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# **The need to know:** FSCS protection makes a difference

An executive summary of the findings from  
pensions research and mystery shopping  
commissioned by the Financial Services  
Compensation Scheme



## Introduction

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The debate about how people should manage their retirement savings is topical and vitally important. The choices people make when planning for retirement can significantly affect them, and their future prosperity, over a long period.

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Changes in the pensions' landscape in recent years mean people have more choices than ever before. Some of these choices can carry risk. Advice and information may not always be available and can sometimes be wrong.

The Financial Services Compensation Scheme (FSCS) has seen continuing growth in the volume of mis-selling claims resulting from advice to invest through Self-Invested Personal Pensions (SIPPs) and, more recently, in claims arising from alleged negligence by SIPP platform providers themselves. In light of this, it has never been more important to provide clear, understandable information to consumers. This includes clear information on the protection FSCS provides for pensions and long-term insurance.

Now a widely used term, "pension freedoms" were introduced in April 2015 to give people nearing retirement more say in how they used their pension pots. Before this date, people typically bought an annuity, a product which provides a guaranteed income for life. There is now a range of options, including the ability to take a whole pension pot as a cash lump sum at age 55 or take a "flexible drawdown" product, where amounts can be withdrawn at intervals.

In addition to the potential for greater opportunities, these new choices have introduced a new set of challenges, which people may not fully understand.

It has also increased the need for people to get professional advice to help them make the right choice for their circumstances. What to do with a pension pot is a life-defining one-off decision, taken (for most people) without reference to prior experience. As pension freedoms were introduced relatively recently, there is also little opportunity to learn from others.



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## About this summary

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Against this backdrop, FSCS commissioned research from Oxera, the economic consultancy, on the impact that information about the Scheme has on consumer decisions. This, in addition to the results of an industry mystery shopping exercise by Ipsos MORI and consumer research by Censuswide, the survey consultancy, reveals what we have termed a “pension information deficit”. The results also reinforce the importance of a UK compensation scheme.

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The results tell us information about FSCS does make a difference.

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FSCS wanted to understand what information firms are giving consumers about the Scheme, and what difference information about the Scheme makes to consumers' pension decisions. The results tell us information about FSCS does make a difference. The insights from all this research will be used to support our work with the pensions and life insurance industry – which includes the development of a new disclosure standard.

FSCS has prepared this executive summary of the three pieces of research commissioned by the Scheme. Each piece of research, in its own way, demonstrates why greater awareness of the Scheme in general and protection for specific products such as pensions and investments (not just deposits), benefit both consumers and the industry.

The following pages bring together all of the research and the conclusions from each. They illustrate the need for FSCS and the industry to work closely together to provide essential, accurate information to people about the protection FSCS provides. This will not only help increase trust in financial services but will also help consumers to make better informed choices about their retirement savings.

### Headline findings

Headline findings (in the order in which they appear in the three research projects) include:

1. Presenting information to people about FSCS affects their decisions; there is a clear correlation between the choices people make and their knowledge of FSCS.
2. Those who are aware of FSCS or think FSCS is important are more likely to take advice and less likely to question the price of that advice.

3. People think twice about their risk profile when they know or hear about FSCS. Those aware of FSCS are less inclined to buy riskier products and more inclined to opt for those the Scheme protects;

4. Those choosing income drawdown products were more likely to take financial advice.

5. Mystery shopping shows a clear gap in the quality of information firms are providing to their customers about FSCS.

6. Among advisers and firms, the awareness of FSCS limits was low overall, with consumers routinely being given the wrong information, or no information, about FSCS.

7. Providing information about the compensation scheme to consumers builds trust in financial services firms.

## The Oxera report: “Choices for retirement income products and financial advice”

This report is based on a large-scale behavioural experiment, which simulates the real life decisions faced by those approaching retirement.

The experiment, by Oxera and the Centre for Experimental Social Sciences (CESS), set out to better understand consumer decision-making.

The purpose of this experiment was to understand the role of FSCS protection both in how consumers choose their retirement income products, and in whether they decide to obtain financial advice.

