About me.

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Summary

Does contingent charging increase the likelihood of unsuitable advice?

On the face of it no. Advisers should be rewarded for the work done. Problem is contingent charging is no different to the commision method of remuneration - that has been banned by regulation. It was banned because it led to bad outcomes for consumers of financial products.

This method of charging attracts a large number of 'bad guys' that prey on an unsophisticated consumer market. Successive regulators have failed to ensure the consumer protections needed in this market. The mis-selling that has been going on is not new and has happened before.

Advice is mandatory, owners of Defined Benefit (DB) Pension Schemes have no choice but to sit down in front of an adviser - so the need for advice is guaranteed - a gift to the industry. Yet the quality of the advice has proven to be flawed. This situation needs rectifying - if Government makes anything mandatory it has an obligation to ensure that the mandatory item meets certain standard - in this instance pension transfer advice.

If we are serious about providing high quality pensions advice it should be properly done. There are already rules in place covering what you can't do, like not investing in residential property amongst others - pensions should be a

'sacred pot'.   In the main it's not the wealthy - advice seeking DB members getting ripped off - it's working class people, like steel workers who were desperate to get some quality guidance on the problem they had.

Interestingly, when faced with an option of a guaranteed pension at retirement or a transfer 'you can control' it's only those that are 'sold' that decide to move. It's for that reason the 'bad guys' in the DB transfer market target those lower down the income scale - and most definitely new to the advice market. Fewer and fewer smart people transfer guaranteed benefits to a non guaranteed arrangement.nly those that are 'sold' that decide to move. It's for that

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

Limiting the quantity of the advice in the market is already causing problems in that the market for DB transfer advice is already limited. A ban on contingent charging will of course cause a good number of firms to withdraw from offering advice.

This would of course leave a number of serious players in the sector who'd be able to grow a very solid business. Possible negative effects could be reduced by adapting scheme rules to allow a fee for advice. This would also help the advice industry to move from being commision animals - to professional providers of high quality advice. At a stroke it would also reduce the attraction for the bad guys - taking away a working class honey pot.

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

There is no other industry that gets such a gift via legislation. Advice is mandatory and the sums involved are large, when compared with other business types.
For example - why would an adviser firm chase regular premium investment business - when they can chase a few 'really high paying' pension transfer cases?

There are two issues - suitable advice - fraudulent advisers.

If Government policy is to protect consumers via regulation, then regulation is there to ensure that **only** competent advisers exist.

Any negative effects of a ban on this charging method will be offset by making those that decide to stay offering advice - the rulers of their own universe with a guaranteed future income stream.

For the second time in thirty years we've seen a spectacular failure of regulation around DB transfers with people desperate for good advice failed by some sectors of the industry.

Even where reasonable advice has been offered the charging structures required in order to allow contingent charging are not favourable to the consumer - with high percentages of the initial fund being deducted at the start of the process.

Important: The DB transfer advice market will have you believe that the cost of advice is expensive, the market is complicated, the process is labour intensive, administration is hard and a high level of advice is required,from qualified advisers, yet many still do that for free.

All of those DB members that take advice and don't transfer get all of that high quality advice and expertise for free.

DB transfer business is very lucrative and very well paid when compared with other types of business - because of contingent fees, otherwise how could free advice be offered?

Up Front Money - It's Absurd.

Low Hanging Fruit - And Lots Of It.

Financial Advisers - Often No Better Than Crack Addicts.

No Cap-Government Wrong (again)

Stupidly Expensive.

Bad Guys and Contingent Fees = No Risk Business Model

Money For Old Rope.

Fifty Percent Flawed - Work Needs To Paid For.

Do This As A Quick Fix - 100% Of DB Pension Transfer Cases - Audited Before Transfer.

Scheme Trustees Obligations

A Dedicated List Of Authorised and Audited Advisers

Cooling Off Periods.

Use Information and Data.

Third Party Sign Off.

Please Stay In The Scheme It Makes Sense

External Oversight

Proper Documentation Of Advice In English.

Funding The Cost Of Advice

Up Front Money - It's Absurd.

It's absurd to suggest that upfront money doesn't cause mis-selling - with no 'up front' money there'd be no incentive for a the number of bad guys to enter the industry - simply put - they would not be able to earn enough money quickly enough.

