

# All change for DB transfers

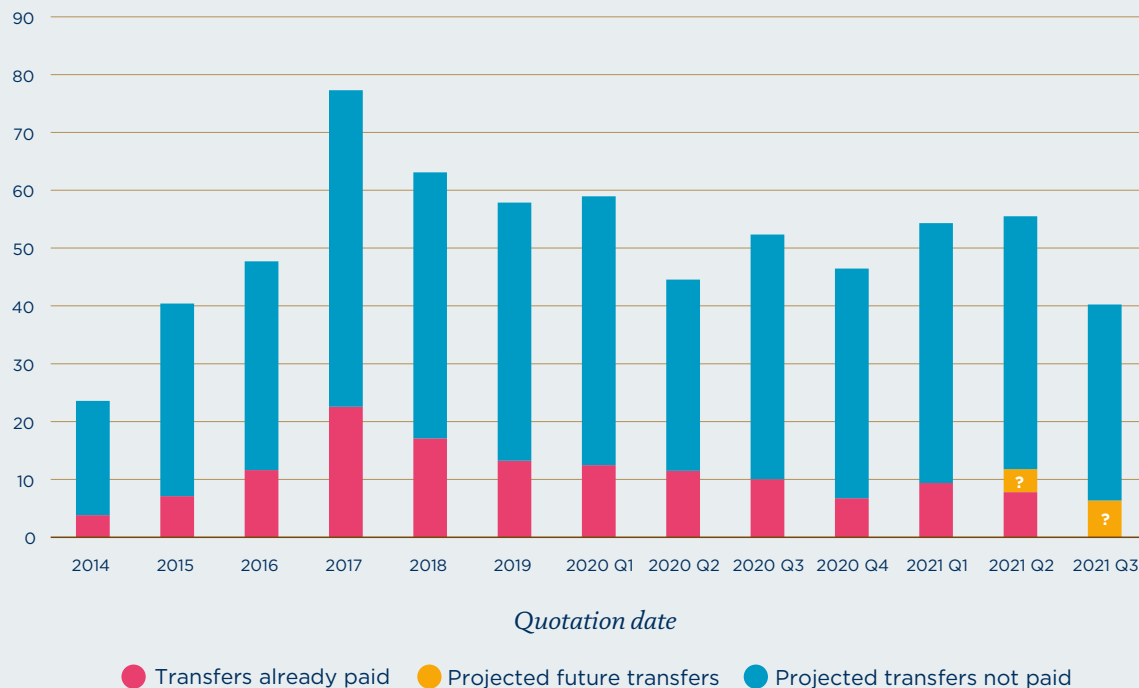
LCP's quarterly review of the transfer experience of the schemes we administer

