CONSUMER DUTY ALLIANCE

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# Overview of the Financial Conduct Authority's Thematic Review of Retirement Income Advice

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# Contents



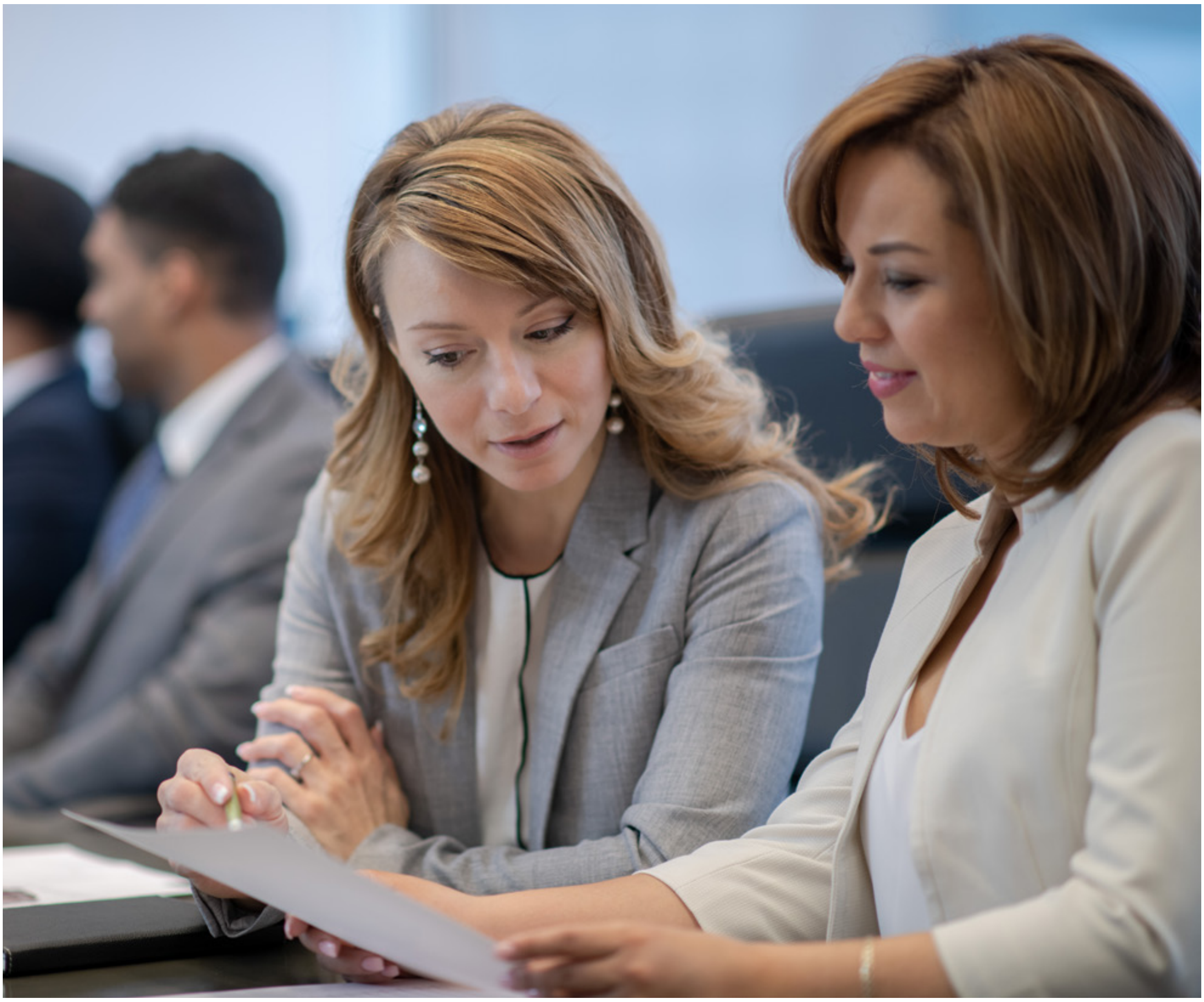
## Disclaimer

# Summary

This review is based on a representative sample of 977 firms who responded to the FCA's 2023 data survey, as well as a desk-based review of the advice models and advice files of a non-representative sample of 24 firms.

The FCA concluded that, overall, firms need to improve their retirement income advice services after it found both good and poor practices across the market.

The Consumer Duty Alliance sees the approach taken by the FCA as both supportive and constructive, while at the same time forewarning firms that they will be following up on the findings of the review more generally with those involved in the retirement income advice market. The FCA will also be carrying out further supervisory work in this area to explore the scale of the issues identified and tackle any harms.



# Overview of findings

## The 'Dear CEO' letter

This letter, dated 20 March 2024, provided a summary of findings and set out the regulator's next steps. It summarised the picture painted by the review's findings as variable, with examples of both good and poor practice across the market. In respect of the latter, it saw that some firms may not be meeting the needs of their clients, potentially leading to poor outcomes.

**Read the publication at:**

fca.org.uk/publication/correspondence/dear-ceo-letter-thematic-review-retirement-income-advice.pdf

## Thematic Review of Retirement Income Advice

### Key findings:

**Good practice.** The review found that some firms had evolved their approaches and adapted to the post-freedoms landscape. They had clearly detailed processes, specific training on decumulation and used a range of tools to help illustrate complex information for clients. The FCA found some examples of good practice where the advice and services delivered were clearly designed to meet the needs of clients in decumulation.

Here is a selection.

