

All change for DB transfers

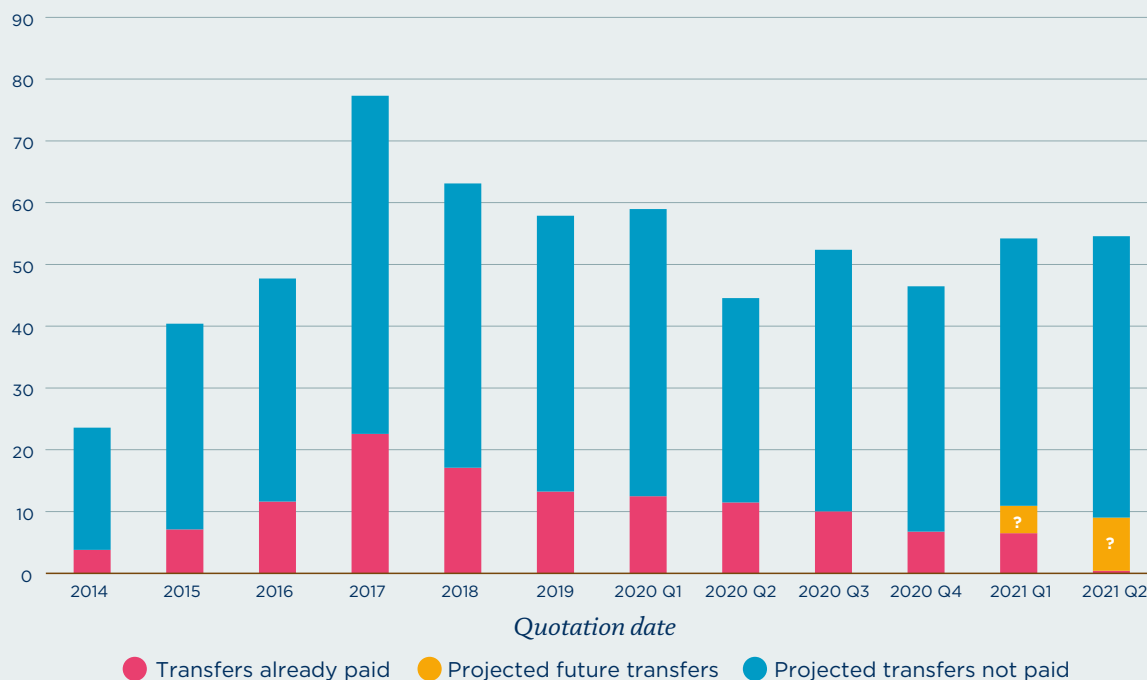
LCP's quarterly review of the transfer experience of the schemes we administer

Issue 24, September 2021

Transfer market hollowed out after contingent charging ban takes effect

- Of the 393 transfers quoted in Q4 2020, only 15% were subsequently paid out. This is the lowest quarterly take-up rate since 2015 and continues the steady downward trend in take-up rates since the peak of 34% in 2017.
- Take-up rates fell for transfers of all sizes, but the upper mid-range of the market saw the biggest drop. Only 12% of the 51 transfers quoted between £400,000 and £800,000 in Q4 2020 were paid out, compared with 32% in 2019 before the contingent charging ban and a high of 51% in Q3 2017. This is covered in more detail in the next section.
- Meanwhile, quotation rates stabilised over Q1 and Q2 2021 at an annualised rate of 54 quotations per 1,000 members, close to pre-Covid rates, although the latest data on transfer requests indicates a fall in activity in July.

