

Consultation Paper

CP16/37**

Implementing information prompts in the annuity market



November 2016

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We are asking for comments on this Consultation Paper by 24 February 2017.

You can send them to us using the form on our website at:
www.fca.org.uk/cp16-37-response-form.

Or in writing to:

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We have developed the policy in this consultation paper in the context of the existing UK and EU regulatory framework. We will keep the proposals under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Abbreviations used in this paper

CBA	Cost Benefit Analysis
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
DC	Defined Contribution
DGP	Designated Guidance Provider
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
GAR	Guaranteed Annuity Rate
KFD	Key Features Document
KFI	Key Features Illustration
MAS	Money Advice Service
PCLS	Pension Commencement Lump Sum
PS	Policy Statement
RIMS	Retirement Income Market Study
ROR	Retirement Outcomes Review
UFPLS	Uncrystallised Funds Pension Lump Sum

1.

Executive summary

Introduction

- 1.1** This Consultation Paper (CP) seeks views on proposed amendments to our rules in relation to the purchase of products that provide consumers with guaranteed income in retirement (pension annuities). The changes would require firms to inform consumers how much they could gain from shopping around and switching provider before a potential annuity purchase.

Who does this consultation affect?

- 1.2** Anyone with an interest in pensions and retirement issues, including:
- providers of retirement income products and other financial services products that play a role in consumers' retirement planning,
 - individuals and firms providing information or advice on retirement,
 - distributors of retirement income products,
 - trade bodies representing financial services firms,
 - consumer bodies, and
 - individual consumers.

Is this of interest to consumers?

- 1.3** This proposal will directly affect consumers who intend to buy an annuity. The information firms would need to provide is intended to prompt consumers to shop around and, where appropriate, switch provider before they purchase an annuity.

Context

- 1.4** Our Retirement Income Market Study (RIMS) was published in March 2015.¹ RIMS analysed the annuity market and found that competition was not working well, proposing specific

¹ More detail on RIMS and its conclusions is provided in Section 2 of this CP.

interventions, ('remedies') in response. One of these was an 'annuity comparator', designed to encourage shopping around by consumers.

- 1.5** An annuity comparator requires firms to show a consumer how the quote they offer compares with those available to that consumer on the open market. This information is designed to prompt consumers to decide whether to shop around and potentially switch. This CP therefore refers to the comparator as an 'information prompt' in the annuity market. It uses targeted information to increase understanding and prompt potential action (shopping around) from consumers looking to purchase an annuity.
- 1.6** The proposal to implement information prompts is part of our wider work on information provision and consumers' decisions about how to access their pension savings. This has two complementary aims:
- first to help provide consumers with the information they need to decide how to access their pension savings, and
 - secondly to help consumers to shop around and decide whether to switch provider.
- 1.7** Good consumer outcomes depend on both informed decisions about retirement options, and purchasing specific products (or ways of decumulating) on competitive terms. There are therefore two phases in the consumer journey:
1. identifying the right retirement option, then
 2. choosing a provider for relevant products.

Choosing retirement options

- 1.8** Our existing rules² require firms to alert consumers to their full range of decumulation options as part of 'wake-up packs' and other communications with them. We expect firms to enable informed decision-making about the options that consumers have for accessing pension savings at their intended retirement date, and beyond.³
- 1.9** RIMS proposed redesigning and trialling the information that consumers receive from providers in the run up to their retirement to test the effect that small changes could have on consumer behaviour. The ongoing research on wake-up packs will indicate what information consumers use when deciding how to access their pension savings.
- 1.10** Consumers can also access Pension Wise, the independent guidance service established by the Government. This offers free guidance to help consumers select the most appropriate way to access their pension benefits. HM Treasury appointed four Designated Guidance Providers (DGPs) to deliver pensions guidance. The Pensions Advisory Service (TPAS) provides a telephone service, and the three Citizens Advice Bureaus of England and Wales, Scotland and Northern Ireland provide a face-to-face service.⁴ The FCA sets, maintains and monitors adherence to standards that DGPs must meet when providing guidance. In October, the Government announced that it will consult on creating a single body responsible for delivering debt advice, money and pensions guidance to the public.⁵

² See COBS 19.4 (open market options)

