

Telephone: 020 7066 9346  
Email: [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk)

Retirement Outcomes Team  
Competition Division  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

31 August 2016

Dear Sir, Madam,

## **FCA Retirement Outcome Review – Terms of Reference**

This is the response of the Financial Services Consumer Panel (the Panel) to the Financial Conduct Authority's (FCA's) Terms of Reference for its Retirement Outcomes Review.

We support a thorough assessment of the impact of pension freedoms on competition in the decumulation market, but hope this does not come at the expense of close supervision of retirement income products. We have commissioned research on online investment services to assess whether consumers understand the service they are being offered, the costs they will incur and the risks and protection of the service being offered. We would be happy to share this with the FCA once it has been completed.

Before pension freedoms there was clear evidence consumers found it difficult to make informed choices about buying an annuity. Both FCA research<sup>1</sup> and the Panel's<sup>2</sup> found consumers were disengaged. This was due to product complexity and opacity, fear of making an irreversible, high-cost mistake, general distrust of professional advice and an inability to find appropriate advice at an acceptable cost. The issues identified by this research have not been resolved, and have arguably been amplified by increased choice for consumers. In terms of the FCA's competition model, consumers cannot "assess" so cannot effectively drive competition.

We have set out our thoughts under each topic the FCA proposes to consider as part of its review where we think we can add value, below:

### Shopping around and switching

Research shows that consumers have a low level of understanding of pension products and how they work<sup>3</sup>. The Panel's research on annuities<sup>4</sup> also showed consumers didn't understand annuity types and features. Since pensions freedoms there are now more product types to consider. Even when consumers want to shop around, they can't assess the market and compare products. There is an ever-increasing number of providers selling similar products<sup>5</sup>.

---

<sup>1</sup> <http://www.fca.org.uk/static/documents/market-studies/ms14-03-3.pdf>

<sup>2</sup> [https://www.fs-cp.org.uk/sites/default/files/annuities\\_position\\_paper\\_20131203.pdf](https://www.fs-cp.org.uk/sites/default/files/annuities_position_paper_20131203.pdf)

<sup>3</sup> <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/Post-Budget-At-Retirement-Market-Qualitative-Consumer-Research,PDF.pdf>

<sup>4</sup> [https://www.fs-cp.org.uk/sites/default/files/annuities\\_position\\_paper\\_20131203.pdf](https://www.fs-cp.org.uk/sites/default/files/annuities_position_paper_20131203.pdf)

<sup>5</sup> Consumers as co-regulators

Consumer also face product complexity and lack of transparency in charges. Against this background it is easy to see why most consumers do not shop around.

When consumers do try to shop around, they will use shortcuts to make decisions because the volume of information is overwhelming. This means they may not take account of longevity risk, inflation and charges, resulting in choices that may not lead to good outcomes.

Consumers need information they can understand and act on. A survey by the Pension and Lifetime Savings Association<sup>6</sup> found that among early adopters of pension freedoms, just under half found the terminology difficult and one in three felt that there was too much information available, making choices harder. This is consistent with our annuities research, which showed that consumers found jargon a deterrent.

In our response<sup>7</sup> to the FCA's interim findings and proposed remedies on the Retirement Income Market Study we called for the creation of a plain English standard comparison tool for annuities. We believe this should extend to all decumulation products, and that the FCA should mandate it.

### Non-advised consumer journeys

Our research on annuities<sup>8</sup> showed consumers may not see, "this is not advice" on a website. Even if they do, they do not understand the ramifications. By taking responsibility for the purchase, annuitants forfeit the right to valuable consumer protection services, such as recourse to the Financial Ombudsman Service. It is extremely unlikely they are aware of this. Our research<sup>9</sup> also found that firms selling annuities through non-advice websites often provided misleading or incomplete information to consumers, who did not necessarily understand that non-advice services were not free.

We have called for the FCA to introduce a robust code of conduct for non-advised sales. These regulatory rules and mandatory standards should emphasise the need for high professional standards, the transparent disclosure of charges, and a clear explanation of the implications of non-advice for consumer protection. This is now even more urgent as more people are using non-advised websites to buy more complex products such as drawdown.

We have also previously said commission should be banned for 'non-advised' sales of annuities. For drawdown products, the total cost of the 'non-advised' route against the 'advised' route is still very unclear to consumers. Often the 'non-advised' route looks free, with provider and intermediary costs hidden from view. It is essential that consumers can easily compare the cost of the 'non-advised' route against the 'advised' route so they can be clear on what they are paying for (or not paying for in the case of a non-advised sale).

### Impact of regulation on retirement outcomes

Before addressing this question, the FCA needs to define what 'good' outcomes look like. The government failed to do this when it introduced pension freedoms, seemingly regarding choice as an end in itself. As we have seen, pension freedoms pose significant risk to consumers, from making choices that are not optimal for them, to outright scams.

We would note that we have repeatedly heard industry stakeholders (both product providers and intermediaries) blame the lack of innovation in this market on the cost of regulation – however we have seen little or no evidence of over burdening. There is plenty of innovation, whether it is good for consumers is questionable. Regulation is there for consumer protection

---

<sup>6</sup> [http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/\\_media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v4.pdf](http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/_media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v4.pdf)

<sup>7</sup> [https://www.fs-cp.org.uk/sites/default/files/cp\\_response\\_retirement\\_income\\_market\\_study\\_consultation\\_20150203.pdf](https://www.fs-cp.org.uk/sites/default/files/cp_response_retirement_income_market_study_consultation_20150203.pdf)

<sup>8</sup> [https://www.fs-cp.org.uk/sites/default/files/annuities\\_position\\_paper\\_20131203.pdf](https://www.fs-cp.org.uk/sites/default/files/annuities_position_paper_20131203.pdf)

<sup>9</sup> [https://www.fs-cp.org.uk/sites/default/files/annuity\\_literature\\_review\\_consumer\\_perspective\\_2013.pdf](https://www.fs-cp.org.uk/sites/default/files/annuity_literature_review_consumer_perspective_2013.pdf)

and we would urge the FCA to consider amending or reducing regulation only where providers can demonstrate clearly that it increases consumer detriment.

Yours sincerely

A handwritten signature in cursive script, appearing to read "S. Lewis".

Sue Lewis  
Chair  
Financial Services Consumer Panel