Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Sir, Madam,

**CP 15/30: Pension reforms – proposed changes to our rules and guidance – shape and scope of Retirement Outcomes Review**

This is the response of the Financial Services Consumer Panel (the Panel) to *Annex 2 Retirement outcomes review* of the FCA's *pension reforms – proposed changes to our rules and guidance* consultation paper.

Product options, features, charges and access

The FCA's consultation paper recognises the complexity in products such as income drawdown. The Panel notes that product development in the wake of the pension reforms has been more about repackaging and restructuring existing offerings than about innovation, often with additional costs for no clear additional benefits. We believe that there is a continuing risk that the industry will develop inappropriate products as it seeks to replace the revenue stream lost from annuity sales.

The FCA's Retirement Income Market Study[1] found that many consumers were missing out on a higher income by not shopping around for an annuity and switching providers. More recent statistics from the Association of British Insurers[2] show that for funds being invested into drawdown products and annuities, only 45% of customers buying an annuity changed provider. For income drawdown purchases, this figure is 55%. This suggests that, as with annuities, remaining with the incumbent provider is now becoming the default in drawdown, significantly weakening competitive pressures in the market and resulting in consumers potentially missing out on retirement solutions more suitable for their circumstances.

The Panel's discussion paper on investment costs and charges in 2014[3] showed that the full costs incurred by consumers when making long-term investments are not consistently and comprehensively defined, nor understood. This is despite intensive statutory regulation, and attempted reforms by the industry itself. As these charges are not clear, consumers are not armed with the information they need in order to compare

[1] https://www.fca.org.uk/news/market-studies/retirement-income-market-study
[2] https://www.abi.org.uk/News/News-releases/2015/09/Payments-made-to-savers-since-the-pension-reforms-reach-nearly-2-5-billion-ABI-stats-show
[3] https://www.fs-cp.org.uk/sites/default/files/investment_discussion_paper_investment_cost_and_charges.pdf

costs effectively across product providers. Without clear disclosure of the full costs and charges consumers cannot assess accurately the value for money of the product options open to them when accessing their pension savings.

It's not just consumers who are unable to assess value for money – their representatives, including financial advisers, are unable to do this either as the full extent of costs and other hidden charges are not known. The Government has also chosen to exclude income drawdown from the 0.75% AMC charge cap that applies in qualifying pension schemes used for automatic enrolment.[4]

The solution to these problems does not lie simply in providing consumers with more information and education. We would welcome more research on the demand side, with a focus on better understanding consumer needs in the post-pension freedoms environment so that firms can be more effective in developing and communicating straightforward products which meet those needs.

Consumer decision-making

The Panel noted in its position paper in 2012[5] that information, capability and resources are loaded in favour of firms, with levels of risk sharing unknown to the consumer and firms exploiting natural human biases. More recent Panel research[6] found that consumers find it difficult to make an informed choice with an ever-increasing number of providers selling similar products. This means they use shortcuts to make decisions, rather than carrying out extensive research and weighing up large volumes of information. So there is a focus on product features and pricing at the expense of a consideration of what are likely to become priorities once they become customers. Against this context, customers may therefore not be taking account of longer-term factors such as longevity risk, inflation and charges.

Impact of advised and non-advised distribution channels

The trend of consumers purchasing more annuities via 'non-advice' sales[7] is now being mirrored in markets for more complex products such as drawdown. It is therefore important to reiterate the risks that exist with the purchase of 'non-advised' annuities and how these could be read across to other retirement products bought without regulated advice:

- The Panel's research on annuities in 2013[8] concluded that firms selling annuities via non-advice websites often provided misleading or incomplete information to consumers. A more recent FCA market study also confirmed this.[9]
- Non-advised sales of financial instruments such as annuities often have opaque cost structures and offer greatly reduced consumer protection if things go wrong, for example in terms of recourse to the Financial Ombudsman Service (FOS)[10] or the Financial Services Compensation Scheme (FSCS).[11]
- The Panel's research (referenced in the FCA's consultation paper) found very high commissions (5% to 6% as compared with an average of 1.5% to 3%) being

[4] Para 154-155 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/400864/better-workplace-pensions-putting-savers-interests-first-response.pdf
[5] https://www.fs-cp.org.uk/sites/default/files/position-paper-consumer-responsibility.pdf
[6] https://www.fs-cp.org.uk/sites/default/files/consumers-coregulators-research-2015.pdf
[7] https://fs-cp.org.uk/annuities-time-regulatory-change
[8] https://fs-cp.org.uk/annuities-time-regulatory-change
[9] Financial Conduct Authority (2015), "Retirement income market study" (https://www.fca.org.uk/static/documents/market-studies/ms14-03-3.pdf)
[10] http://www.financial-ombudsman.org.uk/publications/technical_notes/execution-only.htm
[11] For example, consumers have more limited recourse to the Financial Ombudsman Service for non-advised sales.

paid by providers keen to secure high-volume distribution channels.

Given the persistent problems associated with non-advised sales, and the increase in such sales for retirement products, the Panel believes that it is now even more important that the FCA should introduce a robust code of conduct for non-advised sales. A code of conduct, which the Panel has recommended the FCA should embody through 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.[12]

Another factor to consider is that the Retail Distribution Review (RDR) banned commission for advised sales, yet commission is still permitted for non-advised sales. Given there has been a shift in distribution channels for firms towards non-advice, this undermines the intentions of the RDR, leaving customers with no choice but to use commission-based non-advice services. This could lead to customer detriment, especially as consumers do not understand the differences between advice and non-advice and therefore the implications on the protections offered to them. The Panel suggests an extension of RDR to non-advice products, meaning the banning of commission and disclosure of fees instead. This includes the disclosure of broker and intermediary fees.

Yours sincerely,

Sue Lewis
Chair
Financial Services Consumer Panel

[12] The Panel's draft for such a Code of Conduct can be found here: https://fs-cp.org.uk/sites/default/files/annuities_position_paper_20131203.pdf#page=5