The same pattern of mis-selling went on during the late 80's and early 90's all driven by the huge value in pension transfers - in particular in relation to defined benefit schemes. Why would the bad guys chase after small pension pots when going after defined benefits transfers is a far easier market. Much of the marketplace is also made up of people who are easy victims - who show little understanding of pensions and are easily sold on a plan. In the main, DB pension transfer people are those in the 96% of consumers who don't normally take advice.

Contingent charging is unfair - consumers who accept advice and pay the contingent fee subsidise those who don't accept the advice and therefore don't transfer the funds.

As a business owner - the adviser needs to make sure that they get paid for all of their work - for those customers that don't transfer the cost to the adviser firm is just an expense of doing business.

The valuable part of the process is the advice and that has a cost attached to it. This cost has to be met by someone. Why should that be effectively levied on all of those the transfer but not on those that don't transfer after advice.

Any fee charged to the consumer should be a fee for advice/admin and have VAT added to it.

Definition of Commision

Commission is a sum of money paid to a salesperson for every sale that he or she makes. If a salesperson is paid on commission, the amount they receive depends on the amount they sell.

It is a deceitful to ban commision to say that commision cannot be paid - contingent charging is commision - it is a reward for a sale - sales that don't proceed don't get paid for - advice is only those that are 'sold' that decide to move. It's for that for free. Yet the most expensive part of the process is the advice.

From Money Advice
Since 2013 advisers cannot be paid a commission if they give you advice about:

- Pensions,
- Investments, or
- Retirement income products such as annuities.

It is a blatant lie to say that commision cannot be paid - and allow contingent charging which is just another name for commision - it is a reward for a sale - all of these sales that don't proceed get their advice for free.

Contingent fees suit the industry. Historically the industry has relied on the larger cases to support itself - with pension transfers part of the market is captive to those limited number of advisers authorised for DB transfers. Importantly with commision sharing models - even those not authorised can have a 'fair crack' the market by sharing income.

The DB pension transfer process is not complicated, it's mainly software driven combined with a data collection exercise at the front end.

With mandatory advice (transfer values over £30k) and the fact that the consumer does not have to part with a fee in advance or at the time of the advice it should be any easy market to do business in.

It certainly seems to be an easy marketplace for the less scrupulous advisers and one that generates an ongoing income for those with some morals. No quicker way to grow funds under management - just find a few lumpy (large) pension transfers.

Ongoing fees are in the region of .5% - 1.5% per year. Many advisers regard this has 'money for nothing' or 'guaranteed

income’ indeed most firms are valued based on the funds under management - from which fees are deducted.

Low Hanging Fruit - And Lots Of It.

Pensions are not a product that many people understand or want to learn about - making it an easy market. Importantly, the working class public are an easy target market - they just don’t understand and are not that interested in the technicalities of guarantees and benefits. But love the telephone numbers produced via the meaningless, prescriptive quotations provided.

The promises of flexibility and riches to follow are easily sold - higher net worth individuals won’t be swayed as easily. This gives the advice industry some extremely profitable low hanging fruit.

According to the regulator some £20.8b of pension funds were moved in 2017,that’s £2080 million pounds around half of these transfers were flawed or mis-advised. Some was stolen by advisers that were not only authorised, but authorised for pension transfer business - the highest risk regulated business. That’s a bit mad eh.

If the contingent fee was removed, little of this would have been stolen or moved. If you take away the upfront income - far fewer advisers would be interested in the marketplace - meaning fewer bad guys and less questionable advice.

If it was not possible to take a lump sum as income from pension transfers the bad guys wouldn't even look at the market. The only reason they get involved it's because there is an upfront level of commission which is disproportionate to the amount of work involved.

Pension Transfers - known in the trade as easy money for a good number of bad guys.

Financial Advisers - Often No Better Than Crack Addicts.

Far to many financial advisors, are like the local crack addict. Just waiting to get one more fix. One more chunky case to pay this weeks bills and get some more funds under management, this is why lumpy pension transfers are sought after.

Obscurity - by allowing a fee to be paid by the provider, the true cost of the advice/product is obscured. Contingent fees need to be very clearly considered if they are to continue.

No Cap-Government Wrong (again)

There is no cap on commision or charges. This should be implemented immediately with a limit on the amount that can be charged for pension transfer advice in the absence of a total ban on contingent charging.