Annualised quotation and payment rate per 1000 deferred members

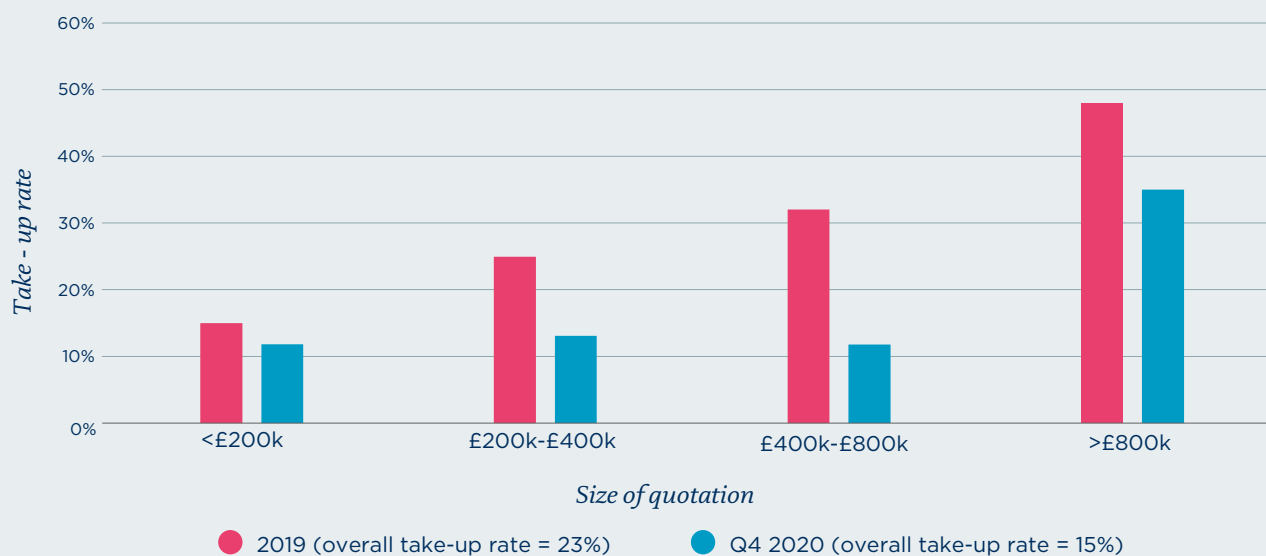


Many fewer medium-sized transfers being taken since implementation of contingent charging ban

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. A previous issue of this report discussed contingent charging and the reasons for the ban. We noted a slight drop in quotation rates immediately after the ban was implemented, although these have since largely stabilised at a level comparable to that before the ban was announced. More significantly, last quarter's data showed that the take-up rate had decreased from 26% to 19% for quotations issued after the ban was announced (but before it was implemented).

Full take-up data is now available for transfers quoted in the first quarter after the imposition of the ban, and it shows a continuation of this trend: the overall take-up rate is now down at 15%, the lowest level since the early days of Freedom and Choice in Q3 2015. However, a breakdown of take-up rates by size of quotation shows that this trend 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 quarter 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 Q4 2020, 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, and there is no longer any discernible rise below the £800,000 mark. Only the largest quotations still have a substantially higher take-up rate than the rest of the market (35% for transfers over £800,000 compared with 12% for those below £800,000). The result is that the upper mid-range of the market has seen the largest drop in take-up rates, down from 32% in 2019 to 12% in Q4 2020 for quotations between £400,000 and £800,000.

How does this link to advisers' charging structures? Before the contingent charging ban, members with very large benefits (eg those over £800,000) may have been prepared to pay significant up-front advice costs irrespective of the outcome. As a result, firms advising on these transfers might not have typically used a contingent charging method even before the ban, which would explain the comparatively low change in take-up rate in this range.

Across the rest of the market, we expect many advisers may have had to abandon contingent charging and switch to a fixed-fee approach, charging the same amount regardless of whether the member ultimately decides to transfer their benefits. Before the ban, a common approach among advisers was to charge members only if they chose to transfer, for example by deducting a proportion of the amount transferred as commission. The ban was introduced following concerns that this was unduly incentivising advisers to recommend transfers that were not in members' best interests. In cases where charges were linked to the amount transferred, the larger the quotation, the greater the possible financial incentive to recommend a transfer.

