FCA begins contacting pensions advice firms over suitability and value concerns

Friday, March 6, 2020

The retirement income market is a key area of FCA focus, particularly the suitability of both products and advice as the industry adapts to pension freedoms. In the FCA’s Sector View Report published on 18 February 2020, Pension freedoms are highlighted as one of the continuing key drivers of change in the sector with more consumers choosing to draw down and make more complex investment decisions. The report confirms that the FCA is proposing to introduce investment pathways designed to support non-advised consumers’ drawdown choices.

The FCA’s report identifies areas where there may be a negative impact on consumers and the advice they receive and includes:

- unsuitable retirement income products giving consumers difficult investment decisions and potential investment losses;
- poor value products and services in non-workplace pensions and retirement income which erode savings and the chances of sufficient retirement income; and
- unsuitable non-workplace pensions products which are overly complex and include fees for services they are unlikely to need.
The FCA warned in its report that the growing trend of consolidation in the pensions advice market is incentivising advisers to recommend products with ongoing fees when they might not be suitable, as opposed to more suitable products without ongoing fees, in a bid to boost revenue streams. As the FCA notes, consolidator valuations of advice firms are based on recurring revenue streams, so the potential to sell an advice business in the near future, may incentivise IFAs to recommend ongoing fee income generative products.

The FCA has recently begun issuing a number of information requests to randomly selected firms in relation to their retirement income advice as it explores this issue more deeply.

Non-workplace pensions and retirement income products can often be complex with unclear charging structures making it difficult for consumers to assess value for money. The FCA have confirmed in their report that they are working with the Pensions Regulator to enable trustees and Independent Governance Committees to develop a more structured way to assess and drive value for money.

The FCA’s wider concern is the possibility that these factors will act as a drag on the ability of consumers to secure a retirement income that meets their needs or expectations. This is likely to be a growing challenge as this generation of consumers reaches intended retirement ages.

To read the full Sector Views Report on all the sectors covered by the FCA including pensions savings and retirement income click here.

© Copyright 2020 Squire Patton Boggs (US) LLP