

COMPLAINT UPHOLD RATES IN PENSIONS MIS-SELLING

FCA, FOS AND FSCS



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EXECUTIVE SUMMARY

Pension transfer and pension product mis-selling represent a significant litigation funding opportunity in the United Kingdom, particularly in light of the volume of claims brought since the introduction of “pension freedoms” via the Pension Schemes Act 2015. Since this time, many consumers have received unsuitable financial advice to transfer out of lucrative defined benefit (DB) pension schemes into alternative pensions, including self-invested personal pensions (SIPPs).

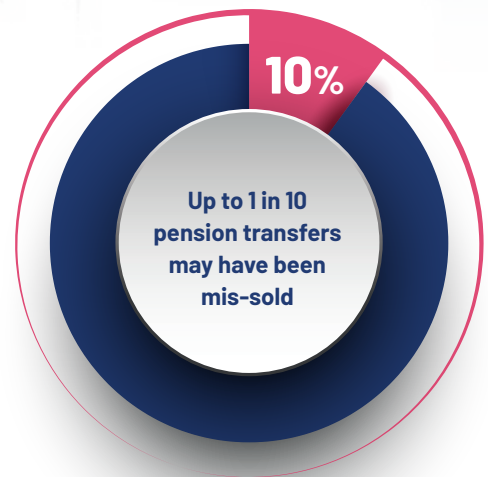
A significant number of consumers were advised to transfer when contingent charging was still permitted, meaning advisers would only get paid if a transfer took place.

Due to many independent financial advisers and pension providers leaving the market and/or going out of business, compensation is often limited to that which bodies like the Financial Ombudsman Service (FOS) and Financial Services Compensation Scheme (FSCS) can award.

This paper outlines how complaint uphold rates from the Financial Conduct Authority (FCA), FOS, and FSCS demonstrate that funding these claims remains attractive, and the steps Seven Stars Legal Funding takes to mitigate risk and maximise returns when we agree to fund such claims.

- Up to 1 in 10 pension transfers may have been mis-sold.
- Up to 68% of pension mis-selling claims and complaints made to the relevant bodies are upheld.
- Claimants can be awarded up to £430,000 in pension mis-selling compensation.

Seven Stars Legal Funding applies its own underwriting model and applies minimum claim values to pension mis-selling claims to establish a baseline for returns for investors.





ABOUT PENSIONS MIS-SELLING

Where people in the UK have been given poor or unsuitable financial advice or mis-sold a financial product, they can seek financial justice. A key area of focus is mis-sold or poorly invested pensions, estimated alone to be worth £10bn.

Consumers can complain to and claim from their financial adviser or the pension provider that mis-sold their product. However, depending on the response and the status of the adviser or provider in question, claims often end up in the hands of the FOS or the FSCS.

In 2021/22, the FSCS set aside £120mn for paying pension mis-selling claims where adviser or providers were no longer trading.

While this dropped to £31mn in 2022/23, the pension mis-selling market remains diverse and rich in opportunities to invest and support law firms and their clients.

FINAL SALARY PENSION TRANSFERS

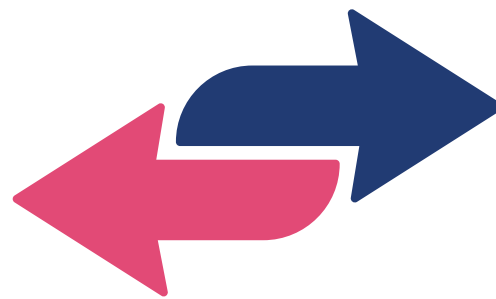
- It is estimated that over £100bn has been transferred out of approximately 540,000 final salary pensions since 2015, and that as many as 1 in 10 transfers may have been mis-sold.
- An estimated 50,000 final salary pension transfers continue to take place annually.
- Between 2015 and 2018, nearly 70% of cases saw a financial adviser recommend a transfer.

While the popularity of final salary pension transfers exploded between 2015 and 2018 following then-Chancellor George Osborne's pension freedoms reforms, consumers who were mis-sold during this time continue to come forward, and pension transfer mis-selling continues to occur even with recently introduced safeguards in place.

SELF-INVESTED PERSONAL PENSIONS

The SIPP market is projected to reach a value of £500bn and five million invested consumers in 2024, with further growth to £1tn expected by 2030.

SIPP mis-selling happens in various ways but often occurs when advisers recommend transferring into or opening a SIPP or investing in unsuitable assets within the SIPP itself.



Estimated
50,000
final salary pension transfers
continue to take place annually



Projected
5 million
SIPPS in the UK in 2024



PENSION MIS-SELLING COMPLAINT UPHOLD RATES

In assessing the lending opportunity for any claim type, it is vital to understand the specific performance metrics that indicate whether a return is possible.

