Are you ready for a transfer loss remediation exercise?

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If you have identified a need to revisit your defined benefit (DB) transfer book your immediate focus will understandably be on the suitability review. Our guide below sets out practical steps for how you can prepare yourself for a remediation exercise and explains why familiarisation stage of the project can result in a smoother overall process.

1. Engage with your Professional Indemnity Insurance Brokers – this is particularly important if the review is being carried out as a result of FCA intervention. Your insurers will want to understand the size of the book under review and agree your proposed review process. As a general rule, it may be helpful to keep your insurer (and the FCA if applicable) up to date with progress and make them aware of any decisions that have been made on procedures.
2. Ensure that the team managing the process understand the broad principles behind redress calculations. Whilst the assumptions and broad methodology for calculating redress are prescribed in FG17/9, there are areas where procedural decisions will be required. This is because of much of the more detailed guidance on how to calculate redress was written during the pensions review of the 1990s. Since then, the pensions environment has changed beyond recognition. Furthermore, investors are far more likely to have come into receipt of their pension. Where this is the case, the calculations are more complex and there is considerably more judgement needed in how to approach the case. Ensure that you have an advisor who can explain the key issues and guide you through the decisions that need to be made.
3. Be realistic about the potential cost of remediation – the assumptions used for redress calculations are prudent which means costs might be higher than you expect. As a general guide, if the book under review largely relates to post pensions freedoms transfers, you might expect the magnitude of redress to be around 20% of the aggregate transfer value paid on any cases where the advice is deemed to be unsuitable (though this can vary significantly from one case to another). If you want to refine your estimated costs, then in the run up to commencing the remediation exercise, it may be worth pulling together statistics about the cases under review. For example, considering key criteria such as the age of the investor at the point the advice was given may help you shape an understanding about both the likelihood of the advice being found suitable and the magnitude of the redress payment.
4. Understand the data required for redress calculations and how data requirements may impact on communications with the investor – in order to calculate transfer loss redress it is necessary to have information about the investor (normally straightforward to obtain); information about the defined benefit pension (this may require data gathering from the ceding occupational pension Scheme especially if there is no Transfer Value Analysis report or if the investor has reached the Scheme retirement age) and information about the personal pension, including details of drawdown transactions or annuity purchase (again, this can require some data gathering particularly if there have been subsequent transfers / consolidation with other pension pots etc). If involved data gathering is required it is most likely that the investor's authority will be needed. Overall, it can take several months to collate the necessary data for a redress calculation.

5. Consider the impact of project time frame vs total cost – in order to expedite the remediation process, you may wish to adopt certain assumptions in the calculations. These assumptions will tend to favour the investor which will push up redress costs. A good example of this is whether to make allowance in the redress calculations for the change in state pension arising from the transfer out. Making this allowance can reduce redress for those few cases where it applies but it could result in a much longer delivery timescale because of the need to gather state pension information from the DWP. Guidance is required to understand the assumptions that can be made and the implications of following such an approach.
6. Align your suitability exercise with the redress process. This is worthwhile even if only a small proportion are expected to fail suitability – for example, you could ensure that information that will be needed for redress calculations is extracted from the case file as part the suitability review process. You could also consider the order in which you carry out the suitability review. As noted above, data gathering is likely to take longer if the investor has reached the ceding Scheme retirement age or if they have vested their plan. Prioritising these cases in the suitability review will buy you extra time for data gathering and could cut timescales for the overall review process.
7. Protect yourself from the risk of challenge by the investor or their claims management company – mirroring the FCA's increased interest in DB transfer advice, OAC has observed a growth in the number of investors seeking a second opinion on their redress calculations, and in claims management companies wanting to increase their expertise in understanding the approach used to determine redress. It is therefore important to make sure that redress calculations are carried out using robust tools which have been maintained for recent pension developments. You may also want to seek calculation output which can be easily reviewed to give peace of mind to your firm, your insurer or the FCA.
8. Think carefully about your communication strategy – striking the right tone with your initial engagement with investors may also reduce the risk of challenge. If redress is being calculated by an independent third party, it may be helpful to clarify this and to explain that most aspects of the calculation are prescribed by the relevant guidance. It may be sensible to forewarn investors of the likely timescales for resolution of their case. The redress offer letter also requires consideration. A range of approaches are possible, from providing very light touch information about how the calculation has been completed, to a very detailed calculation summary. We would normally recommend something between these extremes although the tone may be chosen to reflect the financial literacy of affected investors.

OAC has been carrying out pension redress calculations for over 25 years. We are recognised as experts within the industry and advise a range of clients including IFAs, PI insurers and claims management companies. We have extensive experience in dealing with both straightforward and more complicated transfer loss calculations, assisting with all stages of the redress process from data gathering to preparing the offer letter. We combine an in depth understanding of the complexities of loss assessment with a broader understanding of the pensions industry so that we are uniquely positioned to guide you through the redress process.

For more information

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