The experiment was conducted in order to observe what people actually choose in a realistic environment, rather than in a survey, which provides information only on people’s stated preferences (which may deviate from what they actually do in practice).

The experiment was designed to reflect the general population, and asked 2,056 participants aged 45+ what they wanted to do with their pension pot at retirement and whether they wanted financial advice.

The participants were offered information about eight pension options, financial advice, FSCS, scams and tax by clicking on links and pop-ups. They were then asked to choose whether they wanted financial advice and their top three pension products. They were also asked comprehension and risk questions. A control group did not receive information about FSCS protection.



The purpose of the experiment was to understand the role of FSCS protection.

### Product exploration main screen

Imagine that you have a pension pot of £80,000 and you are about to retire...

**Options for your pension pot at retirement**

Click on the boxes below to get more information on each of the options (you will need to click on at least one option before continuing to the next page). You will need to then pick your top three choices on the next page.

Leave your pension pot untouched	Lifetime income (annuity)	Adjustable annual income (income drawdown product) investment fund	Adjustable annual income (income drawdown product) peer-to-peer lending
Take your pension pot out as cash to spend	Take money out to invest in property	Take money out to put into a savings account / cash ISA	Take money out to invest in stocks and shares

Source: Oxera and CESS.

## Key findings

The results provide insight into actual consumer behaviour and the importance of FSCS to their retirement choices. It showed the tangible benefits to consumers and the industry of providing more information about FSCS.

The results confirm that there is a relatively high degree of awareness of FSCS. The presentation of more information about FSCS further affected choices. One third of participants stated that FSCS was very important to their pension decisions.

Awareness of FSCS protection influences the type of retirement product people choose, in the following ways:

- There is a clear correlation between the choices people make and their knowledge of FSCS. Those who are aware of FSCS or think it is important are more likely to choose retirement income products that are protected by FSCS.
- Those who are aware of FSCS or think that FSCS is important are more likely to take financial advice and less likely to question the cost of taking advice.
- People think twice about what risks they are willing to take when they hear more about FSCS. When presented with information about FSCS at the point of decision, fewer people choose to withdraw their pension pot to invest it in property and stocks and shares after considering their risk profile.
- Those choosing income drawdown products are more likely to take financial advice than those choosing any of the other products.

Factors other than awareness of protection also affect pension choices:

- Those with pension savings in real life were more likely to choose an annuity, suggesting that people are more risk averse once they have savings.
- Those who had previously received investment advice were more likely to choose an income drawdown or invest in stocks/ shares, and were more likely to take (and pay for) advice.
- Those who scored higher in the experiment comprehension questions were more likely to pick an income drawdown and take (and pay for) advice. People who are more engaged in their pension choices are more likely to choose an income drawdown.

### Conclusion

Giving people information about FSCS protection influences their choices at retirement, with more people choosing to take products that are covered by FSCS when they know about the Scheme.



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There is a clear correlation between the choices people make and their knowledge of FSCS.

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## Ipsos MORI mystery shopping exercise: FSCS awareness mystery shopping - pensions, investments and insurance

Every year, Ipsos MORI, a leading market research firm, conducts a mystery shopping exercise of financial advisers and firms on behalf of FSCS. The aim of the exercise is to establish the quality and accuracy of information people receive from financial services firms across the sector. The study focuses on some key points, such as specific mentions of FSCS and the limits applying to different products.

FSCS reports on the results to key stakeholders and firms.

### Key findings

Deciding how to fund retirement is, for many people, the only time they seek financial advice. Unlike everyday financial decisions, what to do with a pension pot can involve a large sum of money and the consequences of decisions made at retirement may last for decades. The information given by advisers therefore plays an important role in the choices people make.

The mystery shopping of advisers and firm websites giving information on pensions, investments and insurance found that customers are being given inconsistent messages across all three product types.

The research found that there are “a lot of cases” where limits have been incorrectly quoted, or where advisers appear to avoid the conversation.

The awareness of limits was low overall, with consumers routinely not being given information about FSCS, or being given the wrong information.

