

Telephone: 020 7066 9346

Email: enquiries@fs-cp.org.uk

Dr Yvonne Braun
Head of Savings & Retirement
Association of British Insurers
51 Gresham Street
London
EC2Y 7HQ

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Dear Dr Braun

Consultation: Consumers in the retirement income market

This is the Financial Services Consumer Panel's response to the ABI consultation paper: consumers in the retirement income market.

We are pleased that the ABI has decided to put in place a mandatory Code of Conduct for its members aimed at ensuring that consumers receive all the information they need in one place to help them shop around for the best annuity. As the Paper makes clear, this is an important decision for consumers reaching retirement and one that cannot usually be put right if the wrong decision is made. That is why, ultimately, we would like to see regulatory requirements in place. Unless or until the Regulator decides to take that step however, the ABI Code represents tangible progress for consumers trying to make the right choices as they approach retirement.

We support the ABI's proposals for monitoring compliance with the Code – including making compliance a condition of ABI membership for firms operating within the sector - and for undertaking consumer research into the impact of illustrations on consumer decisions. We agree that the use of illustrations is an important feature of the decision making process. Given the importance of the Code however we would like the ABI to go further on this occasion and monitor samples of documentation produced by members following the introduction of the Code. We would also like to see members to publish their annual confirmation letters, perhaps as an appendix to their Annual Reports and for the ABI to include a paragraph on compliance within its own report.

We welcome the ABI's work to assist its members to help consumers achieve the best retirement outcome possible and we strongly support the adoption of the Code. We remain concerned of course about the ability of many consumers to assimilate the information being provided about their impending retirement and to make the best choice of income product, without the benefit of expert advice. The availability of affordable advice is an issue that does not of course fall within the ABI's remit, although we were pleased to see that the Code as drafted does strongly encourage

consumers to seek advice and/or information when, for example, considering the different ways in which retirement income can be taken.

The Panel responded recently to the EIOPA report¹ on good practices for disclosure and selling of variable annuities, where we called for these products - which are complex and often marketed cross-border - to be sold on an advised basis only. While we do not necessarily think that all retirement income products should be sold in this way, we would like to see key questions around the need for and availability of specialist retirement income advice being debated in the near future.

Our comments on the detail of the draft Code of Conduct are set out below.

Question 1: is the timetable for implementation appropriate?

ABI members will be best placed to respond in terms of the feasibility of achieving compliance within a year of publication of the Code. But we hope that this transitional period will be adequate, given the generally acknowledged importance of helping consumers to identify and purchase the best retirement income product for their particular circumstances.

Question 2: is the customer journey set out in the Code appropriate?

We think the approach used within the Code is appropriate and identifies the key decision-making stages in the process, but it could be strengthened. It is important to tell consumers explicitly they are on a journey and whereabouts on that journey they are, as they reach each stage. It will be important too to identify clearly the questions that only the individual can answer (for instance, whether to opt for a single or joint policy, or to link income to inflation and the nature of “guarantees”). Providing a basic checklist of questions, and suggestions to prioritise these will help prepare customers, and get them thinking about the trade-offs against income that might have to be made at a later stage. Setting out clearly what the consumer needs to do *before* he or she either goes to an adviser or moves on to shopping around and finally decision-making will ensure they are better prepared and able to make more informed decisions. Decision trees can be helpful tools for consumers working their way through the process. The Pensions Advisory Service provides helpful online aids, such as an annuity planner, which could be signposted.

In relation to the Open Market Option specifically, the draft Code refers to the obligation on providers to set up the product within 30 days, and what action to take if the purchase is delayed. It is important that the information provided to the customer distinguishes clearly between this particular 30-day period and the 30-day cooling off period, which we understand begins from the conclusion of the contract or when the consumer receives the terms and conditions and other pre-contractual information, if later.

The comprehensive nature of the Code does in itself highlight both the complexity of the decisions that consumers have to make and the amount of information that they will be provided with as they begin to consider how best to secure their retirement

¹ EIOPA report and consultation is at <https://eiopa.europa.eu/publications> and the Panel’s response is at www.fs-cp.org.uk

income. As we have already indicated, this raises the question of consumers' access to affordable expert advice.

Question 3: are the requirements for the sales process appropriate?

The requirements for the sales process seem appropriate and comprehensive and our only comment relates to the questions identified on page 13 of the Consultation Paper. We would like it to be made clear in the Code that the questions should not be used as a 'tick box' list as written, as each one should be asked and explained in a way that is clear to the consumer. For example, "have you any lifestyle or medical conditions that may mean you are eligible for an enhanced annuity" requires explanation, illustrated by examples.

Question 4: are there any changes you would recommend to the template cover letter (Annex A)?

and

Question 5: Are there any changes you would recommend to the template shopping around guide (Annex B)?

and

Question 6: Are there any changes you would recommend to the template compliance letter (Annex C)?

In addition to our comments in response to question 2 above, we urge the ABI to ensure that the language used in the templates is consistent with the terminology in the NEST phrasebook². The more widely this is adopted, the better chance consumers have of understanding the issues without being confused by pensions 'jargon' and the use of different terms by different companies and other bodies.

Question 7: Do you have any evidence about the impact that illustrations have on consumer engagement or behaviour?

The Panel has not conducted research in this particular area, but we would suggest that the ABI might want to review the wider findings of the FSA's 2010 Consumer purchasing and outcomes survey³ and the Commission Report on EU consumer decision-making in retail investment services: a behavioural economics perspective⁴.

Question 8: Are the requirements for each stage in the Code appropriate?

We have nothing to add.

Question 9: Are there any other useful customer resources we should be signposting customers to and which are not mentioned in the Code?

² At www.nestpension.org.uk

³ CR84 at www.fsa.gov.uk

⁴ At http://ec.europa.eu/consumers/strategy/docs/final_report_en.pdf

We think the signposting is correct.

Question 10: Do you have any other comments on the Code of Conduct?

We would like to see arrangements agreed at this stage for future reviews of the Code which include stakeholder participation by external bodies, as well as the ABI and its members. There may also be a need for revisions of the Code to reflect any initiatives coming out of the work of the DWP/HMT Working Group on the Open Market Option.

The consultation paper makes reference to the Origo Options pension transfer service, which we understand has been developed and is supported by a number of ABI member firms, as well as by the ABI itself. Although ultimately a commercial decision for individual firms, we think it would be helpful for consumers if all firms in the sector were members of the scheme. Requiring companies to provide information about their average transfer times for the specified products as part of the OMO information may help consumers feel more secure in switching to a different provider.

Yours sincerely

Adam Phillips
Chair
Financial Services Consumer Panel