Issue 25, December 2021

## Quotation rates fall to lowest level in five years

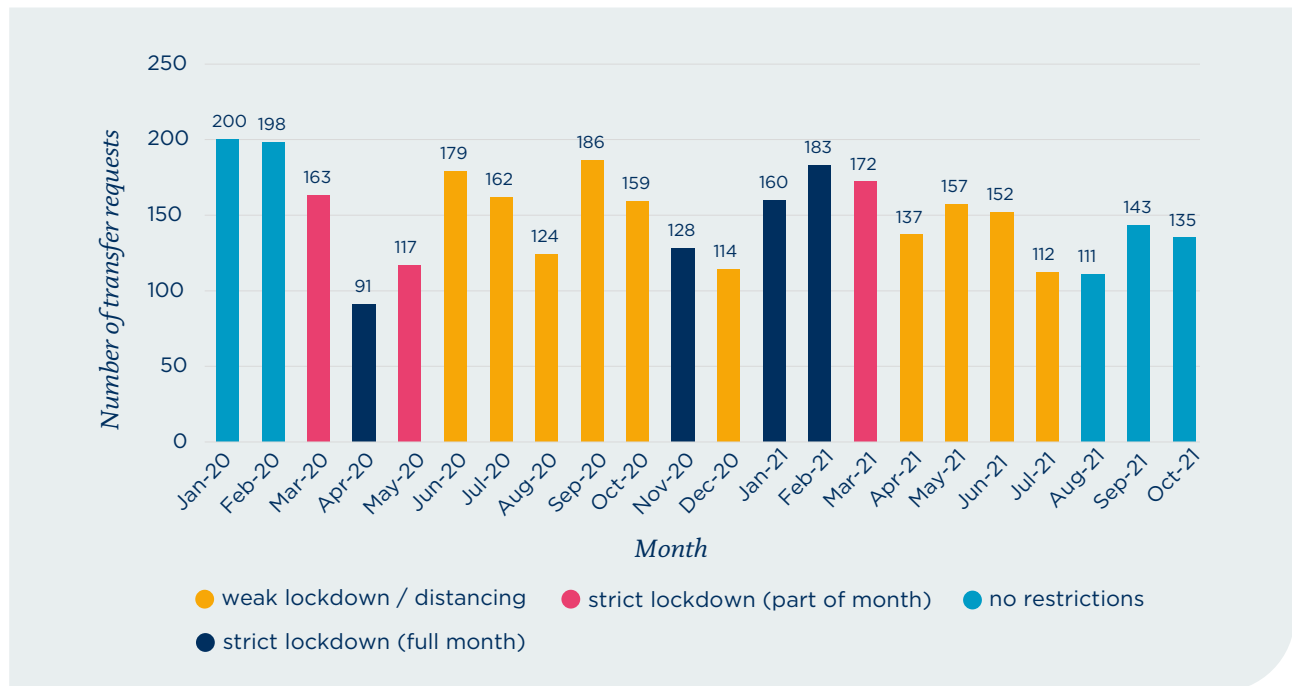
- LCP's administration teams issued DB transfer quotations to just over 1% of deferred members in Q3 2021 (103 quotes per 10,000 deferred members). This is the lowest quarterly figure since Q2 2016.
- The total value of these quotations was £102m, also the lowest quarterly figure since Q2 2016.
- Previously, the last big fall in quotation rates coincided with the first Covid-19 lockdown in Q2 2020, when there were 111 quotes per 10,000 deferred members. Rates had increased since then, reaching 139 quotations per 10,000 in Q2 2021.
- Take-up rates for the last two quarters, the first two since the FCA ban on contingent charging was introduced, were the lowest since Q1 2016 and half the peak in Q3 2017.
- Only 17% of the 418 quotations issued in Q1 2021 (the latest quarter with complete take-up experience) were subsequently paid out. This represents a slight increase from 15% in the previous quarter, but remains far below the average take-up rate of 25% over the last five years.
- Transfers in the £400,000 to £800,000 range continue to be the hardest hit by the fall in take-up rates, with the very largest transfers seeing much less of an impact.
- New anti-scam regulations came into effect on 30 November, giving trustees the power to block a transfer in certain circumstances where there are scam concerns and/or to require the member to take additional guidance before the transfer can proceed. While we expect the large majority of transfers still to be able to go ahead, there may well be significant delays and hurdles for members that further reduce the take-up rate for transfer quotations.

## Annualised quotation and payment rate per 1000 deferred members



## Transfer activity drops off as restrictions end

19 July saw the end of formal government Covid-19 restrictions and, as was the case when restrictions were first introduced in March 2020, transfer activity dropped off substantially in the following weeks. The following chart shows the number of transfer requests each month since the start of 2020, including those that did not lead to formal quotations.



This translated into 300 transfer quotations being issued by LCP’s administration teams in Q3 2021, at a rate of 103 quotations per 10,000 deferred members. This is the lowest rate since Q2 2016 and is only just over half the peak quotation rate of 203 per 10,000 in Q2 2017. Two possible drivers behind this latest drop are as follows:

**1. Independent advice on transferring is becoming harder to find:** The number of firms offering independent financial advice on DB transfers halved between October 2018 and January 2021 and continues to fall. This has been accompanied by a steady downward trend in the number of transfers being quoted and taken over the same period.

