



Work and Pensions Committee

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From the Chair

5 April 2019

Andrew Bailey
Chief Executive
The Financial Conduct Authority
25 The North Colonnade
London E14 5HS

Dear Andrew,

I am writing to share with you the evidence that the Committee has received on contingent charging for defined benefit transfer schemes.

You will know that our work on this has developed from the scandalous mistreatment of members of the British Steel Pension Scheme. Our inquiry found that a supposedly independent financial adviser could be incentivised to give bad advice—i.e. suggest a DB transfer—because of the way their fees were structured: the adviser was only paid, or paid much more, if the person decided to take a DB transfer. We recommended that this glaringly obvious conflict of interest should be tackled by banning this “contingent charging”.

Last October, the FCA announced that it would not at that stage ban contingent charging, because “the evidence it has seen does not show that contingent charging is the main driver of poor outcomes for customers.” We agreed to assist you in gathering further evidence, which I now enclose.

The evidence we have received has not changed our view. The Committee has received no submissions which provide compelling empirical evidence that contingent charging results does not result in some independent financial advisers being incentivised to give bad advice, nor that there were suitable checks and balances in place to prevent this.

Much of the evidence linked contingent charging to unsuitable advice and bad outcomes, but does not fully tackle the complexities of contingent charging or how to avoid unintended harm, particularly to vulnerable customers. A number of submissions also highlighted the fact that that contingent charging is not the only financial incentive which may lead independent financial advisers to give bad advice – an obvious example of this is ongoing fees following a pension transfer.

The evidence we have seen makes some suggestions for alternative means for addressing the problem of contingent charging. We suggest the FCA may wish to further explore:

- The support role of the Pensions Regulator and Money and Pensions Service to any action taken by the FCA – in particular in relation to the roles of Trustees and guidance.
- The case for setting an upper limit, either in cash or ad valorem terms, for the amount of a DB transfer fee which can be received via contingent charging.
- Whether or not the Government should review legislation to allow individuals in DB schemes to access part of their pension pot in order to pay for advice in a similar manner to DC schemes.
- The case for a standardised approach to triage.

I suspect that many of these suggestions will not be entirely new to you and your colleagues, but I hope that the additional evidence we have gathered will be of use to you as you plan your future work on this.

We remain firmly of the view that urgent action is needed to protect pension scheme members from the scourge of contingent charging. If your evidence base suggests that an outright ban on contingent charging carries with it a credible and significant risk of consumer detriment elsewhere in the system, then we would be very open to looking at any proposals you might have for achieving the same outcome.

A handwritten signature in black ink, appearing to read 'Frank Field', with a stylized flourish at the end.

Rt Hon Frank Field MP
Chair, Work and Pensions Committee