dependent variable	Number of firms providing DB transfer advice	Number of firms providing DB transfer advice	Probability of providing DB transfer advice	Probability of providing DB transfer advice
Key interpretation	129 firms stopped providing DB transfer advice in the intervention period, due to the ban on contingent charging	195 firms stopped providing DB transfer advice, due to the ban (statistically significant at 1% level)	No statistically significant effect. Being subject to a ban on contingent charging decreases the probability of a firm providing advice by about 3 percentage points after the intervention	Being subject to a ban on contingent charging decreases the probability of a firm providing advice by about 6 percentage points (statistically significant at 5% level), after the intervention

Source: FCA analysis of data requests and regulatory returns

There is some evidence that the ban reduced the number of firms providing DB transfer advice by 129 firms in the year after the announcement of the final rules and 195 firms up until September 2022. Some methodological approaches show insignificant results, suggesting other market forces may have had a larger impact on this decline.

The impact of PII premiums

The results of our thematic work in late-2018 affected the market for PII, resulting in PII providers raising premiums and increasing excesses for DB transfer advice. Premiums may have also risen in response to an increase in the award limit the Financial Ombudsman Service can offer – this came into effect in April 2019. We noted higher premiums may have arisen because insurers recognised that some firms may be giving unsuitable advice.

These findings and feedback from firms suggests that changes in outcomes in the DB transfer advice market may have also been driven by rising PII premiums, rather than our interventions in 2020. We have therefore considered whether higher PII premiums could have also contributed to number of contingent charging firms exiting the market.

We consider whether firms charging on a contingent basis had a larger increase in PII premiums compared to non-contingent charging firms. The PII premium data we analyse have a broad range of values, with potential outliers. The ratio of premium to income can also be very volatile, and matching time periods is difficult. So the bulk of the descriptive analysis below focuses on medians and medians relative to reported income. There are additional caveats to the data, including:

- The PII premium comparison does not account for account coverage, excess levels, exclusions, and limits.
- Changes in premiums over time may well reflect genuine risk changes or other market changes. This analysis does not consider such factors, and only examines the demand side of the PII market.

Table 5 shows that for the entire DB pension transfer market, median PII premiums have increased from £23,638 in March 2019 to £50,438 in September 2022 (in real Sep-2022 prices). The majority of increases occurred before the intervention came into effect. PII premiums as a percentage of income for the median firm appear to have grown by almost 1% in the 18 months before the intervention took effect. Premiums then increased at a much slower rate in the 24-months following the intervention.

Table 6: Median premiums over the evaluation period

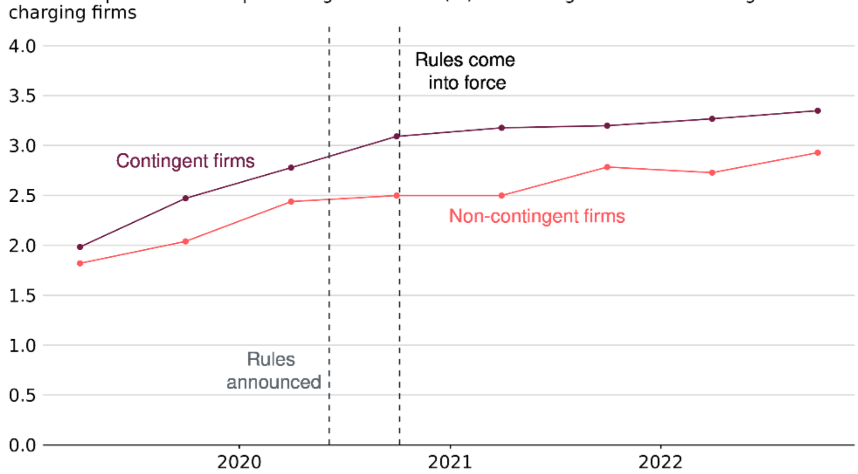
Time period	Median nominal premiums (£)	Median real premiums (Sep-2022 prices)	Median nominal premiums as a percentage of nominal income (%)
Mar-2019 (1)	£20,437	£23,638	1.99%
Sep-2019 (2)	£24,047	£27,435	2.37%
Mar-2020 (3)	£28,500	£32,471	2.68%
Sep-2020 (4)	£35,000	£39,723	2.92%
Mar-2021 (5)	£39,480	£44,661	2.97%
Sep-2021 (6)	£42,000	£46,240	2.98%
Mar-2022 (7)	£44,845	£47,410	3.05%
Sep-2022 (8)	£50,438	£50,438	3.23%

Note: Time period is the end date of each 6-month period. Real premiums are in September 2022 prices adjusted using CPI.
Source: FCA analysis of regulatory returns.

Comparing the impact of PII premiums on contingent and non-contingent firms, Figure 6 shows that contingent firms typically face higher premiums as a proportion of their income. However, the median premium-to-revenue ratios for both contingent and non-contingent firms followed a similar pattern. There was a sharp upward trend in 2019 and 2020, which then levelled off in 2021 and 2022.

Figure 6: Median PII premium-to-revenue ratios are structurally higher for contingent firms but follow a similar pattern to non-contingent firms

Median PII premiums as a percentage of income (%) for contingent and non-contingent charging firms



Note: PII premium and income data are matched to each period using the closest date to the policy start date.
Source: FCA analysis of regulatory returns

For our econometric analysis, we assume that PII premiums did not confound with the ban on contingent charging. It does appear that the availability of (and increases in) PII premiums also contributed to firms exiting the DB transfer advice market, particularly before the intervention.

What types of firms have left the market?

We have analysed other data to explore whether riskier firms were more likely to leave the market. We consider:

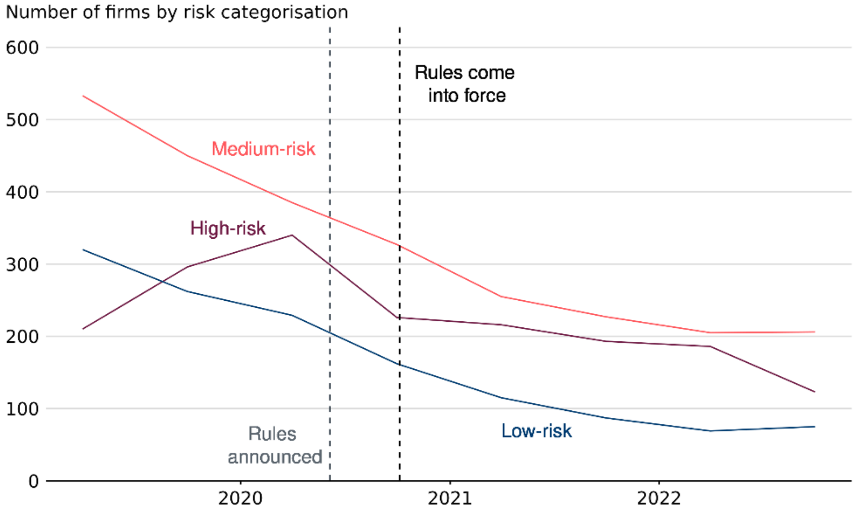
1. Supervisory risk indicators. We use supervisory risk indicators to classify firms as low, medium or high risk.
2. Analysis of identified 'high-risk firms' from thematic work in 2018 to see if these firms are still operating in the market.

