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Pensioners left unprotected as transfers grow

A flood of claims over poor pension advice would hit older savers with huge losses. Laura Miller investigates

Pension freedoms have given many retirees more flexibility, but those who receive bad advice about transfers may struggle to get compensation Credit: Alamy Stock Photo

Tens of thousands of people who may have been mis-sold a pension transfer are being left with no real recourse because the scale of the problem is thought to be so large that financial advisers are unable to take out insurance against claims.

Up to a third of pension transfers are based on faulty advice, according to the regulator – or potentially 30,000 cases a year. In the recent British Steel scandal only half of those who transferred received the right advice, with money needed for retirement ending up in high-risk investments that could be wiped out entirely.

Ordinarily, mis-sold pensioners would have a claim against their adviser, covered by the adviser's professional indemnity insurance. However, insurers fearful of a tidal wave of costly complaints are now refusing to insure pension transfer advice – past, present and future. For those who think they were mis-sold and claim against their adviser, a transfer worth £1m could be insured for losses of up to £50,000 only.

Steve Ray, of professional indemnity insurance broker Howden, said: "Insurers' analysis is that pension transfer claims will cost an enormous amount very quickly." Almost 140,000 transfers were made out of defined benefit schemes during 2016 and 2017 after pension rules were relaxed, 93,000 last year alone.

The sums involved are similarly huge: £20.8bn in total, with an average transfer value of £215,000, according to the Financial Conduct Authority, the City regulator. If a third have been mis-sold, pensioners have £6bn at risk and rising – the Office for National Statistics predicts that transfers will reach £42bn this year.

The risk is greater for those pensioners who use smaller advice firms, which have little spare cash to pay for claims and are not attractive to insurers. Insurers are excluding cover for any pension transfer advice because most firms they insure are small and a couple of claims will put them out of business, Mr Ray said.

“Many advisers are calling us late in the day seeking coverage, sleepwalking into what will be a problem,” he added. “Small advisers are going from doing two pension transfers a year to 1,000. That is not something the insurance market should help advisers do; some are just trying to take a fee hoping everything doesn’t go wrong.”

‘Pension transfer claims will cost an enormous amount very quickly’

People unhappy with advice can complain to the Financial Ombudsman Service, which can force firms to pay compensation up to £150,000, a bill normally met by advisers’ professional indemnity insurer. But if the adviser is no longer in business the claim passes to the Financial Services Compensation Scheme, where maximum payouts are just £50,000.

Spooked insurers are demanding increasingly punitive excesses from advisers before they will pay out, meaning one complaint could close a firm and leave pensioners forced to accept average losses of £165,000.

Gareth Fatchett, a partner at FS Legal Solicitors, which acts for many pension transfer advisers, said: “Almost uniformly we have seen increased costs for their insurance and a decrease in cover. Many advice firms have little capital to meet claims.”

Problems arising from bad advice often take years to surface. Mr Ray warned pensioners to think ahead. “Claims are still a few years away in my opinion, but when they arise in, say, 2021 there is no guarantee that insurers are still going to be happy to insure for pension transfers.”

Darren Cooke, a director at advice firm Red Circle, said people should pick their adviser carefully. “Pension advice is very complex,” he said. “To do it properly takes around 20-25 hours: client meetings, gathering information, analysis, formulating advice, writing reports. Good advisers will do this and charge for it – £2,500 would be reasonable and normal. Much cheaper and I’d worry that corners were being cut.”

The Personal Finance Society, the largest trade body for advisers, is developing a voluntary code to help mitigate emerging risks with uninsured pension transfer advice.

Keith Richards, the society’s chief executive, said: “Most transfers under advice will be appropriate. But the unintended poor and irreversible outcomes are not yet understood. The Government’s decision to include defined benefit pensions within the 2015 pension freedoms, despite the starting position that it’s probably not in most people’s best interest to transfer, raises serious questions.”