- The use of detailed central retirement propositions setting clear parameters for advisers while at the same time allowing some flexibility according to client need.
- Stress-testing of all decumulation plans via a range of scenarios, including significant market falls or loss of a partner's income.
- A clearly recorded process for the delivery of advice, including making sure that customers who did not meet a firm's minimum fund-value requirements were referred to Money Helper for guidance, while high-net-worth customers were referred to another firm better able to meet the needs of this client segment.
- Setting out of charging structures transparently and in ways that clients could understand.
- Clarity around ongoing services, including an example of a firm using a document which set out what was expected of its advisers and gave information to clients on what would be covered in ongoing reviews.

## Overview of findings

**Poor practice.** In several areas, it was apparent to the FCA that not all firms were taking account of the differing needs of their clients in decumulation, as opposed to accumulation. They saw examples of poor practice where some firms had not shown they had (fully) considered the needs of their clients or set out their advice model in a way likely to lead to good and consistent outcomes. They also found instances where some firms had not provided the right information to support or enable their clients to make informed decisions. And further evidence of a disconnect between clients paying for ongoing advice but not receiving the service.

Here are some examples of poor practice.

- No consistent approach to meeting short-term income needs.
- No guidance given to advisers in respect of whether or how to use cash-flow modelling tools and no ongoing reviews of whether assumptions remained appropriate and reasonable.
- A lack of due diligence around third-party tools and services used to provide retirement advice. For example, a third of firms did not carry out regular reviews to ensure the platforms they used continued to be appropriate.
- A risk-profiling process based on a discussion between client and adviser, where no standard questions were available to guide the discussions. In some cases, firms were not distinguishing between accumulation and decumulation in their risk profiling.
- Insufficient disclosure of the tax implications of advice recommendations.
- Indications that charges would be calculated with reference to the scale and complexity of advice, without it being possible to determine how charges would be calculated in practice.

**Advice files.** The FCA identified considerable differences between firms in advice-file record keeping. Of the 24 firms included in the desk-based review, they noted 10 files (10%) were missing key documents so could not be assessed. Of the files they were able to review, 45 files (67%) were found to be suitable. However, seven files (11%) raised concerns about suitability and 15 files (22%) had material information gaps (MIGs), so these could not be fully assessed.

**Conflicts of interest.** The FCA Retirement Income Market Data (which covers FCA-authorised firms) showed only 10% of pension pots accessed for the first time in 2021/22 were used to buy an annuity. Before pension freedoms, over 90% of pots were moved into annuities. As such, firms have a potential conflict of interest when balancing the investment risk of drawdown with the security of a guaranteed income. The FCA suggests this needs careful management given their assertion that drawdown presents a greater opportunity to provide and charge for ongoing retirement advice.

**Vulnerability.** Findings from the review show that, while firms have thought about the needs of vulnerable customers, some were not implementing vulnerable-client processes in an effective or consistent manner in several areas that risked poor outcomes for these clients. For example, a small number of firms had a generic policy in place, with no indication this had been properly implemented for the business.

**Consumer Duty.** While the review did not consider files explicitly against the requirements of the Consumer Duty (since it was not in force at the time the review was conducted), the FCA suggests that it's unlikely most firms would comply with some requirements of the Duty, without taking appropriate action to address the regulators, concerns.

- Only 456 out of the 977 firms that responded to the data survey indicated they had a target market for their services.
- Over half of the 24 firms from the desk-based review sample did not have a clearly defined composition of their target market, or did not show how their products and services met their customers' needs, characteristics and objectives.

### Key areas for improvement

**The FCA found examples of the following:**

- **The approach to determining income withdrawals** being applied without taking account of individual circumstances, or based on methods and assumptions that were not justified or recorded.
- **Risk profiling** was not evidenced, was inconsistent with objectives and customer knowledge and experience, or, in some cases, lacked any consideration of capacity for loss.
- **Failure to get necessary information** about customers to demonstrate advice suitability, including expenditure or other financial provision, or not exploring future objectives or circumstances, including income needs or lifestyle changes.
- **Periodic review of suitability**, where relevant, was not always delivered to customers that had paid for ongoing advice. Firms need both a process to mitigate this and a plan of action to take in the event of identifying clients paying for a service they did not get.
- **Inaccurate or insufficient records** held within a control framework to enable customer outcomes to be assessed, and track whether periodic review services were delivered. In some cases, potential vulnerabilities were not identified, recorded or explored.

## The Retirement Income Advice Assessment Tool

This tool was developed by the FCA for the purpose of the review to assess the suitability of advice files. It can help firms providing retirement income advice to understand and apply the regulator's ongoing use of this methodology.

The tool sets out the key factors the FCA feels firms should consider when checking the suitability of advice and disclosure.

It covers

- the scope of necessary information to be recorded
- examples of unsuitability
- steps in the insistent-client process
- required disclosures
- examples of potential breaches of principle 12
- a case-summary template.

**For further information, see:**

fca.org.uk/firms/retirement-income-advice-assessment-tool-riaat

fca.org.uk/publication/documents/instructions-retirement-income-advice-assessment-tool-riaat.pdf

# Next steps for firms

The review identifies many areas for improvement and suggests actions for firms to take.

1. All firms that provide retirement income advice should consider the content of the review and use the good and poor practices identified to update how they work.
2. They should refer to the questions in the data survey, take immediate steps to review whether they have appropriate MI, and update their data collation processes and records accordingly.
3. They can consider using the Retirement Income Advice Assessment Tool.
4. They can refer to the FCA article on cashflow modelling.

**Find further information at:**

fca.org.uk/publication/thematic-reviews/tr24-1.pdf

fca.org.uk/publication/corporate/retirement-income-advice-survey.pdf

fca.org.uk/firms/undertaking-cashflow modelling-demonstrate-suitability-retirement-related-advice

# Conclusion

The message from the FCA is that retirement income advice will remain an ongoing focus of the regulator and that every firm needs to review the findings and document compliance with the standards expected, or take remedial action where there is scope for improvement.

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