

Consultation Response

FCA consultation: Implementing information prompts in the annuity market

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About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network comprises around 150 local Age UKs reaching most of England. We provide information and advice to around 5.9 million people each year, through web-based and written materials and individual enquiries by telephone, letters, emails and face-to-face sessions. We work closely with Age UK Cymru, Age UK NI and Age UK Scotland.

About this consultation

The FCA committed in its 2015 Retirement Income Market Study to addressing low levels of competition in the annuity market, including by introducing an 'annuity comparator' designed to prompt consumers to consider shopping around for a better deal. The measures now proposed would require a firm to show prospective purchasers how their annuity product quote compares to other providers'. The comparison would be personalised rather than generic and based on guaranteed quotes. Firms would only be required to provide comparisons with other providers who use the same level of underwriting, rather than comparing their quote with what is available across the whole of the market. Consumers would be signposted to the Money Advice Service if they want to shop around further.

Key points and recommendations

- We are supportive of the FCA's efforts to improve competition in the annuity market, including by increasing consumer awareness of the ability to shop around for annuities.
- While the concept of compulsory annuity comparison is positive, the proposals are seriously limited by the lack of requirement for firms only to obtain 'like-for-like' quotes from providers using the same level of underwriting information, even if that results in comparison with only a portion of the market. We are concerned that some consumers will be given a false sense from these partial comparisons that they are already being offered the best value, or close to it, and may be discouraged from looking further.
- This risk is likely to apply in particular to people with smaller pots, for whom the value of the differential between current provider and the best rate on the open market is likely to be smaller, and to those consumers, including potentially vulnerable ones, who may be unaware of their eligibility for an enhanced annuity, and that this would result in a vastly better deal.
- To drive genuine competition in this market, the FCA needs to *enable* rather than merely *encourage* shopping around, given how prohibitively complex it can be for consumers to search the open market themselves. We think steps can be taken within the scope of this consultation to move towards this. Prompts might remind consumers they can shop around, but the current proposals do little to assist consumers actually to *act* on that information and conduct a meaningful search of the market. We urge the FCA to extend the current proposals and take this 'now or never'

opportunity to finally drive real competition in the annuity market, by requiring firms to take on more of the burden for consumers in searching the open market.

- We recognise that there may be a difficult cost/benefit balance for the FCA to strike in making it compulsory for firms to search the open market on behalf of consumers. As a minimum, we consider the FCA should require that:
 - firms adopt a common quotation approach, to raise the minimum level of accuracy of the comparative quotes provided to customers; and
 - implement a mechanism for review of the common quotation approach to ensure that innovations in the annuity market are captured and the common quotation approach remains effective to capture the bulk of the market.
- We ask that the FCA presents evidence to support its conclusion that requiring firms to search further and wider on a customer's behalf than the current 'like-for-like' proposal would be prohibitively costly.
- We also ask that the FCA explains its conclusion that adding complication to the consumer journey (by requiring that firms obtain wider quotes, for which customers will need to provide further information) is unjustified. Shopping around necessarily adds some complexity to the consumer journey, but that is more easily done with a provider's help than without.
- If the FCA does not conclude that firms should obtain wider comparisons than on a like-for-like basis, then it should at least require that firms draw greater attention to the limitations of the comparisons provided, and give more upfront information, with greater prominence, about how to search the open market than a mere signpost to the Money Advice Service's pages.
- We suggest that the prescribed format of the information prompt includes an illustration of lifetime gains as well as annual (given that the behavioural testing did not sufficiently rule out the positive impact this could have, particularly for small pot holders) and that greater prominence should be given in the prescribed format to information about how to shop around.

1. Introduction

Although we are yet to understand whether the new pension freedoms will offer suitable alternatives for small pot holders, messaging around pensions is dominated by the novelty and flexibility of income drawdown and cash lump sums. Meanwhile, emphasis on annuities has waned and sales have so far dropped, in spite of there being a clear role for this product type, even in the broader competitive marketplace. It is uncertain how this situation will balance out, but, in a pensions landscape that now heavily emphasises 'freedom and choice', we are concerned about annuities being rejected out of hand by some consumers. The annuities 'image problem' is of particular concern to us with regard to small pot holders, for whom income drawdown products, to which more and more consumers are predicted to move under Freedom and Choice, may yet prove to be a unsuitable substitute.

