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**DB transfers – the current market and the
challenges for advisers**

15 February 2022

Points to cover

- **FCA and FoS suitability criteria**
- **Reflections on the current DB transfer market**
- **What AFA see in the market**
- **AFA full advice suitability criteria**
- **AFA restricted service**
- **Case study**
- **What next?**

FCA suitability criteria

FCA 5/6/20 update

"The decision to transfer out is a complex one and we remain of the view that for most people a transfer out is unlikely to be suitable."

s 1.4 of FG 21/3

"We have seen some high quality DB transfer advice that has enabled consumers to make the best use of their funds."

s 6.2 of FG 21/3

"So you need to show how the recommendation meets the client's needs and objectives as a whole, and why the DB scheme cannot meet them."

FoS suitability criteria

FoS case early 2020 – ref DRN1147974 – Mrs P complaint v IFA

“....there are only rare instances where transferring from a DB scheme is in the interests of a consumer”

“... when advising a transfer, the adviser would need compelling evidence that it was in the best interests of its client.”

Terry Connor – Ombudsman – page 7 of the report

Reflections on the current DB transfer market

- Aviva/LCP September 2021 paper: 'Mind the transfer advice gap'
- **Demand factors**
- **Supply factors:**
 - DB advice firms' 'leaving' reasons
 - 30% of current DB advisers unsure
- **Reasons clients want TO transfer**
- **PI cover and 'good' advisers**
- **Large CETV/more affluent the client**

Reflections on the current DB transfer market

- **Current FCA guidance**
- **FOS stance**
- **Scheme-appointed advisers** (as compared to 'high street' advisers)
- **Specialist firms - operating confidently/safely**
- **Emotional area of planning**

Reflections on the current DB transfer market

- **Abridged**
- **Bias?** – ‘high street’ advisers make more transfer recommendations!
- **Workplace benchmark**
- **Sale value of firms with a DB transfer back-book**

What AFA see in the market

- **Abridged** – AFA see great value here
- **Hybrid solutions**
 - More than 1 DB
 - Partial transfers – sadly, not mainstream
 - Annuity/Drawdown
- **Strong legacy driver**
- **Impact of scheme-appointed advisers**
- **Operating confidently/safely - specialist firms**

AFA full advice suitability criteria

- **FCA FG 21/3 – section 5.53**
- **“... the client would be better able to meet their needs and objectives in retirement and could achieve the required balance of guaranteed and flexible income.”**
- **Balance helped by**
 - Partially
 - > 1 DB scheme
 - ‘Blended’ annuity/drawdown
 - Rental income
- **DB/SP provide the only secure income, transfer more difficult to justify**
- **DB clearly surplus to needs - still consider guaranteed/flexible balance**

AFA restricted service

- **Full advice from 4/19; Abridged from 10/20**
- **10 advisers - same adviser - Abridged and Full Advice**
- **PFS Gold Standard (no insistent customers)**
- **Direct leads**
- **Referrals from IFAs**
- **Referrals direct from schemes**
- **Abridged: £800 + VAT** **Full: up to £10,775**

Case study - Scenario

- **She 55 - he 57 - twins 13**
- **He stopping work in 2022/she in 2023**
- **Both reduced hours in 2021**
- **Substantial outgoings**
 - But clear long-term expenditure plan
- **She: Deferred DB CETV £550k**
 - £12.2k pa now - @ £17.5kpa at 60
- **She: Active DB (and some DC)**
 - £9k pa accrued to date
- **He: Active DB**
 - £14.5k pa now - @ £17.5k pa at 60
- **He: DC of £310k**
- **£45k pa secure income @ 67 > meets needs – includes 2 SPs**
- **Driver – spend time with children**
- **Take DB now? – can't retire from 2023**
- **To achieve their wish – can she transfer?**

Case study - Abridged

- **Risk appetite for “plugging the gap”?**
- **‘Why now’ reasons strong enough?**
- **Why not access DC plans – then consider a DB transfer?**
- **Consider transfer when active DB plan(s) becomes deferred?**
- **Both very clear on the NOW - sorting out for the future**
- **“Unclear” – proceed to full advice**

Case study – Full Advice

- Detailed analysis on retirement plans
 - Assess her DB 'value' views re TVC
 - Analyse changing expenditure
 - Incomes starting at different times
 - Daughters ok if husband dies first?
 - Moderate K & E and positive ATR
- CFM - solutions/potential outcomes
 - CFM – stress-test the options
 - Transfer risk: no apparent risk aversion
 - Remain – DB income insufficient
 - Only transfer can meet their goals

Case study - Recommendation

- **Transfer recommendation**
- **“Life changing for them”**
- **“Sense of relief and a new beginning which was so pleasing to see”**
- **Key issue - balance of guaranteed and flexible income**
- **FCA: “In our ongoing work, we have seen some high quality DB transfer advice that has enabled consumers to make the best use of their funds”**

What next?

- **Supply risk – PI and regulation stance**
- **Smaller number of large/specialist firms**
- **‘High Street’ firms will form part of that group**
- **FCA on-going guidance and FOS assessments?**
- **Needs/wants met by ‘remain’ or ‘transfer’ – must recommend ‘remain’ – is that right?**

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