Supervisory risk indicators

We use supervisory risk indicators as a proxy for risk to classify firms as low, medium or high risk. We analyse four risk indicators but do not discuss them in this report as they are utilised in our supervisory oversight. However, we classify high risk firms as those firms that meet the threshold for at least 2 of the indicators in the relevant period, medium risk are those firms that meet 1 of the criteria and low risk are those that do not meet any of the criteria.

Figure 7 shows the number of high, medium and low-risk firms over the evaluation period. The number of high-risk firms was rising before the intervention was announced and then declined, providing some evidence that the intervention, or at least its announcement, may have reduced the number of high-risk firms. The number of small and medium risk firms declined at a similar rate throughout the evaluation period, consistent with the overall declining trend of the number of firms providing DB transfer advice in the market.

Figure 7: The number of firms that were high risk was rising before the intervention was announced



Source: FCA analysis of data requests and regulatory returns

Review of 2018 thematic work

From our thematic review in 2018, we identified firms for further investigation. We have analysed these firms in our new dataset to see if they were still operating. Of the high-risk firms identified, around 70% were not operating towards the end of 2018 (when our first data period starts). Approximately 5% were still operating in the market towards the end of 2022 (where our analysis stops). Around 25% firms left the market between April

2019 and April 2021. The data does not provide clear evidence to conclude whether some of the firms left the market as a direct result of the intervention being implemented or simply due to its announcement. The majority of firms appeared to have left the market within a year of our supervisory activities. This suggests our supervisory activities likely had a larger impact on these firms than our 2020 intervention.

There are a number of limitations to this analysis. Firstly, it involves comparing a small sample of firms from 2 different datasets. Second, it does not consider that firms may change their behaviour or product offerings because of our activities. Finally, with finite resources, we focus our supervision and enforcement activities on the firms that could do the most harm. For the majority of firms in the population we do not have data to draw definitive conclusion about their conduct.

To briefly conclude, the market contracted as expected, with a decline in riskier firms coinciding with the announcement of our rules. Although we cannot claim that our intervention directly caused the decline in riskier firms, the descriptive analysis above suggests that there was a rise in riskier firms before the announcement of the intervention, which reversed after we announced our final rules. There is some evidence that the ban on contingent charging reduced the number of firms providing DB transfer advice. Some methodological approaches show insignificant results, suggesting other market forces may have had a larger impact on the decline in the market. Other factors, particularly the increase in PII premiums before the intervention, also had an effect.

5 The provision of DB transfer advice

We consider the impact the interventions have had on the number of consumers receiving abridged advice and the number that proceed to transfer out of a DB pension scheme. We also assess fees consumers pay for different types of DB transfer advice.

The uptake of abridged advice

Abridged advice was introduced to enable consumers, for whom a transfer is unlikely to be suitable, to receive lower cost advice and reduce access-to-advice problems. Abridged advice is a pre-cursor to full DB transfer advice. It includes the initial stages of the usual advice process, including a full fact-find and risk assessment. It was optional for firms to implement this new type of advice, which was expected to provide a low-cost alternative to full DB transfer advice.

This short form of advice enables an adviser to:

- Provide the consumer with a personal recommendation not to transfer or convert their pension.
- Tell the consumer that it is unclear whether they would benefit from a pension transfer or conversion based on the information collected through the abridged advice process. The adviser must then check if the consumer wants to continue to full DB transfer advice, and if they understand the associated costs.

To explore the effectiveness of the introduction of abridged advice, we examine the take-up of advice and its potential impact on fees per consumer. In Table 6, we estimate about 56% of firms in the market operated an abridged advice services in the first period after the intervention. This slowly increased to around 63% by period 8. However, there was a decline in the number of firms offering abridged advice, which was broadly consistent with the decline in the number of firms operating in the market.

Table 7: Proportion of firms providing abridged advice* after the intervention

Time period	Abridged advice firms^	Only full DB transfer advice firms	Proportion
Mar-2021 (5)	353	279	56%
Sep-2021 (6)	330	228	59%
Mar-2022 (7)	318	198	62%
Sep-2022 (8)	280	166	63%

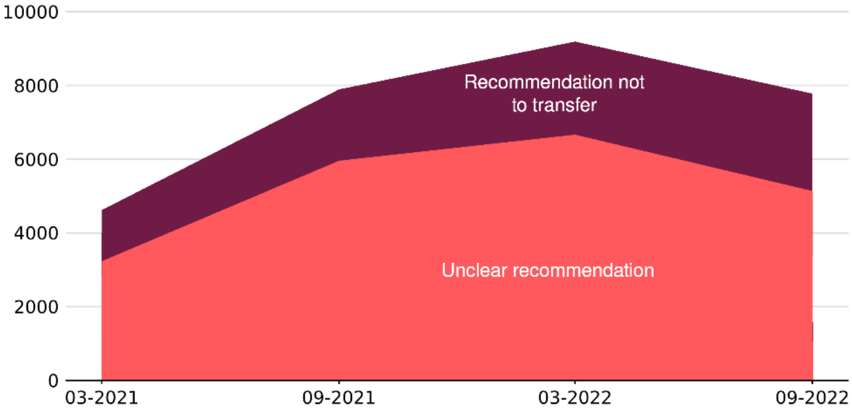
*Note: Time period is the end date of each 6-month period. * This only includes firms that provided advice to consumers. It does not include firms that have permissions to provide advice but may not have used them in the relevant period. ^Firms in this column include firms that provided any consumer with abridged advice after the intervention as a proxy for firms setting up and operating an abridged advice service.*
Source: FCA analysis of RMA-M data

The decline in demand for full DB transfer advice was partially offset by the introduction of abridged advice, although it did not fully compensate for the overall decrease in full

DB transfer advice. The majority of those receiving abridged advice were provided with an unclear result and may have gone onto full DB transfer advice. From the data we are unable to identify how many that received abridged advice then went onto full DB transfer advice, and how many were then recommended to transfer or not to transfer.