We support regulatory action that preserves or enhances the reputation of annuities as a viable retirement income option. Ensuring that all customers get the best rates – through

improved pricing transparency and ease of shopping around – is instrumental to achieving this.

2. Consultation questions

Q1. Do you agree with our proposal to require firms to disclose this content?

We are supportive of the FCA's efforts to heighten consumer awareness of the ability to shop around for annuities.

However, because the FCA is seeking only to *prompt* consumers to shop around, and is not taking the opportunity to facilitate the process of doing so, we consider the effect of the proposals on competition is seriously reduced.

The lack of any requirement for firms to seek market-wide quotes or even quotes based on a common set of questions is likely to result in consumers receiving imprecise illustrations which give a false sense that they are already being offered the best value for money, or close to it, when that may not be the case. Further, it does little or nothing to address the complexity of the open market process, which acts as a barrier to shopping around.

It is far less effective merely to *encourage* shopping around without also seeking to *facilitate* it. The process of scouring the open market must be made simpler in order for consumers actually to embark on it once prompted, and if that facilitation does not come from industry, in whose favour the information and skills asymmetry obviously lies, it is unlikely to come at all. We think that facilitation should come in the form of firms having to search further and wider than the current like-for-like comparison proposal.

We recognise that the FCA has undertaken a great deal of work and shown commitment over the last three years to addressing low levels of competition in the annuity market. Given the urgency and complexity of the new policy questions emerging post-reforms, it seems likely that future opportunities to make a real difference to competition in this market will be few and far between. We urge the FCA to extend the current proposals and take this 'now or never' opportunity to finally drive real competition in the annuity market, by requiring firms to take on more of the burden for consumers of searching the open market. We believe this is an opportunity to help safeguard the future of the annuity market. Our view is explained further below in response to specific questions.

Q2. Do you agree with our proposal to require firms to use a prescribed format?

We agree that consistency in the presentation of comparative quotes and information is likely to achieve better consumer outcomes by minimising variation in emphasis on these important messages.

On the format prescribed, we have two areas for comment:

- 1) The FCA said in MS14/3.3 “given that individuals tend to underestimate their longevity, we believe it is even more important to demonstrate the differences over their retirement lifetime, with appropriate caveats for those entitled to enhanced annuity rates on health or lifestyle grounds”. We agree, and consider that illustration of a lifetime gain figure could only help to prompt into action those who are apathetic about shopping around, or are put off doing so because it seems complicated - especially those whose small pot means only a small annual gain figure, and for whom the difference in annual income only is more likely to be perceived as too small to warrant the effort of shopping around.¹

We note the finding in Oxera’s behavioural testing that inclusion of lifetime gains in the information prompt did not have an effect on shopping-around rates, but also that this lack of impact may have been due to the experimental environment and/or prompts containing too much information for participants to process. This does not seem reason enough to exclude a lifetime gains illustration from the prompt, especially given that doing so would require minimal further effort from firms. The FCA should extend the prescribed format, requiring firms to include an illustration of lifetime gains.

- 2) We would have expected the FCA’s behavioural testing to have considered the prominence and form given to information about *how* to shop around, and the effect this may/may not have on a consumer’s willingness to source other quotes. The Money Advice Service details are given no prominence, featuring as small print at the bottom of the prompt only.

Although we understand the FCA’s stated intention here is to prompt shopping around rather than necessarily to facilitate or simplify the process of doing so, we think it reasonable within the current proposals to give greater prominence to the shopping around option than relegating it to small print.

In the trial prompt used in Oxera’s behavioural testing and reproduced on page 16 of CP16/37, participants were given a comparison which featured a prominent button to click through, labelled “Purchase our product” (although that option has not been included in the proposed prescribed format). We propose that firms are required to present consumers with two equally prominent options at the end of the information prompt, whether in digital or print form: 1) for purchasing the product and 2) for accessing information to shop around.

¹ Oxera for FCA, 2016 “Increasing consumer engagement in the annuities market: can prompts raise shopping around?” page 35.

Q4. 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?

False assurance of best value

The FCA has recognised that an over-simplified underwriting process might lead to imprecise quotes for some consumers, but takes the view that, in order to act as a prompt only, comparisons need not be comprehensive, and for this reason the additional complication to consumers involved in a higher level of underwriting would not be justified. We see the risk here to be greater than just imprecision, but false assurance and consequently active discouragement of some consumers to shop around further. This is of particular concern to us in terms of small pot holders and those who are unaware of their eligibility for an enhanced annuity – especially where they may include potentially vulnerable consumers.

