Written evidence from Helena Wardle (CSF0014)

I am writing in response to your inquiry into 'charging for pension transfer advice'. I am an Independent financial adviser and a Pension transfer specialist. Personally, I do charge a fixed non-contingent charge for Defined benefit pension transfer advice as my preferred charging structure. I do feel the assessment is more impartial if it is charged this way. However, I am not convinced that banning contingent charging would successfully address the misconduct and poor advice outcomes in this area of advice and I would like to suggest alternative considerations based on research that I conducted in 2018 as part of my Master's degree in Financial planning and my views and experience as an adviser. In response to your inquiry my views are:

Does contingent charging increase the likelihood of unsuitable advice?

Yes, it can. Financial incentives can motivate advisers either consciously or sub consciously. If an individual adviser must do a significant amount of work to determine if a defined benefit pension scheme member should transfer or not but they will only receive payment for that work if that transfer proceeds it is difficult to argue that this would not influence some advisers to lean more towards the outcome that will result in a payment for them. In addition, how many firms can afford to take the time costs with that approach without having some level of pressure to convert some of these enquiries to transfers that will lead to payment. To provide the required personalised advice to meet the regulatory standards and to ensure a transfer is appropriate for the individual client takes a significant amount of time in comparison to other areas of advice.

Defined benefit pension members and pension trustees can benefit from understanding the process better which may lead to clients making better informed decisions about the advisers they engage. The recent FCA consultations, rules and guidelines has already made significant improvements on the clarifications of the FCA's expectations of any advisers and firms in this area. This has encouraged advisers and firms to help improve defined benefit pension members understanding of their benefits and the risks associated with transferring in a generic manner to actively get these clients to reflect on whether they should go through a full advice process. Any personal recommendation and discussion now require a suitability letter, and this will naturally lead to more firms charging for personalised advice. If contingent charging is banned, I am not convinced it would remove the misconduct and poor advice, these advisers providing poor advice will just end up charging the clients a fixed fee for it. Raising the standards in this advice area with clear expectations as per the FCA policy statement (PS18/20) and improved consumer education and understanding may be more effective.

In addition, banning contingent charging will remove firms and adviser's discretion in cases where clients may not be able to afford to pay the fee outside of the transfer value and this can make it difficult for all defined benefit pension members to afford financial advice on their defined benefit pensions. These clients are required by law to receive advice on transfer values over £30,000 so it doesn't feel fair to me to remove and reduce their ability to seek regulated advice. It can be argued that these clients shouldn't transfer if they cannot afford to pay the fee to transfer- due to a lower capacity to afford to take the risks associated with transferring. The reality is that I have had cases where clients didn't have money outside of the pension transfer value but based on their circumstances and requirements they needed to explore the options as transferring may be suitable. How will these clients be catered for in future?

Firms may be able to afford to still offer contingent charging structures to assist these clients, but controls need to be in place to ensure it is managed properly and that the advice is objective and, in the client's best interest. I think it could be worth giving the recent policy statement time to filter through properly as it will make it the norm for defined benefit pension advice to be charged on a fixed fee basis with less clients going through a full advice process due to improved client education using triage video's and brochures and the requirement to document personalised advice.

What would be the impact of a ban on contingent charging on consumers and firms and how could any negative effects be minimised?

Banning this contingent charging structure would not necessarily resolve the increased financial incentives of transferring the pension for that client. Most advice firms receive ongoing payment for assets under management if they provide any ongoing service to that client. I don't believe that banning contingent charging would remove this incentive and there are still financial rewards associated with the incentive to increase a firm's assets under management and ongoing remuneration if they are that way inclined. In my mind if someone is determined to make money at any cost and are willing to abuse their position to do this banning contingent charging will only require imagination to create a loophole around this. Therefore, there is still a monetary incentive to transfer in a similar manner to contingent initial advice charges due to this ongoing advice charge and banning contingent charging on the initial advice cost may not limit or reduce misconduct as hoped.

In addition, this would make it more difficult for some clients to seek advice. While I completely agree with the starting position that most clients should remain in the scheme on some occasions having the ability to transfer has a lifechanging impact on some clients. If a ban is proposed considerations need to be given to not make it impossible for clients without liquid assets to seek advice.

Are there any alternative solutions that would remove conflicts of interest but avoid any possible negative impacts of an outright ban on contingent charging?