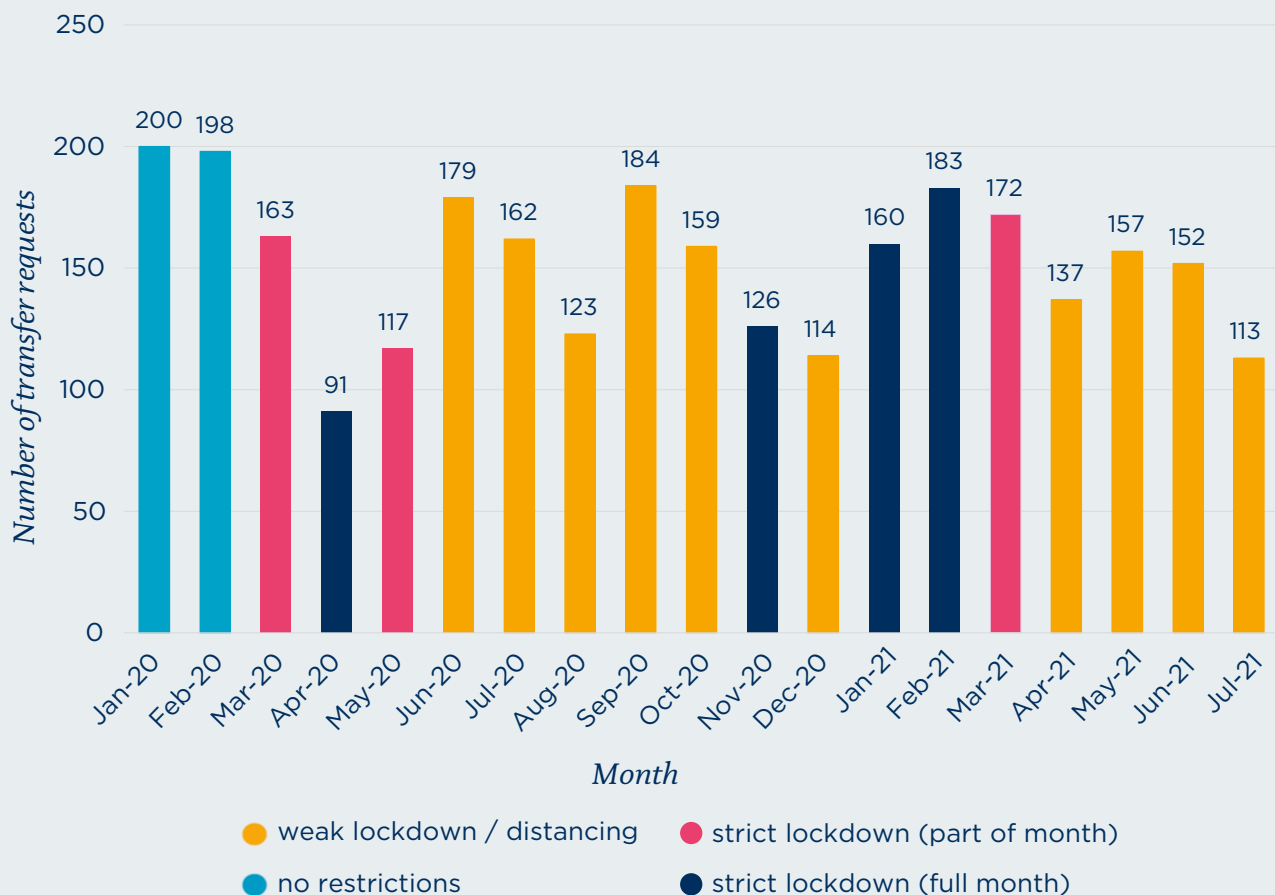
The sharp fall in take-up rates in the upper mid-range of the market might be an early indication that the ban is working broadly as intended by removing this incentive. However, it may also reflect many advisers leaving the market following the introduction of the ban – meaning that some members weren’t able to find an adviser able to provide advice within the period the quotation was valid.

Early indications are that, while still relatively low, take-up rates have begun to recover to a degree for quotations provided in 2021, perhaps as advisers respond to the impact of the contingent charging ban. We will continue to monitor take-up rates closely into next quarter and beyond to see if these trends continue.