A [survey](#) carried out by Aviva and LCP in July-August 2021 revealed that the two main reasons for advisers leaving the market were the cost of obtaining professional indemnity insurance and the changing regulatory environment. For example, last year’s ban on contingent charging, which is discussed further in the next section, has led to many advisers rethinking their charging structures. The requirement, brought in at the same time, to benchmark proposed transfers against a workplace pension and new requirements for trustees and scheme managers to carry out specific checks on transfers to certain destinations further tip the regulatory scales against advising members to transfer. Some advisers stated that the risk of further retrospective action being taken by the regulator in the future is putting them off advising members to transfer now.

While this tightening of regulatory stance is likely to have had the positive impact of driving some “bad apples” out of the advice market, it also has the by-product of reducing the pool of legitimate advice firms available to members considering a transfer. In addition, following the contingent charging ban, those advisers remaining in the market are having to charge higher advice fees to cover their costs, with those surveyed typically reporting fees in the £3k-£10k range. This makes the prospect of seeking independent financial advice – a requirement for all transfers except those under £30k – less appealing to members when the ultimate advice may be not to transfer. This is discussed in the next section in the context of take-up rates, although the latest fall in quotation rates may be evidence that some members are becoming more aware of the costs of transferring and deciding not to request a transfer in the first instance.

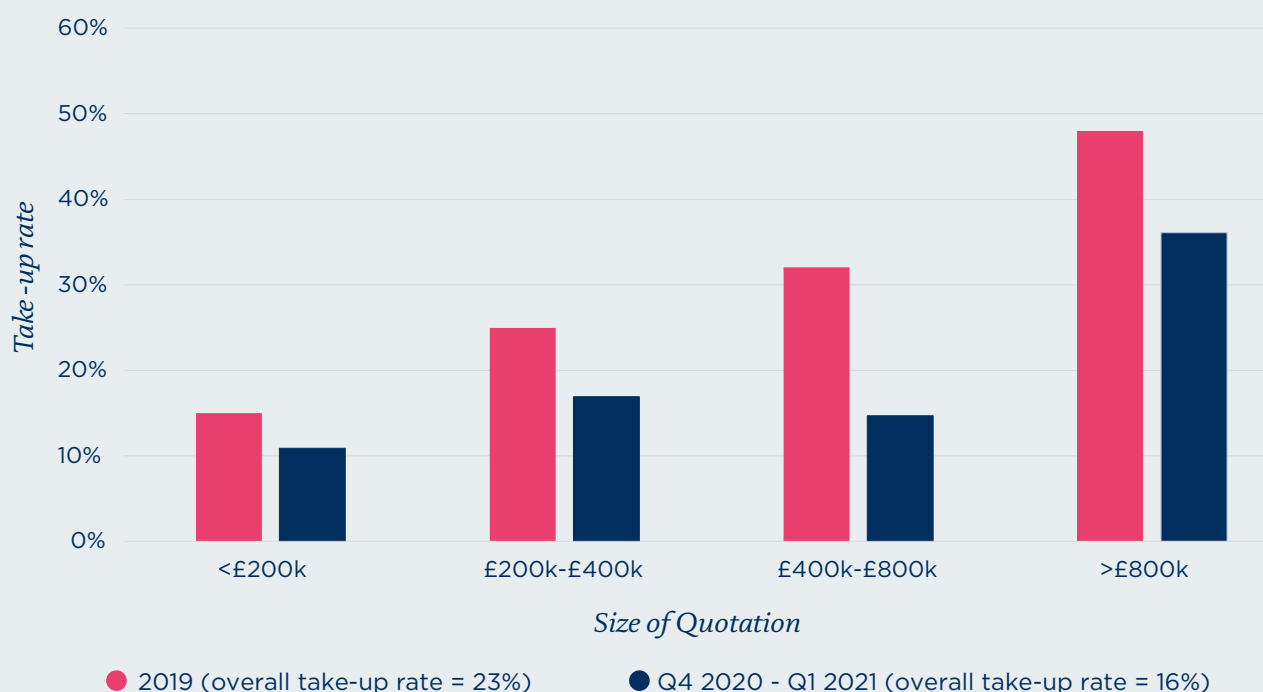
**2. Members adapting to new circumstances:** While the longer-term fall in transfer activity may be linked to the dwindling availability of advice, another factor at play in the Q3 2021 drop could be the changes brought about by the removal of Covid-19 restrictions, coupled with the arrival of the summer holiday season. In July and August LCP’s administration teams received the fewest transfer requests at any point since the height of the first lockdown in April 2020. As members enjoyed their new freedoms, it is plausible that personal finances – including pension transfers – took a back seat during this period, similar to when the first lockdown hit last year. Moreover, many firms switched away from fully remote working in Q3 2021, while the furlough system was fully wound down, providing further need for some members to adapt to a changing environment.