Improve clients understanding of benefits before they seek advice:

Defined benefit pension members do not always understand their defined benefit pensions. It is, in my experience, not clear to clients what their pension transfer documents mean, and the risks associated with transferring the pensions should be explained to members before they consider getting a transfer value. Clients see the transfer value being offered, frequently this number seems huge to clients in comparison to the pension income quoted and are in some cases more money than they ever imagined. Clients do not consider what the real costs of providing these benefits are or even question why it is being offered at that transfer value until this is pointed out to them. Pension transfer documents from schemes typically only show the value of the pension income when the members left, and this income figure quoted does not include the annual revaluation this income would have had since the member left. This results in comparisons of the pension income when the member left to the transfer value quoted now. This creates a distorted view of the pension transfer value compared to the income offered and I believe a simple revalued income comparison shown on the transfer value documents will make a big difference on clients understanding of their benefits. I have provided a redacted example Cash equivalent transfer statement for you to review to demonstrate the ambiguity and complexity of these statements.

Example CETV:

EQUINITI

Sutherland House
Russell Way

Crawley
West Sussex
RH10 1UH
www.equinitisolutions.com

Private and Confidential

Direct Line:

Dear

The XXX Group (UK) Limited Pension and Life Assurance Scheme
Member Name: Example Client - Member Number: 1234

Further to your recent request for transfer value details, enclosed is a Transfer Information Sheet that provides details of the transfer value available.

If the transfer is to proceed, the appropriate Transfer Out Authority Form, enclosed with this letter, should be completed and returned within the guaranteed period. In addition, the following documentation is also required:-

- **The member's original birth certificate, passport or driving license**
- **The member's original marriage certificate (if applicable)**
- **A print-out of the HMRC website confirming the receiving scheme's HMRC tax reference number**
- **A copy of the receiving Scheme Contracting Out Certificate (if the scheme is contracted out of the State Second Pension)**
- **Where necessary, written confirmation that the member has obtained appropriate independent advice in relation to the transfer (such confirmation to be provided to the member by their Independent Financial Advisor (IFA)) *.**
- **The member should provide written confirmation that they have received and understood the financial advice statement.**

Please note that the transfer will not proceed until these documents have been received.

It is now a legal requirement that trustees must check that a member has received appropriate independent advice before a transfer can be made from a pension scheme providing defined benefits like the xxxx Group (UK) Limited Pension and Life Assurance Scheme to a scheme providing flexible benefits. i.e. defined contribution benefits. Unless you confirm otherwise, we will assume that the purpose of the transfer you have requested is to secure flexible benefits under another pension scheme.

This requirement applies where the value of the defined benefits to be transferred is greater than £30,000. The independent financial advisor (IFA) giving that advice must be registered with the Financial Conduct Authority (FCA) and provide the member with written confirmation that advice has been given. This written confirmation to the member must include the following statements and a copy must be sent to us:

- that the adviser has permission to carry out the regulated activity in article 53E of the FCA's regulated activities order (advice on the transfer of safeguarded benefits)
- the advice has been given on the transfer of safeguarded benefits to flexible benefits
- the name of the member who was given the advice and the scheme in which they hold safeguarded benefits
- the adviser's FCA registration number (the firm's number)

The member should provide written confirmation that they have received and understood the above financial advice statement.

As the cash equivalent transfer value of your client' s defined benefits shown in the attached Transfer Information Sheet is £30,000 or more, the Trustees are required to check that your client has received appropriate independent advice before your client' s transfer can take place. You must provide the Trustees with written confirmation (in the form described above) that your client has received this advice within three months of the date of this letter.

Please note that the Trustees of the xxxx Group (UK) Limited Pension and Life Assurance Scheme are unable to complete any discharge forms relating to sex equality.

If you require any further information please contact us on the above direct

line. Yours sincerely

Pensions
Administrator Enclosure

TRANSFER INFORMATION SHEET

Scheme Name	The xxx Group (UK) Limited Pension and Life Assurance Scheme
Member Name	Example Client

Member Number	123456
NI Number	AB123456C

Transfer value

TOTAL TRANSFER VALUE	**£459,208.00**
This is made up of the following elements: -	
Value of pre 6 April 1997 Protected Rights:	£95,046.00
Value of the pre 6 April 1997 benefits in excess of GMP:	£297,582.00
Value of benefits accrued Post 6 April 1997	£66,580.00

The Total Transfer Value available is guaranteed until: **7 March 2017**

In exceptional circumstances, the "guaranteed" transfer value of the deferred benefits may reduce within this period. The member will be informed if this situation arises.

The member has a statutory right to request details of the "guaranteed" transfer value of their deferred benefits once in every twelve-month period. Further requests received within a twelve-month period will only be provided if the rules of the scheme, or the Trustees, allow, and there will be a fee of £150.00, plus vat, for providing an additional quotation.

