



**OUR RESPONSE TO:**

**FCA CONSULTATION CP15/7**

**PROPOSED CHANGES TO OUR PENSION  
TRANSFER RULES**

**14 April 2015**

## Introduction

The Royal London Group is pleased to respond to this FCA consultation on proposed changes to the pension transfer rules.

## About the Royal London Group

Royal London is the largest mutual life, pensions and investment company in the UK with Group funds under management of £82.3 billion. Group businesses serve around 5.3 million customers and employ 2,800 people (figures quoted are as at 31 December 2014).

The Royal London Group's specialist businesses provide pensions, protection and investment products. These products are predominantly sold through intermediaries however we also provide a direct to customer proposition.

## Our response

Our response is made up of two parts:

1. Our general view
2. Responses to the specific questions

## 1. Our general view

We welcome publication of the FCA's consultation paper on proposed changes to the pension transfer rules to allow for the retirement flexibilities which came into effect on 6 April.

We generally agree with the proposals contained in the paper. Safeguarded benefits are valuable benefits to the customer, so it's important they fully understand the value of the benefits before giving them up and advisers providing advice on them are suitably qualified.

There are three aspects of the consultation which we would like to draw to your attention.

Firstly, the new definition of pension transfer would mean that many advisers who currently advise on occupational DC scheme to drawdown transfers where the benefits are crystallised immediately will now need to obtain Pension Transfer Specialist permissions to continue to conduct such business. A transitional period is needed to allow advisers and firms sufficient time to obtain this permission.

Secondly, we are surprised that advice is not required where safeguarded benefits are used to buy an annuity, whether or not the GAR is used. The rules should be extended to ensure advice is needed where GARs are to be lost and the safeguarded benefits are worth more than £30,000, so as to prevent poor customer outcomes.

And thirdly, we are surprised as to why you would want to allow a firm to apply for limited permissions under the new extended pension transfer, conversion and opt out permission, especially when existing firms have been automatically grandfathered across to the new extended permission. This appears an unnecessary complication which is more likely to confuse customers seeking a suitably qualified adviser.

## **2. Responses to the specific questions**

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

We agree the advice should be provided or checked by a Pension Transfer Specialist. Safeguarded benefits are valuable benefits to the customer, so it's important they are fully aware of the value of the benefits that they would be giving up by converting or transferring these benefits to flexible benefits. Only a Pension Transfer Specialist is likely to have the necessary skills and experience needed to provide the customer with a detailed comparison of the safeguarded benefits being given up to the flexible benefits that they would acquire on conversion or transfer.

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

The inclusion of “regardless of when the retail client intends to crystallise such benefits” in the definition of pension transfer means many adviser firms who have the “advising on investments (except pension transfers and pension opt outs)” permission would no longer be able to advise on occupational DC scheme to drawdown transfers where the benefits are crystallised immediately.

These adviser firms would need to obtain Pension Transfer Specialist permissions to continue to conduct such business which is likely to take time. With the likely increase in the take up of drawdown expected after April, this may create capacity issues in the market with the limited number of Pension Transfer Specialist advisers.

A transitional period is needed before this requirement is brought in to allow sufficient time for advisers to obtain the necessary qualifications and/or adviser firms to apply and receive Pension Transfer Specialist permissions.

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

We believe transfers from occupational DC schemes without safeguarded benefits should be excluded from the definition of pension transfer. A transfer from such a scheme to a personal pension scheme is basically no different to a switch between two personal pension schemes. A consistent approach should be applied to all transfers and switches involving similar types of schemes.

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

Clarification is needed in the definition on what is meant by “conversion”. Giving up a GAR which is a safeguarded benefit to buy an annuity on the open market would be seen by many people as a conversion of benefits, yet the FCA and DWP don’t believe this is the case. We need complete certainty on what is and is not a conversion of safeguarded benefits into different flexible benefits.

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

We agree a Pension Transfer Specialist should not be required for conversions or transfers involving a GAR. GARs are different to other forms of safeguarded benefits in that it is not the benefit that is promised, but the rate of conversion into benefit. This makes a comparison of the benefits more straightforward.

We are surprised advice is not required where safeguarded benefits are used to buy an annuity, whether or not the GAR is used (paragraph 2.31). GARs are no different to any other form of safeguarded benefit in that they provide a valuable benefit to the customer. We believe the rules should be extended to require the customer to take advice where GARs are to be lost and the safeguarded benefits are worth more than £30,000, so as to prevent poor customer outcomes.

**Q6: Do you have any comments on our proposed approach to permissions and grandfathering firms?**

We agree with your proposal to extend the current permission to include pension conversions, but we are surprised as to why you would want to limit this permission to cover only the existing activity or the new activity. We believe

this is an unnecessary complication and is more likely to cause confusion to customers seeking a suitably qualified adviser.

Existing firms with the 'pension transfer and pension opt out' permission have been automatically grandfathered to have the new extended permission, so this only leaves firms applying for the new permission for the first time. It would be far simpler to make these firms apply for the full permission, rather than allowing them to apply for only part of it. Furthermore you believe it would be unusual for a firm to apply for a limited permission which begs the question of why offer it in the first place.

As mentioned in our response to Q3, we believe occupational DC pension schemes without safeguarded benefits should be excluded from the definition of pension transfer. This would be a more practical approach of allowing a firm to provide advice to such schemes without having to limit permissions in this way.

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

We agree all advice on DB to DC pension transfers must be carried out or checked by a Pension Transfer Specialist as detailed in our response to Q1. It's important the customer is made fully aware of the guarantees they would be giving up by transferring from the DB scheme and the additional risks they would be taking on in the form of investment and longevity under the DC arrangement. Only a Pension Transfer Specialist is likely to have the necessary skills and experience needed to provide the customer with a detailed comparison of the benefits under the DB scheme compared to those on transfer to the DC arrangement, and help prevent them from making the wrong decision.

**Q8: Do you have any comments on our cost benefit analysis?**

The cost benefit analysis model should be updated on an ongoing basis post April so that the impact on customer outcomes and compliance costs can be effectively monitored over a period of time.