Seizing the opportunity to support consumers: requiring firms to search more widely using a common quotation approach

As stated by the FCA in TR 16/7 “the [annuity] decision is an important one which may define the customer’s standard of living for many years to come. It is a crucial decision to get right.”² We urge the FCA to take this chance to address the complexity barrier to shopping around on the open market, so that the prompt can have real effect.

If consumers do not feel willing and able to take on the lengthy and complex process of shopping around on the open market, then the prompt merely encourages consumers to explore the limited part of the market the provider has pointed to. This seems a missed opportunity. Firms have the skills and market access to ease this process for consumers and make best value for money achievable in this crucial retirement income market. If the requirement for firms to do more does not come from the FCA at this time, it seems unlikely to come at all.

The FCA should therefore extend the proposals to require firms to take on more of the burden for consumers of securing market-wide quotes for comparison. We think this is practicable by:

- requiring that firms adopt a common quotation approach so that all firms produce their comparisons using the same customer information about health and lifestyle sufficient to incorporate the range of enhanced annuities into all comparisons;
- ensuring the common quotation questions keep pace with any innovation in the market by regularly reviewing them to capture product developments - innovation is positive, but it must be transparent; and

² FCA, 2016, Review of Annuity Sales Practices TR 16/7, page 5.

- requiring greater disclosure to ensure consumers understand that the comparison provided may still not be an exhaustive comparison of what could be achieved on the open market on provision of different information or by different product criteria.

Complicating the consumer journey

We do not understand the FCA's view at 3.19 that adding complication to the consumer journey by requiring a provider to obtain more comprehensive quotes is undesirable. The process of shopping around, if that is what we want consumers to do, necessarily adds complication. The complication of having to undertake a more detailed comparison on one's own is surely greater than doing so with a provider's help, and it is justifiable that firms should assist customers through this in the interests of market transparency leading to better retirement outcomes.

Cost to firms

We are also unsure of the basis for the FCA's view that requiring firms to search the market more widely may create "prohibitive costs" for firms.

- We ask that the FCA provides further information about the extent of the cost to firms of providing wider comparisons and why this cost is seen to outweigh the benefit of providing consumers with a more accurate illustration of the value for money they could achieve (and, simultaneously, aiding the shopping-around process).

Review of the common quotation approach to capture innovation

In order that providers are most easily able to capture as much as possible of open market in their comparisons, the common quotation approach needs to be reviewed to ensure the questions in it can capture any new annuity products that may become available. Innovation is clearly a good thing, but if it comes without transparency, it is of little benefit to the large proportion of consumers who are not inclined to shop around to find it.

Disclosing the limitations of the quote to consumers where a common quotation approach is adopted, or if no such approach is adopted

The FCA acknowledged in TR14/2 that "customers may not be aware of the different levels of underwriting for enhanced annuities that result in different outcomes".³ The current proposal is only that firms draw a customer's attention to the fact that they can shop around further if they want to, with a link to the MAS. It does not seize the opportunity to emphasise that a customer may yet be eligible for an enhanced annuity, based on more detailed personal information.

- We ask that, if the FCA's concludes that it is not viable to require firms to obtain wider market comparisons using a common quotation approach as described

³ FCA, 2014, Thematic Review of Annuities TR14/2, page 26.

above, the current proposals be adjusted so that firms are required to disclose to the customer, with prominence:

- the fact that the comparisons provided are limited by that firm's underwriting approach (or indeed to a common quotation approach);
- that better deals may be secured in the open market on provision of further information; and
- information about *how* to undertake open market exploration.

3. Conclusion

We anticipate that these proposals may represent the final attempt by the FCA, at least for the foreseeable future, to address low levels of competition in a shrinking annuity market. Although we have previously expressed our support for the introduction of an annuities clearing house to really improve transparency and competition, our suggestions here are those which we think the FCA might reasonably achieve within the scope of the current consultation. We strongly support the concept of a more detailed compulsory annuity comparison, and hope the FCA will seize the opportunity to maximise the potential of this laudable initiative to help consumers achieve better retirement outcome via annuities.