Figure 8: The majority of abridged advice resulted in an unclear recommendation

Stacked area chart of the number of consumers receiving abridged advice with an unclear recommendation or recommendation not to transfer



Note: An unclear recommendation occurs when it's uncertain if a client would benefit from a DB transfer based on the abridged advice. Due to data limitations, we cannot determine how many consumers with unclear outcomes proceeded to full DB transfer advice.
Source: FCA analysis of data requests and regulatory returns

We introduced abridged advice to help consumers access initial advice. Although optional, most firms offered some form of this service. The introduction of abridged advice has helped consumers access initial advice. However, we cannot determine whether those who received an unclear result went on to get full DB transfer advice and what the outcome of that advice was. Getting that information may allow us to infer whether the introduction of abridged advice has affected the suitability of advice.

Provision of DB advice to consumers

We consider the impact the interventions have had on the number of consumers receiving DB transfer advice, the number that proceed to transfer out of a DB pension and the fees consumers pay for different types of advice.

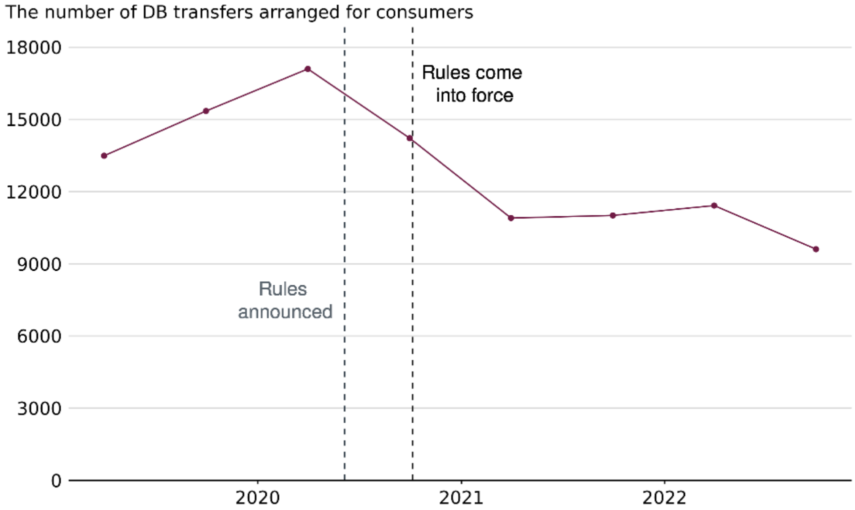
In CP19/25 and PS20/6, we expected:

- We expected the intervention to reduce the number of consumers who proceed to a transfer following advice.
- The introduction of abridged advice would help consumers access initial advice. And abridged advice would be charged at a more affordable cost.
- We estimated an average reduction in the price of full DB transfer advice of £2,500 - £3,500 for those consumers that transferred.

As noted in Chapter 4, the number of consumers receiving full DB transfer advice approximately halved following our intervention. The intervention also appears to have reduced the number of DB pension transfers that firms arranged. Before the intervention, the number of consumers transferring their pensions was steadily increasing. Figure 9 shows the trend reversed following the intervention's announcement and implementation, and subsequently stabilising between 9,000 and 12,000 until the end of 2022.

Figure 9: The number of DB transfers arranged for consumers declined

The number of DB transfers arranged for consumers

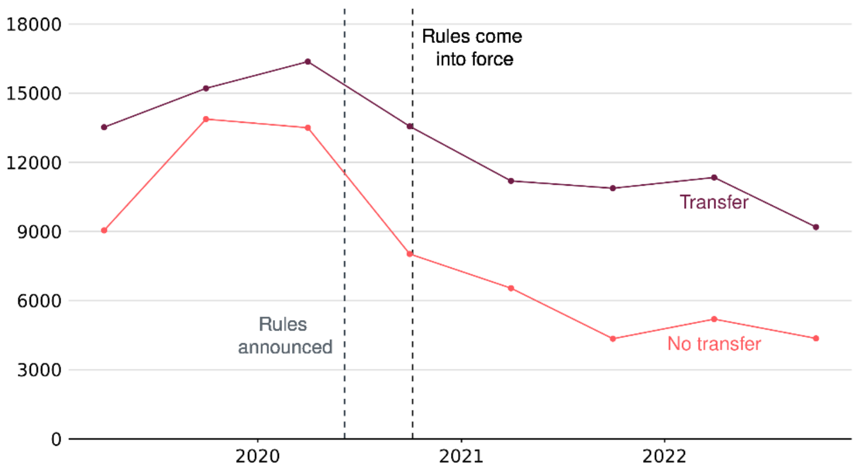


Source: FCA analysis of data requests and regulatory returns

While the intervention aligns with a decline in the number of consumers recommended to transfer, we also observed a decrease in those advised against transferring (see Figure 10). This trend is noticeable in the period before the intervention's implementation and coincides with the announcement of the new rules. This suggests the announcement itself may have affected both consumer demand and firm behaviour, leading to an overall reduction in market activity. This period also coincided with the onset of the pandemic, which brought widespread shutdowns, and likely contributed to the observed decline in DB transfer activity. This makes it difficult to isolate the intervention's precise impact.

Figure 10: The number of consumers recommended to transfer and recommended not to transfer have both declined

Number of consumers recommended to transfer and not to transfer after receiving full DB transfer advice

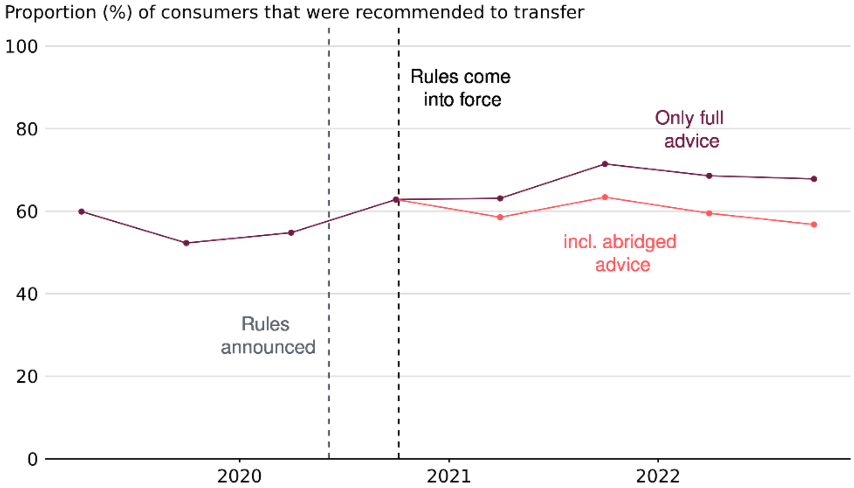


Source: FCA analysis of data requests and regulatory returns

The 'conversion rate' is the proportion of consumers who were recommended to transfer. We expected the intervention to reduce the proportion of consumers who proceed to a transfer following advice; but noted it may increase, as firms become more selective in who they provide full DB transfer advice to.