³ FCA, PS16/12, p.14.<https://www.fca.org.uk/publication/policy/ps16-12.pdf>

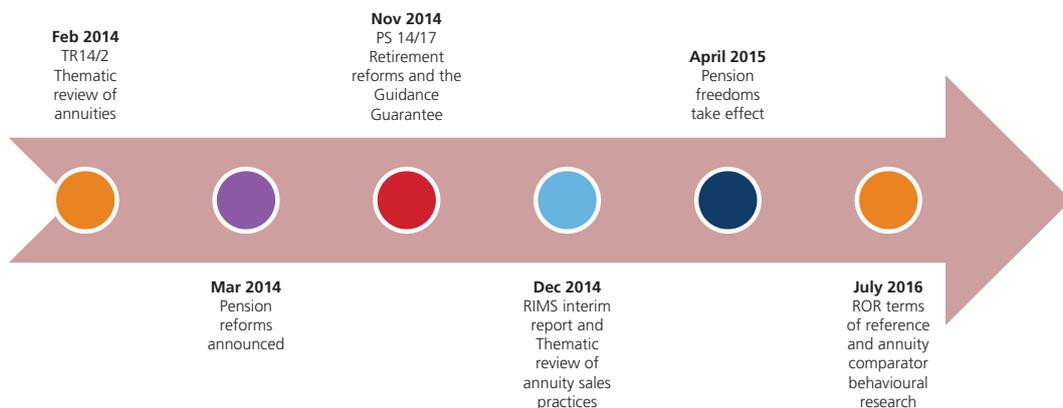
⁴ FCA, Standards for the provision of pensions guidance by designated guidance providers: cost benefit analysis, February 2015: <https://www.fca.org.uk/publication/thematic-reviews/standards-for-the-provision-of-pensions-guidance-cba.pdf>

⁵ <https://www.gov.uk/government/news/new-public-body-offering-debt-advice-money-and-pensions-guidance-to-be-set-up>

Comparing products from different providers (shopping around)

- 1.11** The second aim of our work on decumulation decisions is to encourage consumers to shop around.
- 1.12** Firms are required to promote shopping around. In PS16/2, we set out our expectation that firms should provide timely, relevant and adequate information to encourage consumers to explore the full range of options for accessing their pension savings, including on the open market.⁶
- 1.13** The Retirement Outcomes Review (ROR), our ongoing review of competition in the decumulation market, is also relevant. In part, the Review aims to understand whether consumers can easily compare products, shop around, switch providers where they are not receiving what they want, and make good, informed decisions. These questions are being examined with particular reference to products that involve investing a pension pot into a fund or funds, allowing the consumer to access these funds flexibly ('income drawdown').⁷ This CP similarly focuses on shopping around, but only for annuities. Information prompts in the annuity market were proposed by RIMS as a result of evidence assembled through our other reviews of the market. A timeline of relevant work is shown below.