The government makes advice mandatory on Pension pots above a certain size. It is a legal requirement that individual consumers are forced to take advice, forced to use a suitably qualified and regulated advisor. Yet the government did not legislate to ensure the right consumer protections were put in place.

This is a massive oversight. It cannot be right or fair that government legislation forces consumers down the advice route and then the government does nothing to ensure that the level of advice provided is accurate or correct. If we had heart surgeons killing 50% of their patients there would be an enquiry, how about 50% of motor insurers not paying claims.

Yet half of the pension transfer advice market is not up to scratch. As Government has made a advice a statutory process - it needs to guarantee the advice.

If the Government can be prescriptive with the need for advice it can be prescriptive with the level of charges and the quality of the advice.

Failure of regulation keeps happening, the regulator is not sufficiently monitoring the actions of the industry or the out and out fraudsters.

Stupidly Expensive.

Advice is stupidly expensive because of the problems associated with Professional Indemnity cover, costs of regulation. All of these things drive the contingent fee model.

Actually DB Pension Transfer Advice is expensive because the industry makes it so. It's a premium priced product.

There is no need for advice costs to be so high. Solicitor costs run into around £200 per hour on average around the country - pension transfers should take no more than three hours to evaluate once the information has been collated and input.

Even at £200 per hour and £100 for administration five hours of advice and three for admin should be more than enough. Remember the process of pension transfer advice is driven by software and data collection - in the main it's not overly complex.

Bad Guys and Contingent Fees = No Risk Business Model

Few have faced any criminal action in recent years and are a stain on the industry. Its driven by fraud and large amounts of upfront income.

Since the early days of personal pension arrangements the providers and advisers have not capped or limited charges. Something that has been called for since the early 90's in some sectors of the industry.

Indeed during the 90's and 2000's many providers went out of the way to implement more convoluted methods of paying advisers - things like 'enhanced allocation rates' and 'initial allocation units' meant that advisers were able to receive increasing levels of commissions.

Even if this model no longer exists the industry has grown up expecting favourable treatment and business as normal. The model is broken.

Commissions paid to adviser firms relate directly to the funds under management - not the time spent working for the client or managing the portfolio. Obtaining large pension fund transfers is a very quick way to grow ongoing advice fees using the DFM option or indeed managed funds and portfolio type investments.

This makes the pension transfer market/funds under management model very attractive indeed and attracts the wrong kind of adviser - not only are they provided with a guaranteed income by legislation, they can charge what they like for it knowing the market for advice is not competitive they grow the value of future income by a known amount - via adviser fees (aka ongoing commision).

It’s only a fee if it’s paid, on invoice. Anything else is a commision.

Money For Old Rope.

It can’t be right that any business can lock into a future income stream for the next twenty or thirty years yet not be under any responsibility to deliver anything. There is no other consumer product that has such limited protection on law - can you imagine washing machines and cars being treated the same. Yet DB transfers...

Surely financial advice and fund managers have the only business - where there is no downside for non delivery - if the funds don’t perform there is no recourse. No consumer protection. Adviser firms that have multiple ombudsman complaints upheld are still allowed to do business. Complaint handling is priced in to the original sale. Successive regulators have sat on their hands and done nothing.

Further the really bad guys are rarely prosecuted which means there is little downside to operating fraudulently.

It cannot be right that this system is allowed to continue on that basis. Many scheme members would not even consider

moving a Defined Benefit (DB) scheme if they understood the downsides.

Trustees are often pleased to transfer the liability.

Fifty Percent Flawed - Work Needs To Paid For - Possible Fee Alternatives

The regulator has already documented that over half of all pension transfers are flawed. Pension transfer mis-selling has been going on ever since regulation. The first instances of mis-sold pensions were in the late 1980s. Many of the people working in the industry then are still there now.

It cannot be right in 2019 that any industry, in particular any industry that deems itself to be a profession can continue to receive income based on the size of the investment amount or transfer.

Can you imagine for one minute employing a solicitor on the same basis what about an Oncologist or Accountant?

Work has to be paid for and should be invoiced accordingly and then have the right amount of VAT. A true profession does not need to hide behind terms like advisor fee. If their advice adds any value then that should be paid for. I think consumers understand this however the commission model is preferred by the industry and aided by the regulatory system.

There is the same amount of work to manage a pension pot or £40000 as £200000, by taking a fee as percentage of the fund means that owners of lower fund values get really cheap advice.