The conversion rate increased initially after the intervention and remained elevated, suggesting that firms may have become more selective with who they provided advice to. This trend becomes less clear when considering those who received an initial recommendation against transferring during the abridged advice process (see Figure 11). While this conversion rate remained steady immediately after the intervention, it subsequently declined. This initial stability aligns with our expectation of firms prioritising cases that are likely to lead to transfers. External factors, particularly towards the end of 2022, may have contributed to the decline in the conversion rate. The effect of our intervention on the conversion rate is hard to detect and likely involves multiple factors. Initial observations after the intervention suggest increased selectivity of consumers among firms, and other factors, such as changing market conditions, are likely contributors to the observed trends.

Figure 11: The proportion of consumers recommended to transfer increased after the intervention... but remains steady when also including those only receiving abridged advice



Source: FCA analysis of data requests and regulatory returns

As expected, there was an overall decline in the market that coincided with the announcement of our final rules. The number of transfers arranged for consumers and the number of consumers recommended to transfer and not to transfer from full DB transfer advice declined. The intervention led to fewer consumer receiving full DB transfer advice, but this was offset to some degree by abridged advice.

Comparison of fees paid for DB transfer advice

There are different ways of looking at the initial advice fees consumers pay in the DB transfer market. Firms typically charge consumers a fixed fee, a proportion of their transfer value or a mixture of both. So we compare:

- **Average fees per consumer:** This provides insight into the overall cost of initial advice for each consumer.
- **Average fees as a proportion of total transfer value:** This helps us understand the relative cost of initial advice compared to the size of the pension being transferred.

We first look at these indicators for those recommended to transfer and then those recommended not to transfer after receiving full DB transfer advice. We then also consider average fees for consumers recommended not to transfer after receiving only **abridged advice**.

While the other descriptive analyses examine market-wide data, our analysis of fees consumers pay is at the firm-level. This means that we calculate the average fees for each firm and then present the mean results for each time period. This approach normalises the fee estimates by the size of consumers or transfer values.

Fees per consumer after receiving full DB transfer advice

The data indicates that the implementation of the intervention did disrupt the steady upward trend in fees per consumer for those **recommended to transfer**. However, these fees did not decline as we expected. Nominal fees per consumer recommended to transfer increased from about £5,500 to £6,900 in the 2 years before the intervention. These fees then fluctuated but stabilised after the intervention. They reached a peak of approximately £7,300 in March 2022 and ended the evaluation period at about £7,100. In real terms, fees per consumers recommended to transfer peaked in October 2020 and fell in the 2 years after the intervention.

Fees per consumer who were given full DB transfer advice and were **recommended not to transfer** did increase immediately after the intervention, in line with our expectations (see Figure 12). Fees for these consumers peaked at around £4,000 towards the end of 2021.

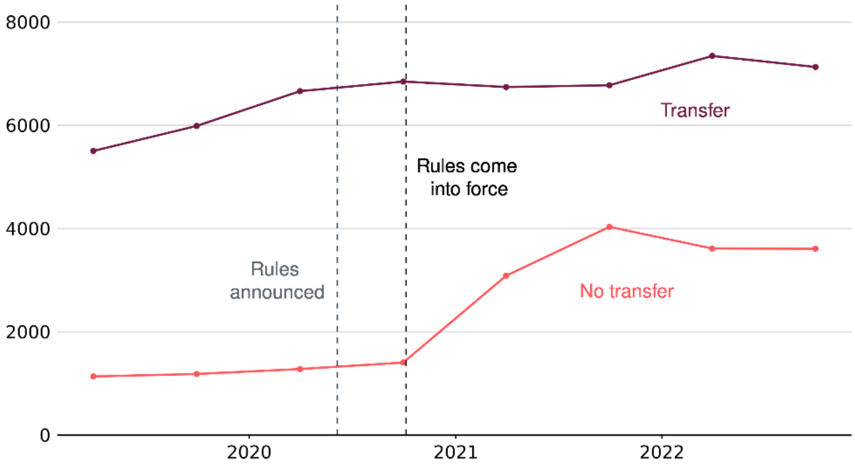
The intervention required firms to charge the same fee for DB transfer advice, whether or not the recommendation is to transfer, or a consumer proceeds. We explained this has the benefit of placing a value on advice not to transfer and removes cross-subsidies between consumers.

While fees per consumer for those recommended to transfer and those advised against it have converged, a gap remains. This could be due to several factors, including:

- The level of data aggregation. Our analysis relies on firm-level data, which may hide variations in fee structures and individual consumer circumstances within each firm. Additionally, the firms used to calculate the respective prices will differ. A more detailed analysis, incorporating information on firms and individual consumer data, could give a clearer picture of fee disparities at a firm level. We have also not controlled for outliers which may affect averages.
- Variation of pension transfer value sizes. Some firms structure their fees as a percentage of the total transfer value. So even with a consistent percentage rate, consumers with larger pension transfer values would naturally pay higher fees than those with smaller pension transfer values, regardless of the advice received. Figure 13 shows fees as a percentage of pension transfer values. It indicates a higher degree of convergence between those recommended to transfer and those advised not to transfer. This implies that the variation in pension transfer value size accounts for a significant portion of the differences observed.
- The proportion of fees relative to the total transfer value also increased for those advised against transferring after the intervention came into force. This rise is partially attributable to the previous prevalence of contingent charging, where consumers who were not recommended to transfer often incurred no fees. Before the ban, firms typically only received payment if a transfer proceeded.

