

# **Annuity advice and purchasing: the consumer experience**

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[www.fs-cp.org.uk](http://www.fs-cp.org.uk)

# Background

- ❖ Approximately 400,000 annuities sold each year, £12 bn
- ❖ Expanding market:
  - ❖ Maturing pots from personal pensions & GPPs (sold since 1987)
  - ❖ Auto-enrolment
- ❖ “Small pots” problem
- ❖ Open market option (OMO) – take-up, weak rules

## Finding 1: The OMO doesn't work well

- ❖ Open market bewildering & feels risky
  - ❖ Consumers 'shop and stop'
  - ❖ 'Best annuity rates UK' gets you nearly 1m hits
- ❖ Consumers do not drive competition
  - ❖ Low consumer financial capability
  - ❖ Fear of product complexity
  - ❖ Fear of making an irreversible, high-cost mistake
  - ❖ General distrust of professional advisers
  - ❖ Inability to find appropriate advice at acceptable cost

## Finding 2: non-advice driven by advisers not consumers

- ❖ Major shift to non-advice due to:
  - ❖ Light touch regulation; adviser not responsible for sale
  - ❖ Lower costs (eg qualifications), higher profits via commission
- ❖ Big differences between advised and non-advised services
  - ❖ Whole of market; deep underwriting, checks for contract terms (eg GARs); checks to ensure selection of right product
  - ❖ Limited panels; limited support (annuity sales-driven); shallow underwriting; no checks for GARs etc (can be a disclaimer on site)

## Finding 3: Introducers ‘masquerading’ as advisers

- ❖ Introducers sell personal customer details to firms selling annuities
- ❖ Get around £250 for each subsequent successful sale
- ❖ Websites look like non-advice and advice sites, but:
  - ❖ Consumer doesn’t know who they are dealing with
  - ❖ Doesn’t even know where the firm is based
- ❖ Result? Customers get phone calls, emails, texts from firms they have never heard of and did not contact, contributing to “shop and stop”

## Finding 4: pricing and competition issues

- ❖ Excessive profits on annuity books?
  - ❖ 20 x profits on annuity books compared with all other lines, including pensions
  - ❖ Academic research on 'money's worth' (90%), out of date and only covered OMO rates
  - ❖ Rollover pricing embeds cost of adviser commission even if customer does not use OMO; cost not visible to customer
- ❖ 'Rollover' annuities most pressing concern, especially where provider is not in open market

# Recommendations

- ❖ The FCA should:
  - ❖ introduce a code of conduct for the non-advice market
  - ❖ address the causes of the current regulatory arbitrage between non-advice services and professional financial advice
  - ❖ undertake a rigorous market study to examine possible exploitative rollover pricing, annuity profits and the impact of tied relationships between insurers and annuity providers
  - ❖ strengthen the definition of the Open Market Option.
- ❖ The Money Advice Service should:
  - ❖ develop its independent annuity adviser directory, and launch a targeted education campaign
- ❖ The Government should:
  - ❖ require employers and trustees to establish a high-quality, low-cost decumulation service for members of workplace schemes
  - ❖ establish a 'de-NEST'
  - ❖ look at tax rules for multiple small pots