There is no VAT on contingent fees - loss to the Treasury - no other professional firm gets this kind of concession. Can you imagine a solicitor explaining to the VAT office - that none was due on that transaction because a contingent fee was paid directly from the estate agent.

Customers understand that advice has to be paid for, like a Plumber or an Uber fare - nothing is for free and everything has to have VAT on it. It’s the industry that perpetuates the model that suits it.

There is no reason why there can't be a simplified pre advice or an advanced triage service for a fixed fee.

As the need for advice is governed by legislation perhaps the costs of this advice should also be governed Of course with VAT added.

There are already negative effects with the current model- over half of all transfers are flawed in some way - it doesn’t get any more negative than that.

Do This As A Quick Fix - 100% Of DB Pension Transfer Cases - Audited Before Transfer - plus

In the short term 100% of pension transfer cases should be reported to the regulator - in real time. With a view to an audit being carried out these cases before transfer. If a hospital killed more than fifty percent of it’s patients the CQC would step in and ask some very difficult questions.

An alternative system of paying for advice should be created for pension transfers and funds made available (from the scheme if required - funded by members) in order to meet the cost of any advice, plus VAT.

The regulator needs to provide a prescriptive process at the same time as banning contingent fees.

Scheme Trustees Obligations

From the TPR
Trustees *are responsible for ensuring that the* ***pension scheme*** *is run properly and that members' benefits are secure.*

There is no reason why that can’t be extended to leavers - if they stay in the scheme and leave employment - then the trustees still have an obligation - why can that not be extended to cover those that want to remove/transfer benefits.

If we look at the problems created in the late 80’s and again in 2017/18 we have seen the same pattern repeating itself - twice in my working life.

Fraudsters and bad advisers - still able to access regulation and allowed to operate. There must be more done to prevent this sector from being abused so badly.

If you search the @fca website for firms authorised for pension transfers - it’s useless.

Options for having a formal,up to date register of firms would help - trustees could use this list and confirm before a transfer is made. Authorised and audited model will work.

A Dedicated List Of Authorised and Audited Advisers

This list should be compiled by the regulator and be made up of Audited and Authorised Pension Transfer Advisers.

The regulator should plan for and file check 100% of the advisers pension transfer work for twelve months - provided they reach a high enough standard of work then the file checking could be reduced. Pension transfers suggested by advisers outside of this framework should be stopped by the ceding scheme trustees.

Overseas firms should be stopped immediately - they should not be authorised for DB Pension Transfer work.

Cooling Off Periods.

Longer cooling off periods - before any transfer is made. Benefits held with a ceding scheme delayed for 3 or 6 months - or immediate release if the transfers are insured in some way.

Much of this could be driven by technology with real time reporting and a specialist team inside the regulator acting.

Use Information and Data.

AI used to check on those actively marketing for pension transfer business with a view to holding back the bad guys on an interim basis.

With real time reporting Scheme Trustees can immediately check and advisers status when an application for transfer is received. Combine that with a longer 'transfer wait time'. Remember with the cold calling ban - if a firm wants to steal a pension fund from a member of the public - it's not worried about a possible fine for making cold calls.

AI can be used to check for 'bad businesses' before transfers are made. A simple cost benefit exercise should highlight what needs to happen here.

Third Party Sign Off - why the devil not?

It happens with secured loans. Solicitors are forced to explain to the connected party, no reason why family members shouldn't be consulted when they are also giving up potential benefits. For many pension scheme members spouses and dependents benefits are of vital importance why shouldn't those affected be engaged or at least asked.

Please Stay In The Scheme It Makes Sense For Nearly Everyone

From MoneyAdvice - https://www.moneyadviceservice.org.uk/en/articles/transferring-out-of-a-defined-benefit-pension-scheme

Unfunded schemes do not qualify for a transfer, this preserves valuable benefits. No reason why this can't be considered for all DB schemes. Maybe even rolling back pension freedoms.

We need to consider very carefully what a pension scheme is in particular a defined benefit scheme. At the moment there are rules in place to prevent transfers from unfunded scheme which seems to indicate that the benefits under these schemes are important.

Yet for other schemes transfers are not protected and therefore not as important. Sure I understand there are reasons for not allowing transfers from unfunded schemes, however...

External Oversight

Mentioned in previous paragraphs, this is another possible option. Any formal review carried out on benefits and the possible transfer of DB benefits should have an independent third party oversight - which will solve a lot of fraud that has been committed.