Figure 12: Average fees per consumer for those recommended to transfer flattened but rose for those recommended not to transfer

Average fees per consumer (£) that were recommended to transfer and not to transfer after receiving full DB transfer advice



Source: FCA analysis of data requests and regulatory returns

This evaluation and the CBA used different data and methodologies to estimate initial advice fees. The monitoring indicators in this evaluation use firm-level data on fees per consumer and as a proportion of transfer value. In contrast, the CBA calculated a baseline upfront advice fee by assuming firms charged a 2% contingent fee based on an average transfer value of £350,000. This resulted in an estimated baseline fee of £7,000.

The CBA’s estimated fee reduction range of £2,500 to £3,500 comes from a separate analysis on the resources required to deliver comprehensive DB transfer advice. Based on 2018 data and supervisory insights, we estimated this advice would require 20-25 hours of work, divided between a Pension Transfer Specialist (PTS) and support staff. Using then-common market rates for PTS and support staff time, we calculated the estimated client cost, including allowances for overheads and a reasonable profit margin.

This £2,500-£3,500 estimate has limitations. Firstly, it did not reflect actual firm-level data on fees but rather a calculation based on estimated resource allocation. Secondly, it did not account for inflation from 2018 onwards, potentially underestimating the current cost of providing this advice.

Despite these limitations, nominal fees per consumer for those recommended to transfer, while not increasing substantially, did not decrease in line with the CBA’s expectations.

Fees as a proportion of total transfer value after receiving full DB transfer advice

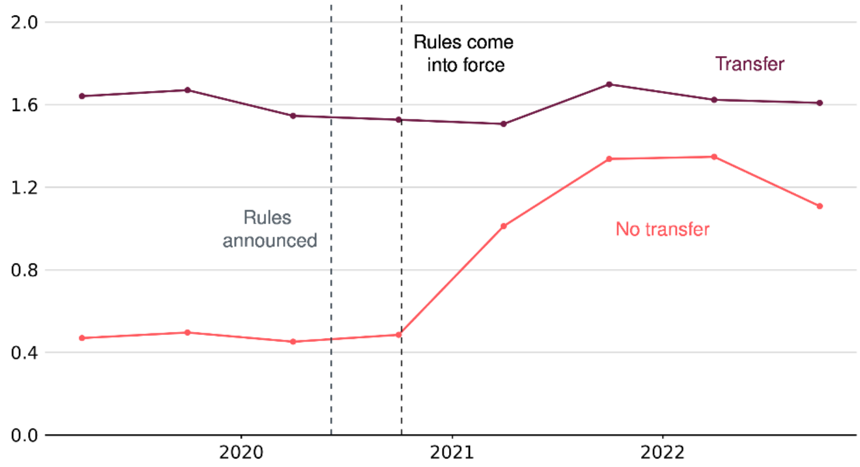
For those recommended to transfer, fees paid as a proportion of total pension transfer value remained relatively steady before and after the intervention (see Figure 13).

For those given a recommendation not to transfer, fees paid as a proportion of total pension transfer value initially increased immediately following the intervention, as expected.

Analysing fees as a proportion of total pension transfer value for both those advised to transfer and those recommended against transferring shows greater convergence compared to fees per consumer. This suggests the variation in pension transfer value size explains a large part of the observed differences.

Figure 13: Average fees as a proportion of transfer values converged for those recommended to transfer and recommended not to transfer

Average fees as proportion (%) of pension transfer value for those that were recommended to transfer and not to transfer after receiving full DB transfer advice



Source: FCA analysis of data requests and regulatory returns

It is important to consider the role of (expected) gilt yields in influencing these trends, particularly for those recommended to transfer. Gilt yields are a significant determinant of a defined benefit pension's transfer value. The sharp increase in gilt yields, particularly towards the end of 2022, would have contributed to a reduction in transfer values - which is the denominator in this monitoring indicator. This could explain some of the observed volatility.

In a period of high inflation, fees as a proportion of total transfer value tend to increase. This is because total fees (the numerator) may be driven up by rising input costs such as labour and overhead expenses. However, the total transfer value (the denominator) will be reduced. When gilt yields are higher, the discount rate used to calculate the present value of future pension benefits rises. A higher discount rate results in a lower present value of those future benefits and pension transfer values decrease.

The combination of rising fees and falling transfer values leads to fees being a larger proportion of the total transfer value.

Fees for abridged advice

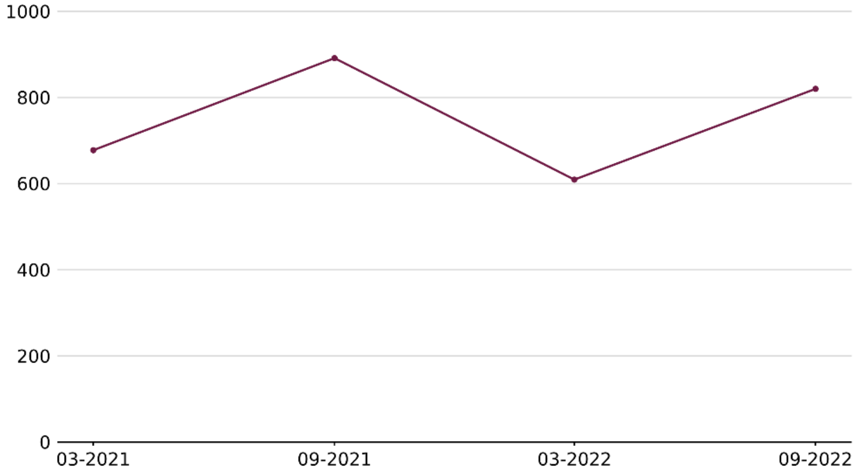
Figure 14 indicates that introducing abridged advice enabled consumers to access initial advice at a more reasonable cost. The average fee for those recommended not to transfer from abridged advice fluctuated between £600 and £900 after it was introduced.

The data also suggests many consumers got abridged advice for free, with a £0 fee per consumer being the most common entry across firms (modal outcome). The median firm-level fee for getting a recommendation not to transfer from abridged advice was £500.

This suggests abridged advice was more affordable. However, we cannot identify what fees those given an unclear result from abridged advice paid or the outcome for those that went on to receive full DB transfer advice.