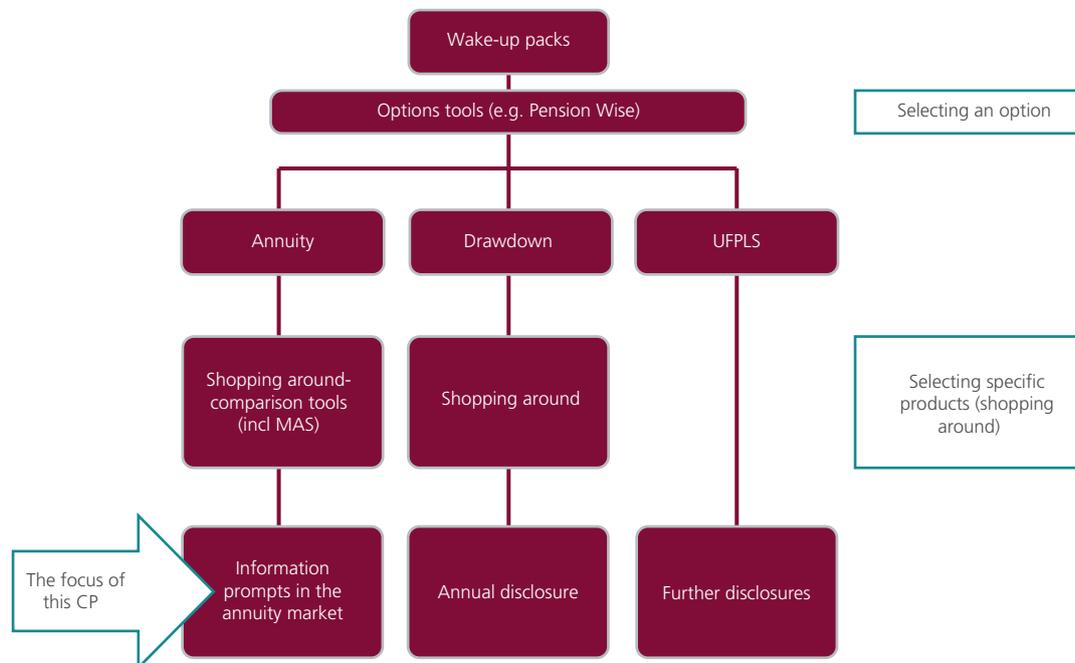
Figure 1 – Timeline of related work



- 1.14** As shown in Figure 1, we published the findings of our Thematic Review of Annuities (TR14/2) in February 2014. This informed our RIMS which recommended an annuity comparator to improve competition. The information prompt proposed in this CP is designed to help consumers select a provider providing the best value for the type of annuity they have chosen (shopping around). This decision is different from their prior choice of retirement option(s). Figure 2 illustrates how these two aims, informed selection of an option, and shopping around, interact:

⁶ FCA, PS16/12, p.14. <https://www.fca.org.uk/publication/policy/ps16-12.pdf>

⁷ FCA, MS16/1, p.16 <https://www.fca.org.uk/publication/market-studies/retirement%20outcomes%20review%20tor.pdf>

Figure 2 – The consumer journey at retirement

Summary of proposals

- 1.15** While the number of annuities purchased has fallen since April 2015, sales remain significant. Annuities have been sold at a rate of roughly 80,000 per year following April 2015. FCA data identified 23,385 sales in the quarter from July to September 2015.⁸ Our retirement income data indicated that 21,289 annuities were purchased from October to December 2015.⁹ Finally, our latest data suggest that 18,731 annuities were purchased in the quarter from January to March 2016.¹⁰
- 1.16** In line with our operational objective to promote effective competition in the interest of consumers, improving competition in the annuity market remains a priority. This CP seeks to do this by outlining proposals for an information prompt to help consumers understand the benefits of shopping around and, if appropriate, switching providers. We are consulting on:
- when the information prompt should be provided to consumers,
 - the scope of the information prompt,
 - the content of the information prompt, and when firms should implement the changes.
- 1.17** The proposed content of the information prompt reflects findings from our behavioural research, which compared different ways to implement this measure. It found that a personalised annual version produced the largest increase in shopping around. When shown the annual increase in

⁸ FCA, Retirement Income Market Data, July-September 2015, p.7, <https://www.fca.org.uk/publication/data/retirement-income-market-data-july-september-2015.pdf>

⁹ FCA, Data Bulletin, <https://www.fca.org.uk/publication/data/data%20bulletin%20suppl%20apr%202016.pdf>

¹⁰ FCA, Data Bulletin, <https://www.fca.org.uk/publication/data/data-bulletin-issue-7.pdf>

income that they could gain from purchasing on the open market, 40% of participants went on to compare products from different providers.¹¹

1.18 We therefore propose requiring firms to include certain information (in a prescribed format) when they communicate an annuity quotation to a consumer as part of pre-sale disclosure. This should show the difference between the provider's own quote, and the highest guaranteed quote available to the consumer on the open market (determined using comparison tools that include every provider on the market).¹² This should be set in the context of other important information:

- the net annuity purchase amount (the pension fund that will be used to purchase the proposed annuity) used to purchase the proposed annuity,
- whether the annuity is single life or joint life,
- whether payment is in advance or in arrears of the start date,
- whether the rate of income paid by the annuity is guaranteed for any period,
- whether the annuity income paid will increase in line with inflation or some other specified rate,
- the provider's own quote, and
- how to shop around (the phone number and URL for the Money Advice Service).

Commencement of our proposals

1.19 Depending on the outcome of this consultation, we intend that the proposed rules discussed in this paper will apply to firms from 1 September 2017. Also subject to the outcome of consultation, we plan to issue a Policy Statement (PS) in Spring 2017.

Equality and diversity considerations

1.20 Under the Equality Act 2010, we are required to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions.

1.21 We have assessed relevant equality and diversity impacts, and consider that the proposed information prompt will:

- promote shopping around across a variety of different demographics, including those with a greater incidence of protected characteristics, and
- produce greater potential benefits for consumers with two particular protected characteristics – disability and age.