## Take-up of transfers remains concentrated at the top end of the market following contingent charging ban

The Financial Conduct Authority’s ban on contingent charging by financial advisers for DB transfer advice was announced on 5 June 2020 and implemented on 1 October 2020. The most recent payment data, relating to transfers quoted in the first three months of 2021, revealed a take-up rate of 17%. This is slightly above the previous take-up rate of 15% for quotations issued in Q4 2020 but far below the average take-up rate of 25% over the last five years.

A breakdown of take-up rates by size of quotation shows that the decrease seen over the last two quarters has not been uniform, as shown in the chart below.

### Take-up rates before and after contingent charging ban



We have compared take-up rates in the latest two quarters with those in 2019 – a period of relative stability in the market before the Covid-19-induced volatility of early 2020 and before the June 2020 announcement of the contingent charging ban. The overall take-up rate in 2019 was 23%, with take-up rates rising broadly in line with the size of the transfer quoted. Quotations under £200,000 (representing around half the market) had a take-up rate of 15%, while those over £800,000 (roughly the upper tenth of the market) had a take-up rate of 48%.

Fast-forward to the last two quarters, with contingent charging no longer permitted, and the distribution of take-up rates has a very different shape. Take-up rates are down across the board, especially below the £800,000 mark. Only the largest quotations still have a substantially higher take-up rate than the rest of the market (36% for transfers over £800,000 compared with 13% for those below £800,000). The result is that the upper mid-range of the market has seen the largest fall in take-up rates, down from 32% in 2019 to 15% across Q4 2020 and Q1 2021 for quotations between £400,000 and £800,000. The latest quarter also saw a reduction in take-up rates at the bottom of the market, with only 10% of the transfers below £200,000 quoted in Q1 2021 being taken, compared to 12% in Q4 2020.

**How does this link to advisers’ charging structures?** Following the ban on contingent charging, many advisers would have had to increase their up-front fees to cover their costs. Members with the largest benefits might be prepared to pay high advice fees regardless of the outcome, but across the rest of the market these fees would now appear very large compared to the size of the transfer, potentially deterring many members from transferring. This is discussed in more detail in [our previous release](#) of this report.

## New anti-scams regulations require trustees to investigate certain transfers

New regulations were issued by the DWP on 8 November, requiring trustees to carry out additional checks on transfer requests received from 30 November 2021, and the Pensions Regulator has issued new [guidance](#) on how to carry these out. If these checks indicate that certain amber flags are present (eg unduly high charges or risky investments in the receiving arrangement), the member will need to attend a guidance session with the Money and Pensions Service (MaPS) before the transfer can proceed. If certain red flags are present (eg if the member has been offered an inappropriate incentive to transfer), the trustees will be required to block the member's statutory right to transfer.

