

Telephone: 020 7066 5268
Email: enquiries@fs-cp.org.uk

Alexander Smith
Strategy and Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Dear Alex

CP 16/37 Implementing information prompts in the annuity market

This is the response of the Financial Services Consumer Panel (the Panel) to the FCA's consultation on proposed rules to implement prompts in the annuity market.

As the Panel's 2013 research on the annuities market showed¹, consumers are aware that they can shop around for an annuity but the process is too complex and so many don't. Since the introduction of the pension freedoms there has been no increase in the proportion of people shopping around.

The Panel therefore believes the new requirements on firms set out in CP16/37 will be of considerable benefit to consumers who have decided that an annuity is the most suitable product to generate their retirement income. The proposal for a prescribed format will ensure that the message is consistent. We are also pleased to see that both providers and intermediaries will be bound by the new rules and that the open market quotation will be guaranteed and must be obtained from a whole of market search.

As the FCA has pointed out, consumer research has consistently shown that individuals are far more likely to act on information when it is personalised and provided in a clear, simple format, and that the advantage of taking action can be clearly demonstrated. We therefore welcome the proposal to require firms to show the difference between the provider's own quote and the highest guaranteed quote available on the open market, in pounds and pence.

However, we are concerned that firms will only be required to use the same underwriting information when producing the comparison of quotes that they have used to provide their own quote. We cover this more fully below.

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel

¹ Annuities: Time for regulatory reform, FSCP Discussion Paper, December 2013

Question 1: Do you agree with our proposal to require firms to disclose this content?

Question 2: Do you agree with our proposal to require firms to use a prescribed format?

The Panel strongly agrees with both proposals.

Question 3: Do you agree with our approach to dealing with special cases (enhanced PCLS entitlement and consumers who are entitled to a GAR or will be able to access a GAR in future)? Are there any additional categories of consumer who should also be warned when they see this comparison of annuity quotes?

Yes.

The FCA has asked whether there are any additional categories of consumer who should be warned and the Panel believes that, unless the proposal for underwriting is reconsidered (see our response to Question 4), then all consumers should be warned that certain health conditions and/or lifestyle may mean that a higher quote is available than those shown.

Question 4: Do you agree with our approach of requiring each firm to provide the proposed information prompt on the basis of a comparison of guaranteed quotes available to the consumer, using the underwriting information that was used by the firm?

No. The FCA's own research shows that up to 80% of customers who do not shop around could have received a better rate on the open market. A proportion of the 80% are likely to have health conditions. If the provider offering the quote is not one of the small group of providers that offer enhanced annuities, the underwriting questions will not be detailed enough to get a true, whole of market, guaranteed quote. If the open market quote is only a few pounds above the own-provider quote (which may well be the case if only shallow medical underwriting is used), then the consumer may decide that the effort of shopping around is not worth it and stay with their current provider.

We understand the FCA rationale for wanting providers to produce guaranteed, rather than indicative, quotes as its research has clearly shown that consumers are more likely to act when the quote is personalised. But, given this, we would urge the FCA to re-assess the underwriting level that the provider must use.

At the very least the FCA should determine what questions would need to be answered to cover the most common conditions that lead to an enhanced annuity. It would also be useful to know the difference between the highest enhanced annuity with full underwriting and the highest annuity with shallower underwriting.

Alternatively, the industry (which is now very small) could adopt a universal underwriting method that includes an assessment of whether an enhanced annuity would be paid. If in the short term this is not possible, then we would urge the FCA to mandate a warning to consumers to tell them that an even higher rate might still be available with further underwriting.

Question 5: Do you agree that the information prompt should be provided before a consumer makes a decision to proceed to purchase an annuity?

Yes. We are assuming the information will not be provided in the 'wake up' packs but after the customer has contacted the provider expressing a desire for more information about an annuity.

Question 6: Do you agree that this requirement should apply in the same way to non-written and online communications.

Yes.

Question 7: Do you have any comments about our proposed implementation date of 1 September 2017?

An early implementation is welcome.

Question 8: Do you have any comments on our Cost Benefit Analysis?

No.