Consumer redress scheme for unsuitable advice to transfer out of the British Steel Pension Scheme – addendum to PS22/14

1. Clarificatory amendment to the Policy Statement

Chapter 6 – Cost benefit analysis

We are amending the text on page 77 where we discuss our Cost Benefit Analysis (CBA) calculations for estimated average redress. As we already explain in detail in the CBA which accompanied PS22/14, the new amended text clarifies that while we modelled a reduction in estimated average redress as part of a sensitivity analysis we carried out on our estimates, this modelling does not change the central scenario used in our CBA.

The previous text, in our response to the feedback we received on our CBA, read:

- 'Extrapolating from the latest FSCS claims data (covering Q3 2022), in which average financial loss reduced from 22% to 16.5% of the pension transfer value, we have also reduced the estimated average redress from 16% of the transfer value to 12% (from approximately £60,000 to £45,000), to reflect changes to the economic environment. The redress calculation methodology is designed to respond to changes in the economy by using assumptions based on financial markets' future expectations of economic factors. These assumptions are used to estimate the value of the DB benefits. In particular, the calculations are heavily influenced by long term gilt yields and long-term inflation expectations.'

The new text on page 77 should now read:

- 'Extrapolating from the latest FSCS claims data (covering Q3 2022), in which average financial loss reduced from 22% to 16.5% of the pension transfer value, when we carried out sensitivity analysis on our estimates we modelled a reduction to the estimated average redress from 16% of the transfer value to 12% (from approximately £60,000 to £45,000), to reflect changes to the economic environment. However, the CBA uses firm-specific average transfer values rather than a market average, and continues to assume in its central scenario the same estimated average redress (16%) as in CP22/6. The redress calculation methodology is designed to respond to changes in the economy by using assumptions based on financial markets' future expectations of economic factors. These assumptions are used to estimate the value of the DB benefits. In particular, the calculations are heavily influenced by long term gilt yields and long-term inflation expectations.'