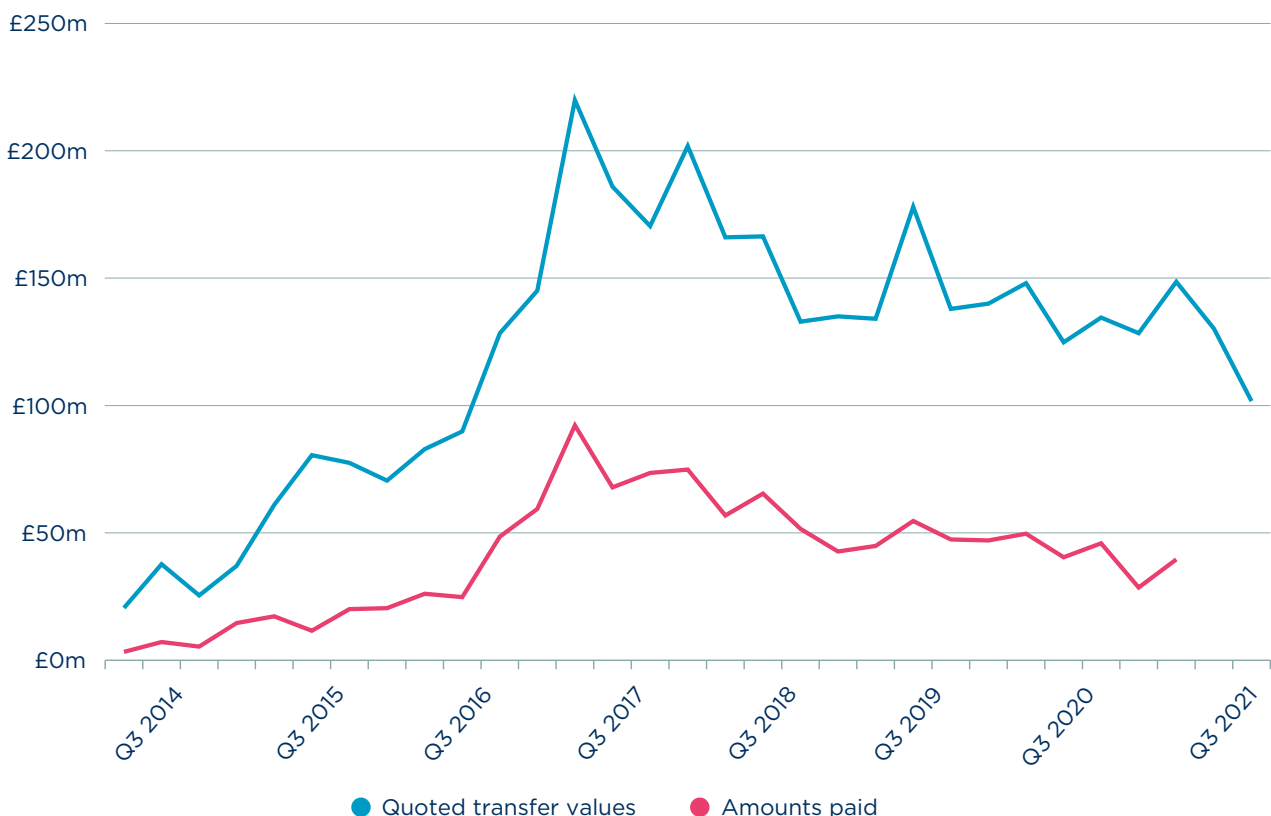
The new regulations place extra risk and administrative burden on trustees and their administrators, and could lengthen the time it takes members to transfer (the typical lag from quotation to payment date is currently around four months) or even mean that they run out of time. While we expect the large majority of transfer requests will not result in amber or red flags, there may well be significant delays while trustees and administrators familiarise themselves with the new regulations and guidance - and put in place enhanced due diligence arrangements to ensure they minimise the risk of making a transfer payment to an unsuitable arrangement.