Member Details

Date of birth:	DD/MM/YYYY
Sex:	Male
Date joined service:	02/05/1977
Date Joined scheme:	06/0 4/1983
Date Pensionable Service commenced	06/0 4/1983
Date of leaving:	01/10/1999
Normal retirement date:	DD/MM/2023

Deferred Pension

Total Deferred Pension at date of leaving:

Deferred Pension at date of leaving accrued post 6 April 1997:

(included in the above total)

Total Maximum Spouses Pension at date of leaving

Scheme information

Note: Scheme adopted LPI increases

HMRC Tax Ref no: deleted

PSTR no: deleted

Registered under Chapter 2, Part 4 Finance Act 2004

Contracting Out

Total GMP at exit:

Post 5 April 1988 GMP at exit

Total GMP at age 65 male, age 60 female:

Post 5 April 1988 GMP at age 65 male, age 60 female:

ECON: E3020375C SCON: S0834363M	£5,618.67 p.a £907.78 p.a
	£2,809.34 p.a

£1,424.28 p.a

£719.68 p.a

£5,743.40 p.a

£2,902.12 p.a

Contracted Out Service: From: 06/04/1983
To: 01/10/1999

Every care has been taken in the preparation of the above but it is not binding if any error or omission should subsequently be discovered

Improving and setting standards on the communications sent to defined benefit members and educating clients on the value of their pension benefits before they seek advice may have a bigger impact on improving advice standards and the influence that advisers may have on clients seeking advice. I personally think that good education tools will reduce the amount of defined benefit pension members that seek regulated advice, and this would support the starting assumption which is that most members are better off staying within the defined benefit pension scheme.

The three-month deadline on transfer value documents are not always clear to defined benefit pension members. This leads to clients seeking advice too late and can result in an irreversible decision being rushed and time pressed. Educating defined pension members on the level of comparison and detailed analysis required to assess if a they should transfer or not can make a difference to their understanding of the time this analysis may take. This can be done through generic brochures, video's and guidelines and there are already excellent education tools available to help with this.

I appreciate that due to the increased demand in defined pension transfer advice trustees and scheme administrators have experienced a significant increase in their workload. This has resulted in long delays in getting essential information and mistakes on paperwork issued to consumers and advisers. The information required to analyse the members pension can be standardised and required to be quoted on all cash equivalent transfer values which will improve the assessment and analyses of defined benefits pensions and ensure that the comparisons between defined benefit pensions and personal pensions are as accurate as they can be. This may also result in saving time in this analysis process which can be passed on to clients.

The inquiry into banning contingent charging seems to suggest that most advisers are unable to look beyond the adviser fee income when they are sitting in front of clients and that this incentivises them to not consider their clients best interest. While this is true for some advisers the research I did in 2018 on the influence of adviser charging suggested that some advisers are more motivated by fees and that this led to poor conduct and that some advisers are motivated by acting in their client's best interest, often described as a fiduciary duty to their clients. This fiduciary duty was seen as a responsibility that was emphasised as important to the advisers who participated in my study. The Financial advice industry has gone through some significant changes in the last 6 years and there is in my opinion a significant cultural shift and a drive to improve standards and professionalism. While there are still traces of a sales culture, this is being challenged and advisers are striving for better standards, offering value to clients and making a difference to consumers seeking advice. I feel other considerations could be explored as part of the inquiry to determine if it would have a more positive impact on the quality of defined benefit pension advice instead of regulating how firms charge for this area of advice. I am happy to share my research on the influence of adviser fees and below is the abstract describing the study:

"The debate on the influence that adviser fees may have on the outcomes being recommended to clients, has seemingly brought in a cloud over the principles and ethics of financial advisers in the

UK. The Financial conduct authority (FCA) has consulted on banning contingent charging and there seems to have been very little input from financial advisers. This has highlighted that there seems to be lack of understanding of advisers' motivation and the debate around charges has indicated that the starting assumption is that advisers are more motivated by extrinsic factors such as their earnings.

The focus of this study is to understand if financial advisers act in their client's best interest or if what they earn from clients have a greater influence on their actions. The participants are practicing financial advisers in the UK, as they are seen as being able to provide the best insight. The study is designed by creating case studies using Financial ombudsman complaint outcomes relating to charges. This assists in creating the feel of real-life client scenarios. The case studies generate critical and honest responses from the participants and the detailed data that this generates are analysed thoroughly using thematic analysis.

The findings of the study reflect a disparity in the motivational influences of financial advisers. Participants' responses suggest that some advisers are more focused on financial rewards such as their fees and some are more focused on acting in the client's best interest. Regulation, business practises and education are all highlighted as ways to help manage behaviors' of advisers and the study leads to interesting areas for future research."

January 2019