

Finalised guidance 14/6

Annuity comparison websites

Financial promotions review and guidance for firms

June 2014

1 Financial promotions review

Background

- 1.1 An important retirement-planning decision for consumers is to decide whether to buy an annuity and, if so, which one. Annuities are usually one-off purchases that can involve substantial amounts of money and have a significant impact on a person's income in retirement. So it is important that consumers receive appropriate information before making their choices, particularly in light of the changes announced in the 2014 Budget.
- 1.2 Information provided on annuity comparison websites can help consumers understand their options and make informed decisions. We have therefore carried out a review of 13 annuity comparison websites to assess whether they are fair, clear and not misleading, in line with our rules.

Scope of our review

- 1.3 Our aim in reviewing annuity comparison websites was to evaluate their quality, and decide whether they give consumers sufficient information to enable them to use the sites effectively, and make informed decisions about annuities and related options.
- 1.4 We considered whether the information on these websites was fair, clear and not misleading, as required by COBS 4.2.1R and supporting rules and guidance in COBS 4, as well as in line with Principle 7 of our Principles for Businesses.

- 1.5 We only reviewed websites that offer a full online annuity quotation (rather than a telephone call back), as we wanted to review the whole process from the consumer's point of view and be able to assess the financial promotions in their full context.

Summary of review findings

- 1.6 In conducting our reviews we identified a number of common issues:
- 1.7 We found good practice in the presentation of alternative options to buying an annuity, such as deferring or pension drawdown, and the use of jargon-free language.
- 1.8 All of the websites we reviewed raised concerns. Key information and risk warnings were often missing or insufficiently prominent. Importantly, we also found that information on 12 of the 13 websites did not satisfy the key requirement to be 'fair, clear, and not misleading', for example describing the service as 'free' when commission would be received by the firm.
- 1.9 To address our concerns and enable improvements, we provide finalised guidance for firms in section 2 of this document.
- 1.10 We believe that this guidance will make clearer our expectations of firms and improve the level of compliance across the sector, level the playing field for firms and ultimately lead to better consumer outcomes.

Further information

- 1.11 Readers may also wish to refer to our previous guidance on prominence, stand-alone compliance and website financial promotions:
- Prominence: www.fsa.gov.uk/pubs/guidance/gc11_15.pdf
 - Website financial promotions: www.fsa.gov.uk/pages/Doing/Regulated/Promo/thematic/website.shtml
 - Stand-alone compliance: www.fsa.gov.uk/pages/doing/regulated/promo/pdf/compliance.pdf

2 Finalised guidance to firms

Guidance to firms operating annuity comparison websites

- 2.1 This section highlights the key issues we identified during our review of annuity comparison websites and our expectations of firms operating these sites.
- 2.2 Firms with annuity comparison websites must ensure that information on their websites is fair, clear and not misleading under the rules in COBS 4 and our Principles for Businesses. This includes, in our view, having sufficient information and relevant warnings on their websites in relation to the following:
- what the open market option means for consumers in terms of being able to shop around and change provider
 - any relevant cancellation periods, and that following this period, the decision to purchase an annuity is usually final and cannot be changed
 - that the level of annuity income is based on how much someone has saved into their pension and varies from person to person
 - how this annuity income may vary according to the type of annuity product purchased, for example with escalating or index-linked annuities
 - that single and joint annuities offer different benefits and guarantees, and in particular that single life annuities provide no further income for surviving partners (unless a guarantee is purchased)
 - that there are lower starting income levels for joint and escalating annuities
 - whether the consumer is able to consolidate pension pots
 - the alternatives to buying an annuity, such as income drawdown or deferring buying an annuity until a later date
 - that the annuity options indicated on the website may not include all the annuity options available on the market – with a restricted panel the providers searched should be identified, including where a restricted panel for enhanced annuity quotations has been used
 - whether the service provided by the firm is advised or non-advised and the relevant implications
 - how the decision to purchase an annuity might fit in with a consumer's overall financial circumstances and retirement plans
 - that if the consumer's current pension provider offers an annuity with a guaranteed rate, they may lose this option and other benefits by changing provider

- when tax is mentioned, consumers should be warned that tax treatment depends on individual circumstance and may change in the future
- when investment-linked annuities are offered, consumers should be advised of the charges associated with this type of annuity and, if relevant, given the required capital-at-risk warning
- that certain types of annuity linked to health or lifestyle issues (enhanced annuities) may require a medical assessment
- that a consumer may not be able to seek redress from FSCS or assistance from the Financial Ombudsman Service in certain circumstances
- what the relevant commissions or charges will be

2.3 Readers may also find it helpful to consider our guidance for firms following the changes to pension legislation, announced in the Budget 2014: www.fca.org.uk/news/fg14-03