The FCA and HMT held a workshop on Wednesday 1st June to seek input into Government and FCA proposals for the Secondary Annuity Market. Providers, advisers, prospective brokers, trade bodies and consumer bodies attended the workshop. The workshop was centred around three breakout sessions. This document provides a summary of what was said by stakeholders during these breakouts. This summary is not a Feedback Statement nor does it contain FCA or HMT feedback or views on the discussions.

The consultation period for the *CP16/12: Secondary annuity market - proposed rules and guidance* closed on 21st June. A formal Feedback Statement will be published subsequent to this date.

Breakout session A: Advice and guidance

Government proposals: the government has legislated in the Bank of England and Financial Services Act 2016 to:

- expand the remit of the Pension Wise service so that it can offer guidance to consumers (and their dependants and beneficiaries) in the future Secondary Annuity Market; and
- in effect, set a requirement for some consumers to seek financial advice before selling their annuities. The government will be consulting on the details for the advice requirement in due course.

Pension Wise, the government's free and impartial guidance service, is being extended to cover the secondary market in annuities. Delegates were asked how best to encourage people to use the service and for views on what the service might look like.

There were mixed views on the most effective way to encourage people to use the Pension Wise service. These included: conducting research about what prompts people to use the existing service; mandating use of the service; and more signposting.

A number of delegates also thought that mandatory Pension Wise should be one of the first steps in a consumer's journey so that the service can make annuity holders aware of the risks associated with selling an annuity and so it can help them understand the potential value.

The government is also putting in place a requirement for those who wish to sell an annuity that is worth more than a certain value to take regulated advice. Delegates were asked for their views on how the threshold for advice should be calculated and at what level it should be set.

Most felt that the threshold should be based on the income that an individual receives from an annuity, as this is the simplest method for consumers to understand and for annuity providers to assess when advice is required. In addition to this, because an annuity holder will be giving up an income by selling their annuity, it makes sense to set a threshold on an income basis. There were a few who thought that the income threshold should be varied according to an individual's age, while others thought that the threshold should be based on the value of the lump sum a consumer will be able to sell their annuity income for.

In terms of the level at which the threshold is set, some delegates thought the threshold could be high if most consumers were using the Pension Wise service before selling their annuity. Others thought that the threshold should be set at a level that is broadly equivalent to the level for transferring from safeguarded benefits.

FCA proposals: on first contact, firms interacting with a seller for the first time must give sellers:

- annuity sale risk warnings
- information about the compulsory advice requirement (firms will not be required to determine whether a seller does have a legislative requirement to take advice at this stage)
- a recommendation to either seek advice (if not already taken or required) or to seek guidance from Pension Wise
- a recommendation to shop around
- a warning that contingent beneficiary consent may be required

Delegates expressed support for these proposals. Delegates also expressed support for risk warnings to come as early as possible in the customer journey. The same point was also made with regard to the FCA proposal that firms tell sellers at the earliest opportunity that contingent beneficiary consent may be required.

Annuity provider to check whether compulsory advice has been taken before sale is allowed but not required to check what the result of the advice was

Delegates expressed support for these proposals.

Note: FCA proposed rules will not require any firm (that is not giving advice) to advise the seller on the suitability of the sale.

FCA proposal: Our proposal is to publish guidance to remind firms about their existing legal obligations to treat those who may lack full mental capacity appropriately.

There was a discussion among delegates about the relative likelihood of picking up a potential lack of full mental capacity among sellers, depending on the type and depth of interaction a firm is having with sellers. For example, it would be more difficult to do this if running an online only model.

Breakout session B: Presentation of offers

FCA proposal: Firms should not make the purchase of an annuity income conditional on some other event occurring, such as the seller committing to put the proceeds into a particular product.

There was broad support for this proposal amongst delegates recognising this should help sellers to judge the overall value of a quote and compare different quotes.

The FCA was encouraged to consider whether, and under what circumstances, it would be appropriate for firms to offer discounts on a secondary product purchase such as the charges associated with an income drawdown contract with the same company.

FCA proposal: All quotes for a seller's annuity income must be presented:

- as a single one-off lump sum payment;
- in pounds sterling;
- in a standardised disclosure document; and
- net of all costs incurred by the firm (although any costs levied by an annuity provider or other third party need not be included as the firms may not know what these costs are).

Most delegates supported the principle of a standardised format of quotes to enable consumers to more easily compare between quotes and promote rational decision-making.

Some delegates were concerned that some firms might provide artificially high indicative quotes to attract consumers, with the actual guaranteed quote being significantly less.