Figure 14: The introduction of abridged advice appears to have enabled consumers to access initial advice at a more reasonable cost

Average fees per consumer (£) that were recommended not to transfer from abridged advice



Source: FCA analysis of data requests and regulatory returns

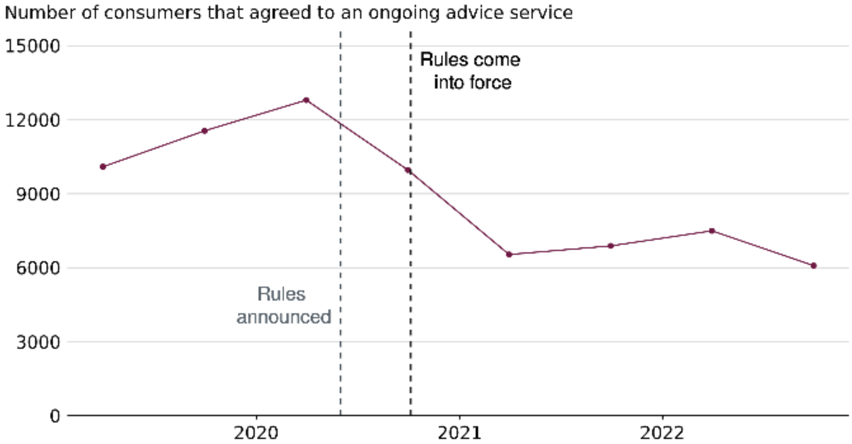
6 Ongoing charges and broader impacts

This section considers the extent to which the intervention has affected the ongoing advice and product fees consumers pay. It also briefly explores whether broader effects have resulted.

Ongoing services

Advisers charge a fee at the point of initial advice, but typically also receive ongoing advice charges. The level of ongoing advice charges varies, depending on the level of service a firm agrees with the consumer. CP19/25 noted that revenue from ongoing advice charges can create a conflict of interest, as an adviser may have a strong incentive to recommend one course of action over another. Over time, these charges can have a significant negative financial impact on the consumer's transferred funds and, as a result, the pension income they can take.

Figure 15: The number of consumers that agreed to an ongoing advice service declined



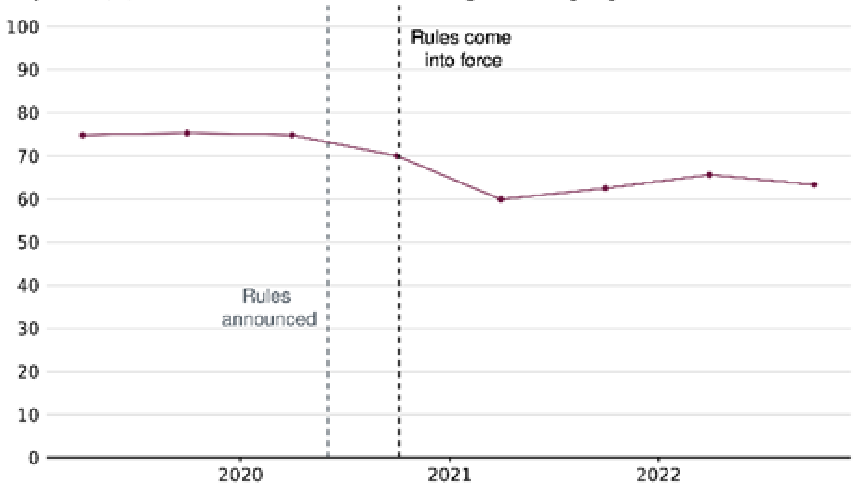
Note: This data only includes consumers receiving ongoing advice from the firm or adviser who gave the initial advice. Many consumers may have been clients of other firms without DB transfer permissions and were then referred back to the original firm for ongoing advice. As a result, this figure likely underestimates the total number of consumers receiving ongoing advice.
Source: FCA analysis of data requests and regulatory returns

The number of consumers that agreed to an ongoing advice service was increasing before we announced the intervention. A large decline then followed in the periods where we announced the final rules and when these rules first came into force. The number of consumers taking ongoing advice then remained steady between 6,000 and 8,000 until the end of 2022 (see Figure 15). This closely mirrors the number of DB pension transfers arranged for consumers by firms.

The number of consumers that agreed to an ongoing advice service as a proportion of total transfers was about 75% before the announcement and fell to between 60% and 66% post intervention (see Figure 16). This suggests that the overall impact of our remedies may have had an effect in reducing the number of consumers agreeing to an ongoing advice service through the decline in the overall market, but also may have reduced the incidence of consumers agreeing to an ongoing advice service.

Figure 16: The number of consumers that agreed to an ongoing advice service as a proportion of total transfers also declined

Proportion (%) of consumers that transferred who agreed to ongoing advice service



Source: FCA analysis of data requests and regulatory returns

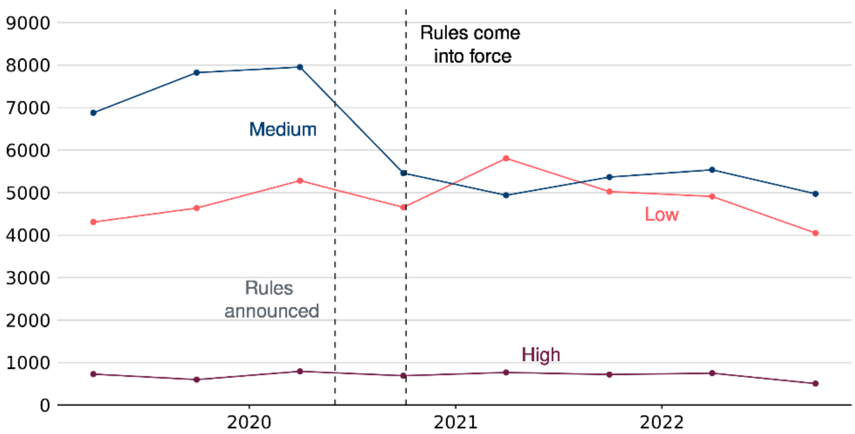
The RMA-M data return this evaluation is based on does not provide specific data on ongoing advice charges. It does, however, provide information on consumers transferring into investment products with annual ongoing product and investment charges (excluding ongoing advice charges).

With the categorial data that is available (see Figure 17), the data suggests the number of ongoing product and investment charges that had low or high fees largely stayed the same after the intervention.

The significant change was in the number of ongoing product and investment charges that had medium fees, which dropped in the period before the rules came into force. The number of low ongoing charges increased by around 1,000 immediately after the intervention but has since declined. The prevalence of high ongoing charges has remained steady below 1,000 overall.