## Long-term trends in transfer activity

In the 12 months to 30 September 2021 our administration teams provided transfer value quotations to just under 5% of deferred members, with a value of £509m in total. This compares to just over 5% and £547m in the 12 months to 30 September 2020. While there has been significant volatility in demand for quotations during the Covid-19 pandemic, overall transfer quotation activity remains significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a total value of £778m.

The total value of payments in respect of quotations provided in Q1 2021 increased to £40m with an average size of £550,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000) and is the second smallest total value paid out since Q2 2016.

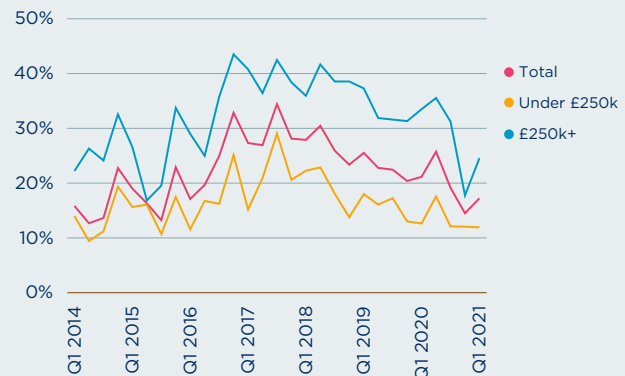
## Change in transfer activity since 2014



### Have take-up rates changed?

The take-up rate for quotations made in Q1 2021 was 17%; this represents an increase from the previous quarter (15%) but is the second lowest take-up rate since Q1 2016.

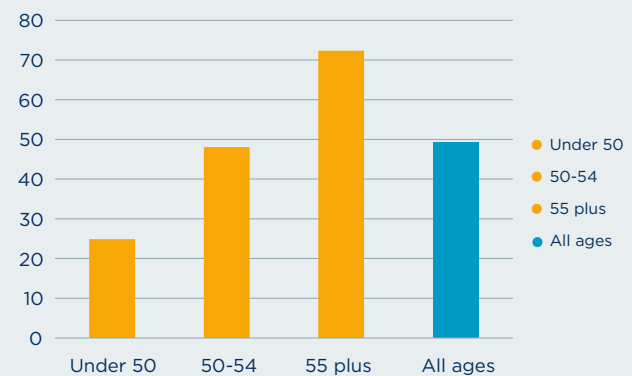
### Proportion of transfers taken over and under £250k



### Transfer value quotations in year to 30 September 2021

Quotation rates continue to be highest for those aged 55 and over. Just over 7% of members aged 55 and over requested a transfer quotation in the 12 months to 30 September 2021, compared to 2.5% of members under 50.

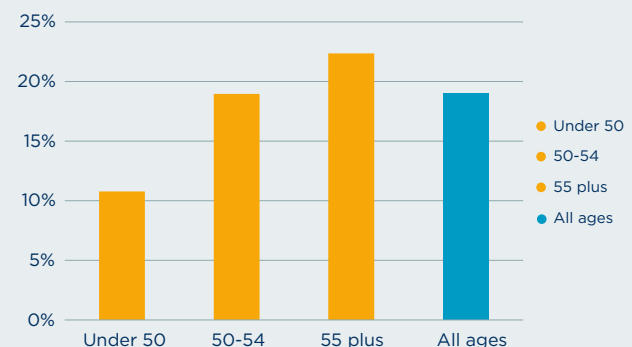
### Number of quotations per 1,000 deferred members in each age group



### Transfer values taken in year to 31 March 2021

Around 22% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 19% of all transfer values quoted in the 12 months to 31 March 2021. Only 11% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 62% were paid to members aged 55 and over and 11% were paid to members under 50.

### Proportion of quotations that proceed to payment in each age group



The average transfer value taken in respect of quotations in the 12 months to 31 March 2021 was £505,000, over twice the average price of a house in the UK during this period.

## Contact us

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