¹¹ This was relative to a baseline of 13% shopping around in the control group.

¹² This figure should be expressed as the difference in annual income, in pounds and pence.

- 1.22** Annuities are more likely to be purchased by older people. This means that the information prompt is more likely to benefit people with this protected characteristic. Additionally, some consumers who could buy an enhanced annuity (which pays higher levels of income because of lifestyle or medical factors) qualify because of a disability. Our Thematic Review (TR14/2) found that enhanced annuitants potentially stand to gain more from shopping around (8.3%) than other consumers (6.7%).¹³ While the market has changed considerably since that analysis, we have not seen any evidence to suggest that this differential effect no longer applies. People with disabilities are therefore likely to benefit proportionally more as a result of this measure than other consumers.
- 1.23** We welcome comments from any interested parties on the equality and diversity impact of our proposals.

Next steps

- 1.24** **What do you need to do next?** This consultation will run for three months. We want to know what you think about the proposals in this CP. Please respond to our questions by 24 February 2017. You can find a consolidated list of questions in Annex 1.
- 1.25** **What will we do?** We will consider your feedback and publish our rules in a PS to confirm the outcome of this consultation.

¹³ FCA, TR14/2: <https://www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-02>

2. Background and context

- 2.1** The rule changes proposed in this CP build on our policy, supervisory and competition work. This chapter provides more information about this activity.

Thematic Review of Annuities, TR14/2

- 2.2** In 2014, we published a thematic review of annuity sales¹⁴ which:
- assessed whether and by how much consumers would be better off by buying an annuity on the open market rather than from their existing pension provider,
 - considered the drivers of provider behaviour, including assessing, at a high level, the profitability expected from their annuity business, and
 - reviewed existing research, through a commissioned report, about consumer behaviour and engagement. This aimed to inform our understanding of how engagement affects shopping around and the choice of annuity.

Enhanced annuities

- 2.3** The Review estimated that 80% of consumers who purchase an annuity from their existing provider could get a better deal on the open market. Barriers to shopping around therefore materially affect consumer outcomes. This finding was supported by our Occasional Paper no.5 *The value for money of annuities and other retirement income strategies in the UK*.¹⁵ In this context, our thematic work found particular detriment within one group. Consumers who qualify for an enhanced annuity on the open market but instead purchase a standard annuity from their existing provider receive significantly lower retirement income as a result. The information prompt described in this CP is not intended to solve this problem.¹⁶ Instead, we have begun other work to encourage annuitants to select an appropriate type of annuity. For instance, we are currently conducting behavioural testing of changes to wake-up packs; the communications that firms send consumers shortly before their intended retirement date. One aim of this research is to identify whether changes will help consumers who wish to purchase a guaranteed income to select a type of product that best meets their needs.

¹⁴ FCA, TR14/2: <https://www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-02>

¹⁵ This concluded that, on average between January 2006 and June 2014, a 65 year-old annuitant with a £50,000 pension pot could expect to receive back 94% of the premium paid when purchasing an annuity on the open market. It also found that the average money's worth of annuities in the open market is higher than the money's worth of the annuities available to internal consumers, especially for annuitants with larger pots. FCA, Occasional Paper No.5: *The value for money of annuities and other retirement strategies in the UK*, <http://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-5>

¹⁶ Its principal aim is not to help consumers who are eligible for an enhanced annuity to select one rather than purchasing a standard annuity. Instead, the information compares 'like with like'. This means that it shows the gain that a consumer could realise from purchasing the same type of annuity that they have already selected on the open market.

Shopping around and disclosure

- 2.4** Finally the Review found that there are significant barriers for consumers shopping around in this market, and that the traditional method of disclosure, which focuses on reminding a consumer that they have the right to shop around, may not be enough to change their behaviour. Findings from TR14/2 suggested that further investigation was required into how competition operates in the market, which led to the publication of the Retirement Income Market Study (RIMS).