Transfer requests drop off as summer holiday season arrives

In 2020 we began to track DB transfer quotation requests on a much more regular basis, in particular to gauge the impact of Covid-19 lockdowns on the demand for DB transfer quotations. In 2020, transfer activity typically fell during lockdowns and rose when restrictions were lifted. The seven weeks of strict lockdown between March and May 2020 saw greatly reduced levels of transfer activity, with the rate of requests falling to less than 50% of pre-lockdown levels. As the country emerged from the first lockdown there was a gradual increase in activity in late May and June, perhaps due to pent-up demand, which again dropped off with the second national lockdown in November.

The picture in 2021 has been largely the opposite, with high levels of activity during the lockdown at the start of the year and a sharp drop in July as the last government restrictions were removed. This reversal in trends may be linked to the clarity provided by the vaccination programme, with less uncertainty about the future course of the pandemic than in 2020. As a result, practical constraints (eg people catching up on deferred holidays and the availability of advice) may now be a bigger driver of member behaviour than financial considerations. July 2021 saw the fewest transfer requests received by LCP’s administration teams since the first lockdown in April 2020.

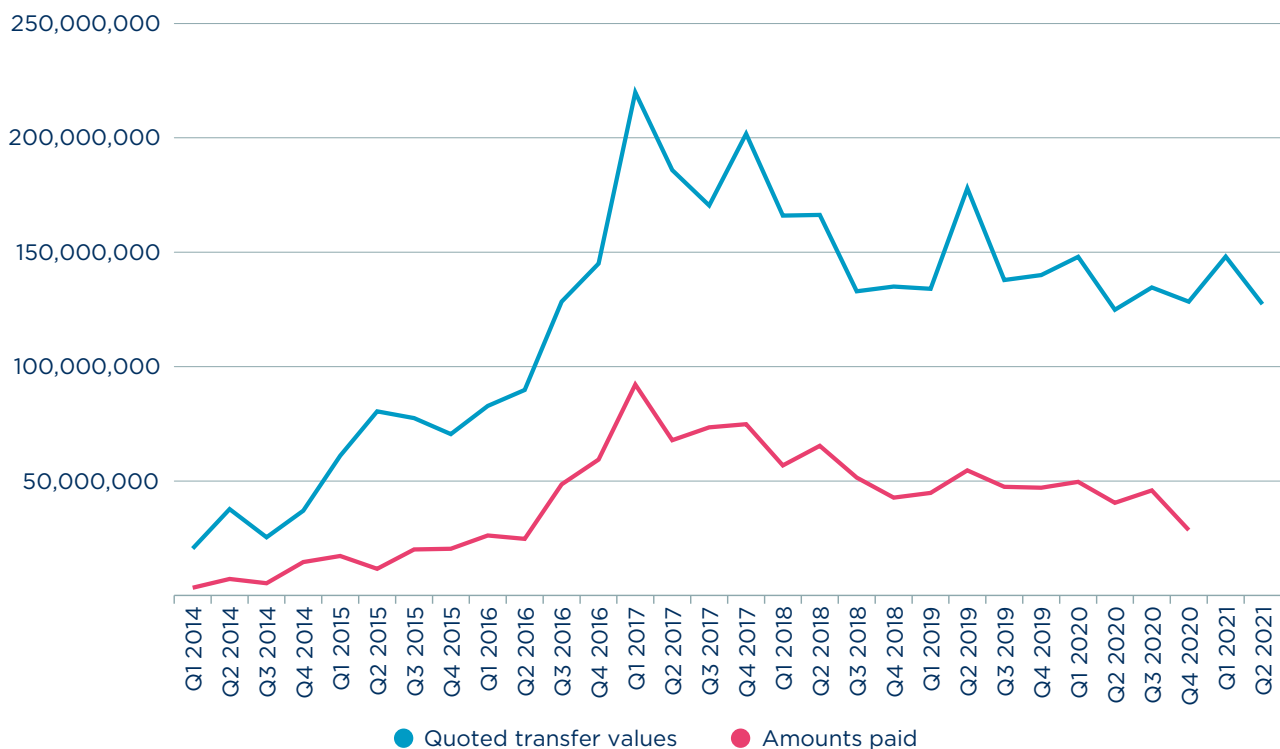


Long-term trends in transfer activity

In the 12 months to 30 June 2021 our administration teams provided transfer value quotations to just over 5% of deferred members, with a value of £538m in total. This compares to just over 5% and £551m in the 12 months to 30 June 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 Q4 2020 decreased to £29m with an average size of £501,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000), and is the smallest total value paid out in the last 5 years.