In terms of the net presentation of costs, some delegates suggested more consideration should be given to the presentation of fees a seller would need to pay irrespective of whether they proceeded with the annuity income sale. A number of delegates also felt costs levied by an annuity provider or other third party should be included in the net quote as these were likely to be known.

It was suggested that it may be appropriate to allow firms to provide quotes in addition to the standardised template. This could include, for example, where monies are paid over time (if this is permitted).

It was also suggested the FCA should not mandate the quote being provided in sterling, but instead allow quotes in the currency in which the annuity is paid.

FCA proposal: To help consumers value their annuity income, any indicative or final quote should also provide the market price of the annuity income if purchased new and presented in a standardised format.

Most delegates agreed information should be provided to help consumers assess the value of any quote provided and facilitate shopping around.

Some delegates opposed the proposal to show a quote against the market price of the annuity income if purchased new, suggesting how this could potentially mislead consumers due to the potential difficulties of achieving an accurate market price for the annuity income.

However, other delegates supported the proposal, suggesting it reflected the true replacement cost of the annuity income for the consumer and represented a simple, practical and cost effective way to help consumers assess the value of their annuity.

FCA proposal: When contacted by a seller, a firm should outline the key risks associated with selling an annuity income.

Delegates agreed sellers should be made aware of the risks as early as possible. There were different views as to whether every firm should provide the warnings, even if this meant consumers received the warnings multiple times, or whether a single firm in the process should be responsible for providing these warning.

Breakout session C: Contingent beneficiaries and other issues

FCA proposal: Annuity providers should make 'reasonable efforts' to obtain written consent from the contingent beneficiaries whose consent is legally required, prior to facilitating annuity income sale.

The seller will also have to be warned on first contact that consent may be required from contingent beneficiaries prior to annuity income sale going ahead.

Delegates noted the importance of ensuring that contingent beneficiaries are protected and that their consent is obtained for annuity income sales.

Some delegates thought that this consent should be obtained by the buyer not the annuity provider. However, other delegates felt that the provider was best placed to obtain this consent. Delegates also requested as much guidance as possible from the FCA on how they could discharge their contingent beneficiaries' obligations and what was considered 'reasonable efforts'.

All delegates agreed that, due to the many permutations of how contingent beneficiaries are defined under annuity contracts, this was a complex area. DB schemes, where an annuity has been bought in the name of an individual (often as part of a buyout), were seen as particularly complex.

FCA proposal: We proposed guidance to make clear that firms will have to treat those who may lack mental capacity appropriately. Specific risk warnings will also alert sellers that selling their annuity income to pay off debt may not be in their best interest, and encourage them to talk to a 'not-for-profit' debt advice organisation. They will also warn that that their eligibility for means-tested benefits could be seriously and permanently affected by the sale of their annuity income.

Most delegates agreed with the proposals, but were particularly concerned about the non-advised sector of the market. Some delegates felt that the risk warnings would only work if they were part of a consumer journey that included mandatory advice or guidance. They thought that human interaction with an adviser or a guidance provider was key to helping consumers understand the risks.

Delegates also felt that medical underwriting was a key mitigant in identifying and protecting vulnerable consumers. Other delegates suggested that, as an additional protection, the sale should be counter signed, for example by 'a person of good standing in their community' who has known the person for two years, but is not closely-related to them.

FCA proposal: Brokers should disclose upfront the size of their panel (number of buyers) and whether they have any commercial relationships with the buyers on the panel (i.e. exclusive relationship with a buyer). The FCA is also proposing that brokers must be paid by charges agreed with and paid by the seller.

Most delegates agreed with the proposals. Discussions focused on whether the panel disclosure should be based on number of buyers or percentage of the market covered.

FCA proposal: An annuity provider can only cover reasonable costs when charging to facilitate the sale of an annuity income. The FCA intends providers to make their own decision about what is reasonable and for them to disclose the charges to the seller.

Most delegates agreed with the proposals, though some suggested that this should be a fixed fee rather than a variable 'reasonable costs' sum. The discussions focused on what would be considered reasonable costs and particularly the issue of provisioning for future costs.

FCA proposal: Our proposed rules give sellers (and potentially buyers) access to the Financial Ombudsman Service and the Financial Services Compensation Scheme. The FCA is also proposing minimum capital and PII standards for firms for whom these new secondary annuity market activities become their principle activity. Firms will also be expected to contribute towards regulatory fees.

Delegates did not comment on these proposals. The FCA reminded delegates that all input on these proposed rules was welcomed by the 21st June close of the consultation.