There is already a process in use that can be adapted - this process, used for divorcing couples works well. There is no way of separating a DB pension schemes on divorce without actuarial involvement without solid third party evidence a transfer or separation of pensions wouldn't happen.

This process relies on the external corroboration and expertise of an actuary. Prepared documents are then submitted to court as part of any financial settlement. It does mean that a report is paid for, is independent an unbiased with no vested interest or encouragement to transfer.

Proper Documentation Of Advice In Plain English.

Sentences like this make sense.

"There is a **good chance** that if you decide to move your pension from xyz limited - after charges - you will be worse off"

"The guaranteed pension you have under your DB pension cannot be purchased in the open market, nor will it be accepted back into the scheme at a later date. By transferring you are effectively saying that your adviser can read the future better than anyone else - this makes your defined benefit pension scheme very valuable indeed"

There is no reason why plain English and blunt language cannot be used.

Explaining things to a steel worker and a consultant surgeon needs a slightly different approach. However if the language is simple enough everybody understands it.

"Are you aware that you are giving up a guaranteed pension - one that you will never be able to access again - your guarantee will be lost. Once money is moved from a DB scheme to a money purchase arrangement there is an immediate loss of a guaranteed pension benefit."

Do you understand that? - Proceed

No - leave alone.

Funding The Cost Of Advice

There is no reason why final salary scheme trustees could not deduct an advice fee from each members benefits. Sure it's a bit more complex than that, but not beyond human wit.

An alternative would be to build in an 'advice pot' within each scheme.

Example.
Scheme membership 2000 people.
Allowance for advice £750 per member
Fund held in reserve 2000 x £750 = £1,500,000 this could be invested and once a scheme member needs advice they can draw on their portion of the advice fund, if they never take advice their portion of the fund can be paid at to them at retirement/leaving the scheme.

There are several ways around this, none of which are perfect but preservation of benefits and high quality advice must be the primary objective.

Appendix

FUM is important. DB Pension Transfers are an easy win and add real value for advice firms. The industry is not getting younger and there is a pressure on owners to build recurring revenue. This is one driver of the existing model.

In this 2018 article https://www.ftadviser.com/investments/2018/10/04/how-using-a-dfm-is-boosting-adviser-salaries/ we see how fund management and advice are closely linked, the more advisers create a

link with a fund management firm (DFM) the more they earn - this is not helping the consumer.

From Gunner and CO - Valuing an IFA Business

http://www.gunnerandco.com/wp-content/uploads/2016/03/Dispelling-the-Valuation-Myths-The-Beaufort-Group.pdf

The main methods of valuing an IFA business are multiples of profits, normally measured as EBITDA since that excludes the amortisation of goodwill, and of recurring revenue. In setting appropriate multiples, acquirers will factor in revenue and cost synergies over and above the intrinsic value of the business. High recurring revenue multiples remain justified only when: There Is a likelihood that client fees can be increased or funds moved to an in-house proposition An acquirer can realise substantial cost synergies, for example where premises can be closed and staff numbers can be reduced Most IFAs have now increased their fees post RDR, so the original basis for valuing companies on high multiples of recurring revenue in the expectation of being able to increase on-going fees has disappeared.

http://www.panaceaadviser.com/img/20/documents/Reaping%20Rewards%20final%20report.indd.pdf

Distribution capture: Product providers are looking to acquire outright, or take stakes in, advisory firms as a clear strategy to increase ownership of distribution channels. Wealth management focus: International financial services groups are looking to expand into the lucrative UK wealth management market. US wealth management firms are showing particular interest in UK advisory firms as new qualification requirements and higher professional standards make IFAs more comparable to US financial planners.

Recurring and sustainable income Acquirers are placing a high value on firms with a high proportion of recurring revenues such as trail commission and fees that are contractually payable, rather than initial commission that has to be 'resold' each year. Fees agreed with the client, not determined by product providers, are becoming especially valued in preparation for implementation of the Retail Distribution Review. As a very broad rule, acquirers favour firms where at least 30% of revenue is recurring.

Large case sizes The efficiency of the operation is likely to be greater, the quality of the customer base better and compliance easier to monitor if a firm exhibits a small number of clients with high assets under advice rather than a large number of small clients. That said, there will be concern if only a few clients account for a very high proportion of assets under advice/influence.