Change in transfer activity since 2014

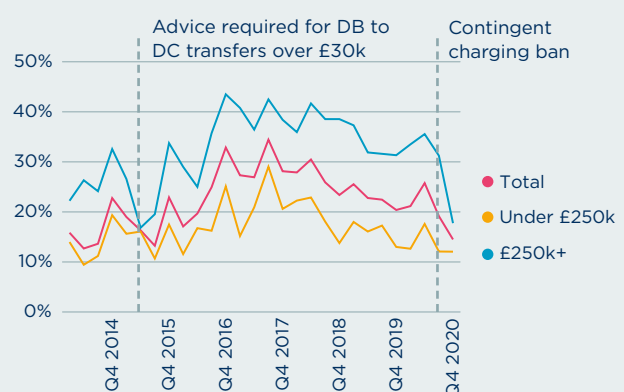


Have take-up rates changed?

The take-up rate for quotations made in Q4 2020 was 15%; this represents a decrease from the previous quarter (19%) and is the lowest take-up rate since Q3 2015. Take-up rates have fallen for transfers over £250k, with a take-up rate of 18% in Q4 2020 compared to a take-up rate of 31% in Q3 2020 and 12% for transfers under £250k.

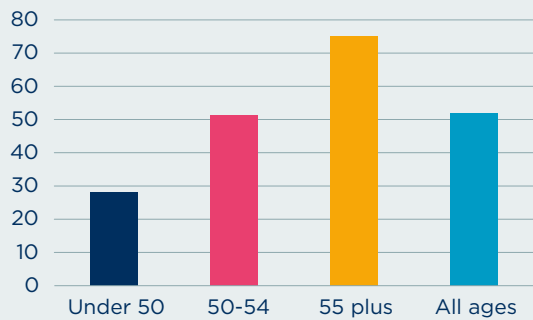
Quotation rates continue to be highest for those aged 55 and over. Just under 7.5% of members aged 55 and over requested a transfer quotation in the 12 months to 30 June 2021, compared to just under 3% of members under 50.

Proportion of transfers taken over and under £250k



Transfer value quotations. Quotations issued in year to 30 June 2021

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



52
No. per 1,000
deferreds
(all ages)

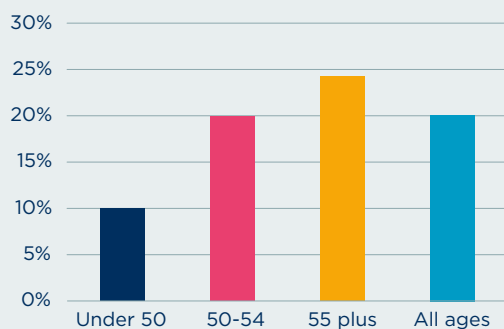
55
Average age

£326k
Average
amount

Around 24% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 20% of all transfer values quoted in the 12 months to 31 December 2020. Only 10% 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 10% were paid to members under 50.

Transfer values taken. Quotations issued in year to 31 December 2020

Proportion of quotations that proceed to payment in each age group



20%
Take-up rate
(all ages)

56
Average age

£490k
Average
amount

The average transfer value taken in respect of quotations in the 12 months to 31 December 2020 was £490,000, over twice the average price of a house in the UK during this period.

Contact us

If you would like further information, please contact your usual LCP adviser or one of the people below.



Bart Huby
Partner

bart.huby@lcp.uk.com
+44 (0)1962 872711



Jim Little
Partner

jim.little@lcp.uk.com
+44 (0)1962 873363



Andrew Pijper
Associate Consultant

andrew.pijper@lcp.uk.com
+44 (0)1962 673011



Avneet Gill
Associate Consultant

avneet.gill@lcp.uk.com
+44 (0)1962 454433

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