Figure 17: Ongoing product charges largely stayed the same after the intervention except for the fall in medium charges

Number of consumers transferring into an investment solution that had ongoing product and investment charges (excluding ongoing advice charges) that were low, medium and high



Note: Low is 0.75% or less, medium is more than 0.75% and less than or equal to 1.5% and high is more than 1.5%.
Source: FCA analysis of data requests and regulatory returns

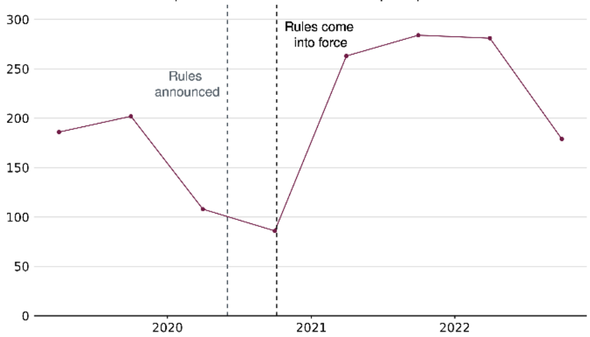
Workplace pension schemes

Transferring to an existing WPS can reduce ongoing costs for consumers. Investing in a WPS's default fund may eliminate the need for ongoing advice during the accumulation phase, saving consumers money on ongoing advice fees.

The number and proportion of consumers that proceed into a WPS does increase after the intervention. Despite the relatively sharp rise in the number and proportion of consumers proceeding into a WPS, it is still a relatively small proportion of consumers transferring into a WPS relative to the number agreeing to an ongoing advice service.

Figure 18: The number of consumers transferring into a workplace pension increased after the intervention

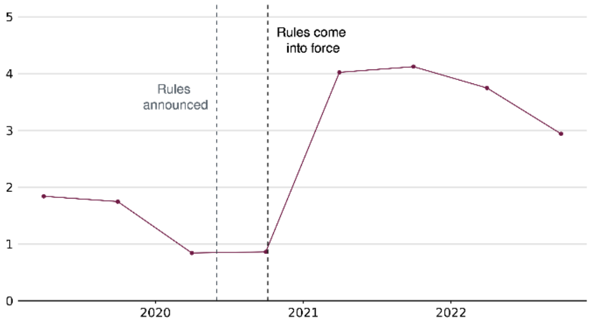
Number of consumers that proceeded to transfer into a workplace pension



Source: FCA analysis of data requests and regulatory returns

Figure 19: Despite the increase in raw numbers, consumers transferring into a workplace pension still makes up a small portion of the market

Consumers transferring to workplace pension as fraction (%) of consumers agreeing to ongoing advice service



Source: FCA analysis of data requests and regulatory returns

Broader impacts

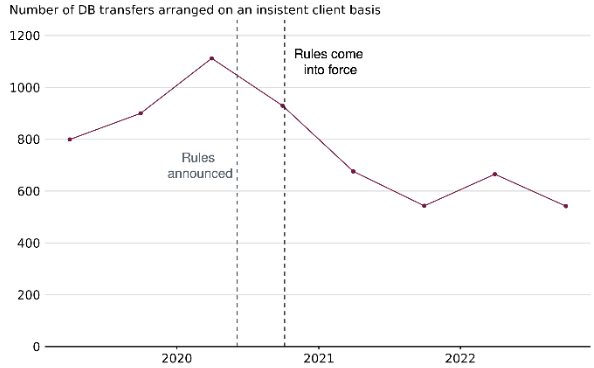
The CBA noted potential concerns about the gaming of arranging a transfer on an 'insistent client' basis and the 'carve-out' exemption. Firms may attempt to relabel some consumers in these categories so they can continue contingent charging or earning fees from ongoing advice:

- A client is considered 'insistent' if they receive a personal recommendation from the firm, but then decide to do something different, and still want the firm to carry out their chosen transaction. With DB pension transfers, insistent clients are often those recommended not to transfer their pension but who insist on a transfer regardless.
- The 'carve-out' is where firms can charge consumers on a contingent basis in exception-specific circumstance (such as serious ill health or serious financial difficulty). It was designed to let certain vulnerable consumers who might benefit from a transfer, and who would otherwise find it difficult to afford advice, continue to pay for advice on a contingent basis.

Similar to the other indicators on the volume of advice, the number of DB transfers arranged on an insistent client basis also declined. Due to the overall decline in the market, we see the percentage of consumers who were advised not to transfer but insisted on transferring rise to a little over 12% after the intervention. This remains under the 13% assumption we used in the CBA, which was based on the data collected from 2015 to 2018.

Figure 20: The number of insistent clients declined

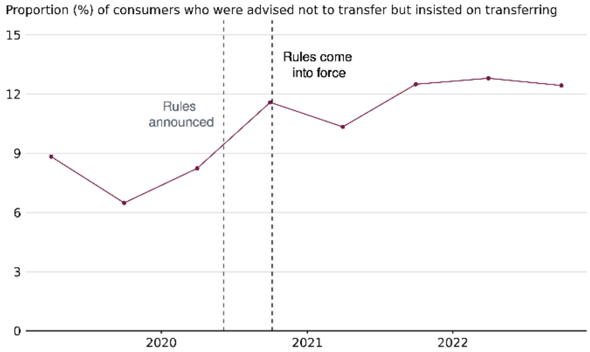
Number of DB transfers arranged on an insistent client basis



Source: FCA analysis of data requests and regulatory returns

Figure 21: The fraction of consumers who were advised not to transfer but insisted on transferring rose to around 12% after the intervention

Proportion (%) of consumers who were advised not to transfer but insisted on transferring

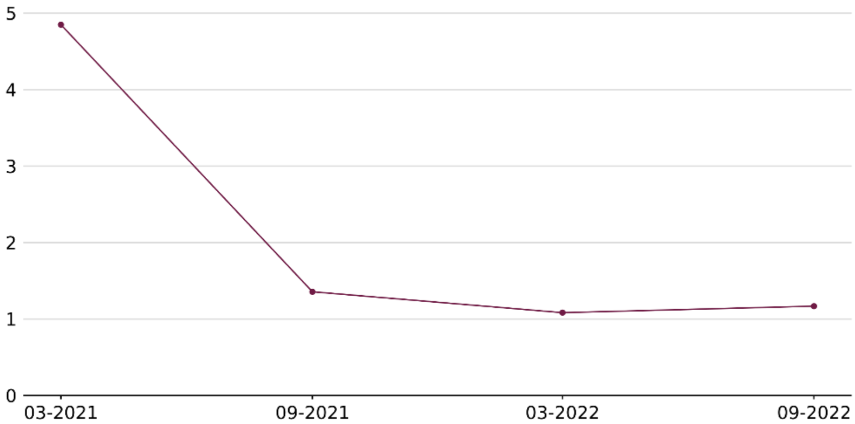


Source: FCA analysis of data requests and regulatory returns

There does not appear to be any significant gaming of the exemption 'carve-out' (see Figure 22). In the immediate 6 months after the intervention, around 5% of consumers met an exception of a 'carve-out'. This is much higher than subsequent periods which are close to 1%. This may indicate that some firms were not ready for the implementation date of the ban and attempted to relabel some consumers in these categories so they could continue contingent charging or earning fees from ongoing advice. However, this is much lower than our estimate of 11%. Since the proportion of consumers that satisfied the carve-out requirement dropped significantly in subsequent periods, it suggests the carve-out is not being used by firms to game the system.