In the case of pension mis-selling claims, that means considering:

- Mis-selling complaint uphold rates or successful claim rates.
- The average compensation achieved.

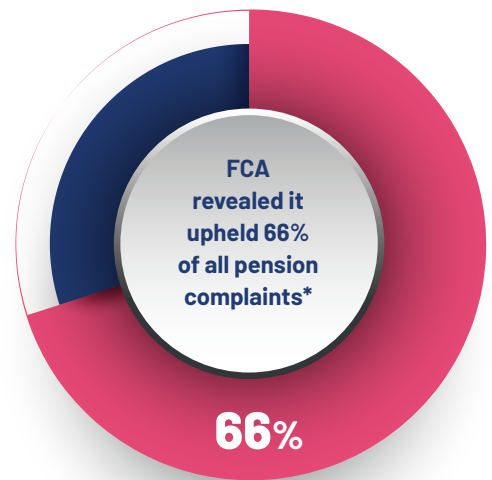
FINANCIAL CONDUCT AUTHORITY

In its most recent data release, covering the last six months of 2023, the FCA revealed it upheld **66% of all pension complaints**.*

HOW THE FCA AWARDS PENSION MIS-SELLING COMPENSATION

As the industry regulator, the FCA does not pay compensation itself, but its investigations and verdicts may prompt consumers to take a claim to their adviser, pension provider, or to the FOS or FSCS.

Where claims go to the FOS or FSCS, compensation awards are subject to the powers and limits of these bodies, which are explored on subsequent pages.



*Source: Financial Conduct Authority | Complaints Upheld (<https://www.fca.org.uk/data/complaints-data/complaints-upheld>)(Accessed 17th May 2024)



FINANCIAL OMBUDSMAN SERVICE

The FOS provides an itemised breakdown of upheld complaints in its Annual Complaints Data, which is available from its website.

In the 2022/23 financial year, the FOS upheld*:

- **53% of pension transfer complaints**, where the transfer was from a DB pension to a non-SIPP product.
- **67% of pension transfer complaints**, where the transfer was from a DB pension into a SIPP.

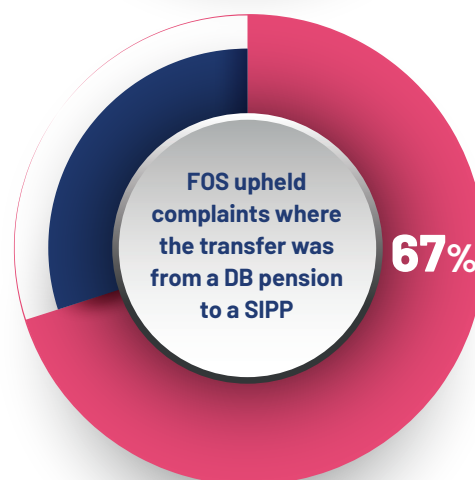
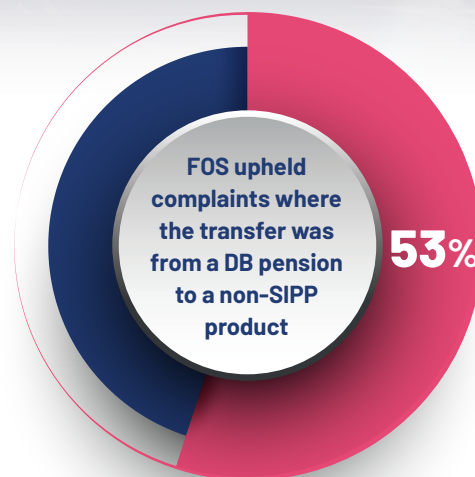
Looking across all complaints, including those not resulting from a pension transfer, the FOS upheld:

- 35% of all non-SIPP pension complaints.
- 52% of all SIPP pension complaints.

HOW THE FOS AWARDS PENSION MIS-SELLING COMPENSATION

The FOS does not pay compensation itself, but orders firms against whom it upholds mis-selling complaints to pay compensation to the claimant. The FOS typically orders firms to pay a sum that would leave the claimant in the same financial position they would be in had they not acted upon the unsuitable financial advice.

As of the 2023/24 financial year, the FOS can order firms to pay **compensation of up to £430,000**, depending on when the advice was received.



*Source: Annual complaints data and insight 2022/23 | Financial Ombudsman Service (<https://www.financial-ombudsman.org.uk/data-insight/annual-complaints-data/annual-complaints-data-insight-202223>)



FINANCIAL SERVICES COMPENSATION SCHEME

In the FSCS Class Statements 2022/23*, the FSCS revealed it upheld **68% of complaints** against investment products, including pension transfer and SIPP claims.

Unlike the FOS, the FSCS doesn't provide a further itemised breakdown by claim type.

