

Pension switching and FSA Compliance



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What I will cover

- FSA Review – some numbers
- What you need to do now
- What you need to do in future
- Why leaving clients in the wrong contract is not treating them fairly

Quality of Advice on Pension Switching

- “We are also writing to over 4500 firms asking them to consider their past and future sales in the light of this review and to take remedial action where necessary.
- We will follow this up with a series of firm visits and desk based file reviews.
- Any firm that has not taken appropriate action may face further action.”
- FSA report on the findings of a thematic review December 2008

TCF Outcomes

- Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Where consumers receive advice, this advice is suitable and takes account of their circumstances.
- Consumers are provided with products that perform as firms have led them to expect and the associated service is both of an acceptable standard and as they have been led to expect.

FSA – Key Findings

- 30 Firms, 500 files
- 25% of firms providing unsuitable advice in a significant number of cases
- Only 25% of firms had no unsuitable cases
- Advice unsuitable in 16% of cases
- Plus file not clear enough to judge in 7% of cases

Reasons why unsuitable

- 79% had extra product costs without good reason
- 40% had funds recommended not matching client ATR or objectives
- 26% had no mention of ongoing reviews
- 14% led to loss of existing benefits for no good reason

79% had extra product costs without good reason

- Switching for investment flexibility, but this was unlikely to be used
- Switching for fund performance, but there was no evidence that the new scheme would be better
- Switching for the flexibility of drawdown, but no evidence that this option was needed

40% had funds recommended not matching client ATR or objectives

- 92% too high – 8% too low
- Impact of the term: “Little understanding that a fund that is suitable over a term of 10 years is unlikely to be suitable for a 3 year term.”
- Benefits of diversification: “Sometimes the adviser did not appear to appreciate that investing in a single area or asset class is more risky.”

26% had no mention of ongoing reviews

- “Where an ‘asset allocation’ approach has been recommended the scheme needs to be reviewed periodically and rebalanced where necessary to ensure it continues to be suitable.
- The adviser has to explain the importance of such reviews, or offer them, or put them in place.”

14% led to loss of existing benefits for no good reason

- Guaranteed annuity rates
- Guaranteed returns
- Guaranteed minimum pensions (GMPs)
- No mention of life cover or waiver ...

Procedural failings

- 20% Failure to adequately evidence the customer's needs
- 26% Failure to adequately consider the ceding scheme
- 26% Failure to compare costs
- 22% Failure to give reasons why for the new product/provider

FSA Suitability Assessment Template

- Customer needs analysis:
 - What drivers for the switch were stated in the suitability report?
 - Consolidation, future drawdown, investment flexibility performance, specific investment, cheaper scheme.
 - File does not contain drivers.

Unsuitable outcomes: cost

- Is the receiving scheme more expensive than the ceding scheme / a stakeholder pension?
- Did the advice consider any MVAs or penalties that applied on switching out?
- Does the receiving scheme have the features/options that meet the customer's needs?
- Could the features/options/funds have been achieved more cost effectively by a different product?
- Is the recommendation to switch to a more expensive scheme than the ceding scheme / a stakeholder scheme without good reason?

Unsuitable outcomes – lost benefits

- Were guarantees in the ceding scheme considered and was there good reason for their loss on switching out?

Unsuitable outcomes – no match to ATR/personal circumstances

- What is the ATR recorded in the fact find?
- What is the ATR recorded in the suitability report?
- Is the investment recommendation suitable given the customer's ATR and personal circumstances?

Unsuitable outcomes – ongoing reviews

- Did the suitability report explain the importance of regular ongoing reviews?
- Have these been offered, carried out or arranged for a future date?

IT'S NOT ROCKET SCIENCE!!

- TCF Principles
- Know your customer
- Due diligence on the existing plan – in detail
- Reasons why for the new plan

Leaving clients in the wrong contract

- Is not treating them fairly
- Were they sold new policies every time the 'adviser' changed jobs?
- Does consolidation make sense?

Leaving clients in the wrong contract is not treating them fairly

- Are they in with profits policies 'guaranteed' not to grow?
- Standard pre 99 WP had just 13.4% in equities on 31/12/08
- The Stakeholder WP had 62.9% equities
- Even Millennium WP had 33.5% equities
- Do these match their ATR?
- Are they paying for features which they no longer require?

FSA is not against transfers

- Or even against transfers with higher costs
- But it is against extra product costs with no good reason!!

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