



Work and Pensions Committee

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From the Chair

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Defined benefit pension transfer advice

Thank you for your oral evidence and your subsequent letter. While the action the FCA has taken to protect members of the British Steel Pension Scheme (BSPS) is of course welcome, I am concerned that it remains grossly inadequate.

More broadly, it is apparent that insufficient protections are in place to prevent consumers with defined benefit (DB) pension pots being seduced into a transfer against their interests. While the protection of requiring those with rights worth over £30,000 to take financial advice before transferring is helpful in theory, it is useless in practice if that advice is shoddy or just plain crooked.

FCA monitoring of DB transfers

The FCA has repeatedly stated that transferring out of a DB pension, an option now available under pension freedoms, is rarely in the interests of individuals. You said a transfer is the wrong option for most people, most of the time. In our recent report we noted that someone who has passively accumulated generous pension entitlements may be particularly vulnerable to making inappropriate investments or being scammed out of a large pot.¹

The FCA website notes that "the number of consumers transferring from DB schemes to personal pensions has significantly grown over the past year".² Mercer estimated in June that, since April 2015, 210,000 people had taken DB transfers with

¹ [Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill](#), Third Report of Session 2017–19, HC 404, December 2017

² <https://www.fca.org.uk/news/news-stories/our-work-defined-benefit-pension-transfers>



a combined value of £50 billion.³ You reported in your letter that 2,200 BPS members have transferred out of the scheme or are in the process of doing so. These figures are most troubling, especially when considering the quality of advice being provided to them.

In your Channel 4 News interview following our evidence session you said that the FCA has found that "across a wide range of advisers across the country [...] less than 50%" were providing "proven suitable advice" on DB transfers.⁴ Given the potential consequences for individuals of an unwise DB transfer, this is hugely troubling.

The FCA webpage on DB transfers notes that, since October 2015, the FCA has "reviewed a total of 88 DB transfers where the recommendation was to transfer". You found:

- 47% were suitable;
- 17% were unsuitable; and
- 36% unclear if the recommendation was suitable.

You were satisfied that the recommended product and fund were suitable in just 35% of cases.⁵

- 1. Can you please confirm that (a) the 47% suitability was the basis of your statement on Channel 4 News and that (b) the FCA regards this figure as indicative of the national picture?**

These levels of suitable advice compare very unfavourably to the wider pensions advisory market, where 90% is typical. DB transfer advice being provided showed the most fundamental deficiencies, failing to account for the circumstances or needs of the client, failing to adequately assess the risk the client was willing to take and failing to provide accurate comparisons of benefits.

The FCA issued alerts to advisers in August 2016 and January 2017, with disappointing results. You issued a consultation on possible adjustments to your guidance and rules in June 2017 and intend to "carry out a further phase of supervisory assessments starting in the current business year".⁶ This strikes me as an extraordinarily cautious approach given the potential for gross consumer detriment. The FCA's responsibilities are first and foremost to consumers.⁷ As things stand, some innocent people are being swindled.

³ <https://www.ft.com/content/d020d408-5760-11e7-80b6-9bfa4c1f83d2>

⁴ <https://www.channel4.com/news/financial-watchdog-orders-four-firms-to-stop-british-steel-pension-transfers>

⁵ <https://www.fca.org.uk/news/news-stories/our-work-defined-benefit-pension-transfers>

⁶ <https://www.fca.org.uk/news/news-stories/our-work-defined-benefit-pension-transfers>

⁷ <https://www.fca.org.uk/about>



2. *Has the FCA considered the possibility of suspending all DB transfer advice while reparative action is taken? Have you discussed such action with the Government?*
3. *Are you confident that your qualification threshold for being authorised to provide DB pension transfer advice is adequate? Is it time to start from scratch?*
4. *Many people take advice on DB transfers having been referred by an "introducer". Do introducers play a valid role in the process or are they wholly parasitical?*

FCA register

You said consumers in need of financial advice on a DB transfer should consult the FCA register. Rich Caddy—a steelworker—told us, however, that people would need a degree to navigate the website. As you said when being interviewed by Channel 4 news, suspensions of firms are not immediately apparent and restrictions on their activities are far from conspicuous. As I write, Active Wealth (UK) Ltd is still listed as "Advising on Pension Transfers and Pension Opt Outs".⁸ The website is clearly confusing and designed with the industry, rather than consumers, in mind.

5. *Will you commit to making improvements to the FCA register, making it far clearer when a company is suspended from certain activity?*

Eventually, you managed to provide to the Committee a list of three firms who were suspended from providing DB transfer advice. A further three names have dribbled out over the past two days.

6. *Given the evident consumer protection benefits, and that it would act as a deterrent to self-interested unacceptable advice, why do you not publicise suspensions from your register?*
7. *You currently rely on voluntary suspensions for fast action. Would legislative change to enable you to suspend firms pending further investigation better enable you to carry out your regulatory functions?*

BSPS members who have taken advice on a transfer from the suspended firms, many of whom will have begun the transfer process, are likely to be concerned about the implications of the suspensions.

8. *What guidance and reassurance will you be providing to such members, including how they will be compensated if they have been badly advised?*

⁸ https://register.fca.org.uk/ShPo_FirmDetailsPage?id=001b000000bYdN3AAK



Firms under investigation

In the evidence session you explained that, while several other firms offering DB pension transfer advice to BPS members are subject to targeted ongoing supervisory activity, they have not yet reached the stage of suspension from the register.

- 9. Have you considered providing to the pension scheme trustees, on a confidential basis, the names of firms under investigation so that they can be removed from any list given to members seeking advice?**

Senior Managers and Certification Regime

The FCA launched a consultation on 13 December on transitioning firms and individuals to the Senior Managers Regime.⁹ Under your proposals, customer-facing advisers would not be individually certified.¹⁰ Concerns have been expressed that this could make identifying bad advisers more difficult.¹¹

- 10. Can you confirm your experiences in Port Talbot will inform your decision of whether to relax your proposed certification regime?**

Given the widespread and urgent interest in these matters I will be publishing this letter.

With best wishes and I look forward to hearing from you,

Rt Hon Frank Field MP
Chair

⁹ <https://www.fca.org.uk/publication/consultation/cp17-40.pdf>

¹⁰ Category CF30

¹¹ See, for example, New Model Adviser, [FCA rethinks register in light of British Steel pension worries](#), 14 December 2017