Ipsos MORI found that: “It is clear from the results that the awareness would have scored far lower if it wasn’t due to the prompts in place” adding “the variety of information being provided to customers is a concern”. Put simply, generally, the industry does not actively mention FSCS. If it wasn’t for the prompts, the overall scores would have been much lower.

The majority of customers are being directed online for further information.

Awareness of the protection limits for pensions among advisers is particularly low. Given the requirements for people to take advice on pension pots of £30,000 or more it is important for advisers to provide clear information about FSCS to consumers.



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The majority of customers are being directed online for further information.

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The results that follow relate to investments and pensions:

- 61% of mystery shoppers had to proactively prompt the firm or adviser for information about FSCS.
- The overall awareness score on the compensation limit for pensions was only 23%.
- 34% of those tested told the customer the correct cover for pensions savings or retirement income under a life insurance contract (100% covered with no upper limit).
- 22% of those tested provided the wrong limit.
- 34% of those tested explained that the compensation limit for an investment product is £50,000.
- 32% of those tested explained that endowment policies and investment bonds are long term insurance policies with a savings element, which are 100% covered, with no upper limit.
- Only 10% of shoppers came away with a very good understanding of the compensation scheme.

### **Conclusion**

The quality of information people receive adds to the information deficit and makes it harder for people to understand the protection that applies. This may harm their ability to make informed choices.

## Censuswide survey: Consumer research among those who have used their pension pot to buy a retirement product



Awareness of FSCS among the retired population is generally high.

This research – into the views of 1,500 people aged over 50 who have used their pension pot to buy an annuity, income drawdown or other retirement specific product – looked at a range of different areas to do with how people choose retirement products.

It was undertaken to complement the Oxera behavioural experiment, as well as the mystery shopping of pension, investment and insurance providers.

### Key findings

The findings show that awareness of FSCS is extremely high amongst this age group, as well as knowledge of the Scheme's protection of retirement specific products, which has a significant influence on this group's purchasing decisions.

The key findings were:

- The average number of products that people have to fund their retirement is three. One-third (33%) will use between four and six products, with 66% using one to three products. Those aged over 75 average 3.63 products, compared to only 2.7 for those aged 50 to 54.
- Over half of people say they got advice from an IFA, with women (64%) more likely to do so than men (54%). Only 28% said they did not take advice, with men (31%) more likely to have done this than women (21%).
- 82% of those who took advice say they were aware of FSCS in advance. 84% of those aged 55 to 64 were aware, compared to only 62% of those aged over 75.
- 70% of those who took advice know whether their retirement-specific products are FSCS protected, with only 30% saying they do not know.
- Of those who do not know if their retirement-specific products are protected by FSCS, almost two thirds (62%) say that knowledge of FSCS would have influenced their purchasing decision. 17% say it would have had "a great deal of influence" while 44% say it would have had "some influence". Only 39% say it would have had "no influence".
- Of those who know whether their retirement-specific products are FSCS protected, 78% say that knowledge of FSCS influenced their purchasing decision. 27% say it had a "great deal of influence" while 51% say it had "some influence". Only 22% say it had "no influence".

### Conclusion

Awareness of FSCS among the retired population is generally high. However, far fewer people are aware of whether FSCS protection applies to their retirement products. Of those that know, the majority (78%) say that knowledge of FSCS influenced their purchasing decision.

## Overall conclusion

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Taken together, the three pieces of research highlight that people are more likely to take advice and make informed decisions about their pensions when they have knowledge of FSCS protection.

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We conclude that there are important areas where the awareness of FSCS protection needs to be improved. This improved awareness has a significant positive impact on the life-changing decisions people make with their pension money.

A greater understanding of the protection applicable to pensions, whether for investments, insurance or advice, will enable consumers to make better informed choices, with confidence. This in turn will improve trust in financial services, benefiting the industry.

This report is a contribution to the debate about pensions and the need to build awareness of the protection FSCS provides. The research shows a clear correlation between providing information about the compensation scheme and the choices people make. And it highlights that this information increases their trust in the financial services sector.

The next stage of FSCS's strategy is to work with the industry to address the pension protection information deficit.

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