Figure 22: There does not appear to be any significant gaming of the 'carve-out' exemption

Proportion (%) of consumers that satisfied the exception to the ban on contingent charging (the 'carve-out')



Note: The 'carve-out' was introduced as part of the intervention therefore only post-intervention data are available.
Source: FCA analysis of data requests and regulatory returns

7 Lessons learned

The lessons from this evaluation are a function of our intervention in this specific market. Our lessons here may not read across directly to, for example, a similar intervention in another market. Nevertheless, they provide useful insight in helping us anticipate potential ways of reducing harm and the likely impact of doing so. We set out the main lessons learned in Table 7.

Table 8: Main lessons learned from our evaluationd

#	Lesson learned	Comments
1	Our intervention had a stronger impact on the volume of advice provided rather than fees.	The volume effect has been far greater, with very little impact on fees. Fees for advice were stickier than we expected, and our initial expectations of price reductions were too optimistic.
2	The CBA's approach and assumptions were reasonable given the information available at the time.	The CBA's analysis remains valid and was grounded in reasonable assumptions based on the data available at the time. The CBA is still net beneficial without the benefit from the assumed decline in the price of advice. Including a market overview and a breakeven analysis could have strengthened the CBA. The biggest difference in expected impacts related to price changes. The method for estimating the price of advice was reasonable. The prices examined in this evaluation are not directly comparable to the CBA as they use different data sources and are calculated in a different way.
3	The announcement of the ban may have had a larger impact than the rules coming into force.	The announcement of the intervention may have had an impact on firm behaviour. In some cases, this may have been larger than the rules coming into force. We have qualitative information from our pensions and supervision teams that many firms stopped offering DB transfer advice after the announcement of our rules on 5 June 2020. Our econometric analysis suggests that contingent charging firms may have left the market for DB transfer advice before the rules came into force. Further, there was some evidence that some firms who remained in the market moved to a non-contingent model before the rules came into force.

Abbreviations used in this document

ATT	Average Treatment Effect on the Treated
CBA	Cost Benefit Analysis
CP	Consultation Paper
DB	Defined Benefit
DC	Defined Contribution
DiD	Difference-in-Differences
EP	Evaluation Paper
PII	Professional Indemnity Insurance
PS	Policy Statement
PTS	Pension Transfer Specialist
RMAR	Retail Mediation Activity Return
UK	United Kingdom
WPS	Workplace Pension Scheme

Glossary

The brief explanations in this glossary may differ from the Handbook and should not be considered official guidance. We provide them to help the reader with this report.

Key term	Description
Abridged advice	Abridged advice includes the initial stages of the usual full DB transfer advice process. It will typically include a fact-find, to understand the customer's current financial situation, and a risk assessment, to understand their appetite and capacity for financial risk.
Carve-out	An exception to the ban on contingent charging. Firms can charge consumers on a contingent charging basis if they meet the requirements for serious ill-health or serious financial difficulty. Both require that a consumer is unable to pay for full DB transfer advice.
Defined Benefit	With a defined benefit pension, the amount paid out in retirement is based on how many years someone has been a member of that employer's scheme and the salary they have earned at the time they leave that employer or retire.
Defined Contribution	With a defined contribution pension (sometimes called money purchase) people build up a pot of money they can use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income a person may get from a defined contribution scheme depends on factors including the amount they pay in, the fund's investment performance and the choices the person makes at retirement.
Financial hardship	Circumstances that mean a consumer is suffering serious financial difficulty. For example, evidence they are regularly unable to meet mortgage repayments, rent or utility bills.
Full DB transfer advice	Advice on pension transfers or pension conversions (as applicable) given in accordance with COBS 19.1 (Pension transfers, conversions and opt-outs).
Insistent client	An insistent client is a client who has received a personal recommendation from a firm, has decided they want to make a different transaction to the one recommended and they wish the firm to make that transaction.
Pension conversion	Involves exchanging safeguarded pension benefits for flexible benefits or a lump sum payment. For this evaluation, we use the terms 'DB transfer advice' or 'pension transfer advice' to refer to both pension transfers and pension conversions.
Pension transfer	Involves exchanging safeguarded pension benefits for a cash value, which is then invested in a different pension scheme. For this evaluation, we use the terms 'DB transfer advice' or 'pension transfer advice' to refer to both pension transfers and pension conversions.
Serious ill-health	A medical condition that is likely to reduce the life expectancy of a retail client to below age 75.
Workplace pension scheme	A way of saving for retirement that is arranged by the employer.

List of figures in the main report

Chapter	Section	Figure #	What it shows
		Figure 13	Average fees as proportion of pension transfer value (%) for those that were recommended to transfer and not to transfer from full DB transfer advice
		Figure 14	Average fees per consumer (£) that were recommended not to transfer from abridged advice
6	Ongoing services	**Figure 15**	Number of consumers that agreed to an ongoing advice service
		Figure 16	Proportion of consumers who agreed to an ongoing advice service
		Figure 17	Number of consumers transferring into investment solution that had ongoing product and investment charges
	Workplace pension schemes	**Figure 18**	Number of consumers who proceeded to transfer into workplace pension
		Figure 19	Consumers transferring to workplace pension as fraction of consumers agreeing to an ongoing advice service
	Broader impacts	**Figure 20**	Number of DB transfers arrange on an insistent client basis
		Figure 21	Proportion of consumers who were advised not to transfer but insisted on transferring
		Figure 22	Proportion of consumers that satisfied the exception to the ban on contingent charging (the 'carve-out')

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