However, it does disclose that from total payments of £35mn to claimants for investment and pensions products in 2022/23, **£25mn were for failed SIPP operator claims.**

HOW THE FSCS AWARDS COMPENSATION

In the same document, the FSCS reported an **average compensation award of £26,277** for the 2022/23 financial year.

As of 2023/24, **the FSCS can award claimants up to £85,000 compensation**, depending on when they received unsuitable financial advice or when a pension transfer took place.



*Source: FSCS Class Statements 2022/23 | Financial Services Compensation Scheme (<https://www.fscs.org.uk/globalassets/industry-resources/publications/annual-reports-and-class-statements/arac-2223/fscs-class-statements-2022-23-accessible.pdf>)

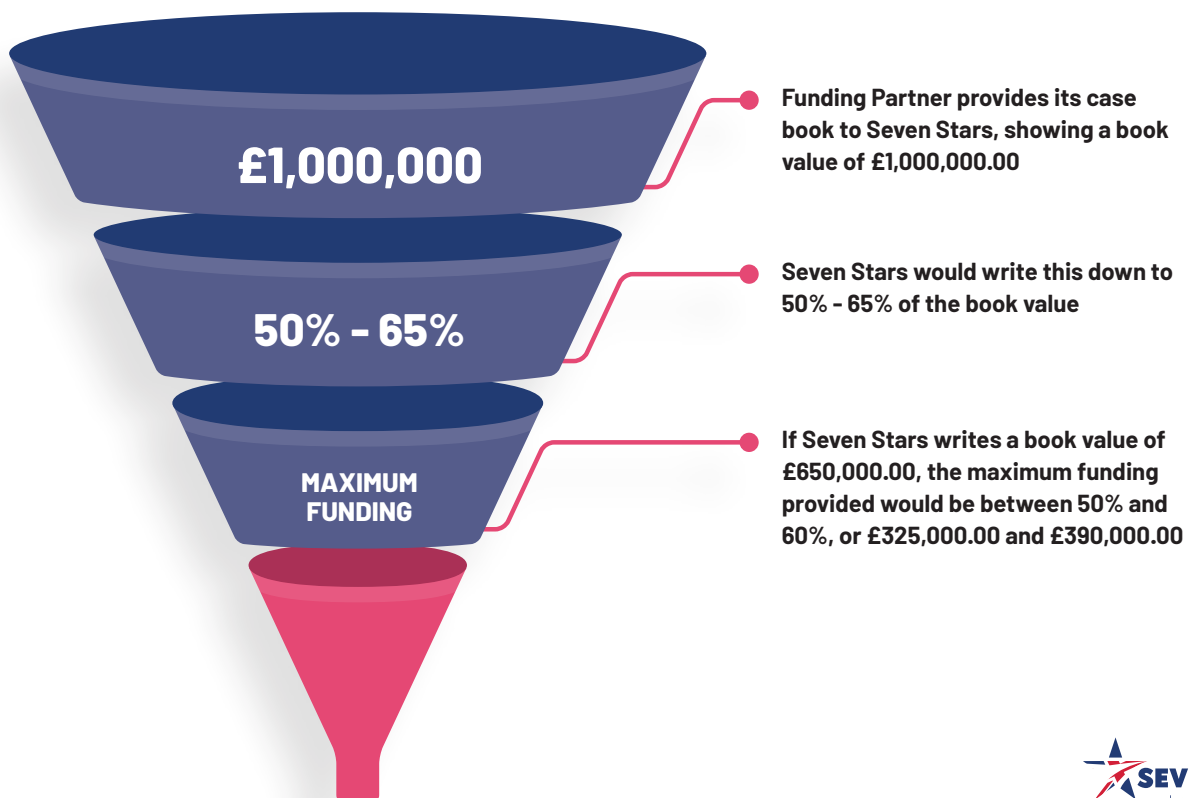
HOW SEVEN STARS FUNDS PENSION MIS-SELLING CASES

Seven Stars applies its own underwriting model to pensions mis-selling cases to both minimise risk and maximise potential returns.

The following representative example outlines how Seven Stars would deal with a Funding Partner looking to draw down funding for Financial Ombudsman Service or Financial Services Compensation Scheme claims for pension mis-selling:

- Funding Partner provides its case book to Seven Stars, showing a book value of £1,000,000.00.
- Seven Stars would write this down to 50% - 65% of the book value.
- If Seven Stars writes a book value of £650,000.00, the maximum funding provided would be between 50% and 60%, or £325,000.00 and £390,000.00.

In addition to only providing funds for cases with a preset minimum value, the process above ensures that Seven Stars can adequately protect itself and investors' interests and realise maximum value from its lending activities.





CORPORATE GOVERNANCE

Further information about how we assess requests for litigation funding and work to fulfil our responsibilities to our investors, borrowing firms, and the legal and legal funding industries is outlined in our Corporate Governance Statement.

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