Retirement Income Market Study (RIMS)

- 2.5** In March 2015 we published the findings of RIMS and proposed remedies.¹⁷ This set out conclusions on the effectiveness of competition in the retirement income market, and remedies to enhance competition, including:

- Requiring firms to provide an annuity quotation comparison so that, once a consumer has decided to buy an annuity, they can easily identify if they could be getting a better deal by shopping around. This is the focus of this CP.
- Redesigning the information that consumers receive from their providers in the run up to retirement, including wake-up packs, and testing small modifications to determine the effect they could have on consumer behaviour. This work is currently underway, and will inform our policy agenda in the coming months.
- Creating a pensions dashboard to allow consumers to see all their pension pots in one place. In the 2016 Budget, the Chancellor announced that government will ensure the industry designs, launches and funds a pensions dashboard allowing individuals to view all their retirement savings in one place by 2019.
- Monitoring by the FCA to track market developments and consumer behaviour and outcomes, as well as the take up by consumers of the Pension Wise service.¹⁸ Since the introduction of pension freedoms we have collected retirement income data from providers on an ad hoc basis.¹⁹ Building on this experience, we are also consulting on two new regulatory returns to collect retirement income data from providers of retirement income products on an ongoing basis.

Consumer research looking at whether prompts raise shopping around in the annuity market

- 2.6** We commissioned behavioural consumer research to test how information prompts could work in practice, and published this research in July 2016.²⁰ Results from this work were used throughout the development of these proposals, and the research is referenced throughout this CP.

¹⁷ FCA, MS14/3.3: <https://www.fca.org.uk/your-fca/documents/market-studies/ms14-03-3>

¹⁸ In addition, RIMS recommended that firms and Pension Wise should consider the role of framing effects. RIMS said that “we want to see firms framing options to consumers in a way that helps consumers make good decisions, rather than to drive sales of higher margin products”. FCA, MS14/03, p.8.

¹⁹ FCA, Data Bulletin, <https://www.fca.org.uk/publication/data/data-bulletin-issue-7.pdf>

²⁰ Oxaera for FCA, “Increasing consumer engagement in the annuities market: can prompts raise shopping around?” <https://www.fca.org.uk/your-fca/documents/research/increasing-consumer-engagement-in-the-annuities-market>

- 2.7** Two conclusions from the research are particularly relevant to this consultation. First, the research suggested that an information prompt comparing available quotes should significantly increase shopping around. This conclusion was robust across different (including different socio-economic) groups, which suggests that there are good reasons to implement this remedy.
- 2.8** Secondly, the research suggested that a specific form of information prompt was most effective. The largest increase in shopping around occurred when consumers were shown a personalised communication that showed the amount (as annual income) that they could gain from shopping around and switching. This CP therefore proposes new rules to implement this personalised information prompt. A short summary of the different measures tested in our behavioural research is provided below.

Box 1 – Behavioural research on the content of proposed information prompts

In July we published behavioural research on information prompts in the annuity market by Oxera and the Centre for Experimental Social Sciences (CESS) at Nuffield College, Oxford. That work compared six different versions of the comparator by following the behaviour of 1,996 participants:

“Personalised annual comparison”

The experiment suggested that a “personalised annual” version produced the largest increase in shopping around. This displays the gain (annual increase in income) that the consumer could realise from shopping around and switching. The “personalised annual” comparator illustrates the benefits of open market purchase using a single simple figure, rather than a series of different numbers.

“Personalised annual comparison with lifetime gains”

In this group, participants received the personalised annual comparison of quotes, but some additional information was added to this. That additional content provided an estimate of the gains foregone over a typical person’s lifetime. For example, if the annual gains from shopping around were £46, an additional sentence would say “That’s equivalent to losing out on £1,095 over the lifetime of a typical person”.

“Non-personalised quote comparison”

Another group was shown a non-personalised comparison which showed an estimate of how much the consumer would miss out on gains if they did not shop around. That estimate was not personalised to individual circumstances. Consequently, the communication emphasised that this figure was based on an estimate, and that the individual could receive more or less.

“Non-personalised quote comparison with lifetime gains”

Participants in this group were offered the same information as the “non-personalised annual comparison” but a line was added to estimate gains foregone over a typical lifetime. For example, if the foregone annual gains were around £50, an additional sentence would explain: “That’s equivalent to losing out on around £1,000 over the lifetime of a typical person.”

“Call to action”

One group was presented with a “call to action”. This highlighted an estimate from TR14/2: “80% of people who fail to switch from their pension provider lose out by doing so”.

Control group

Members of a control group received standard materials based on communications currently sent to consumers. This provided a baseline against which we could compare different versions of the comparator.

Retirement Outcomes Review (ROR)

2.9 The work summarised above has been important in developing the proposals set out in this CP. We are also currently analysing how competition is working in the retirement market following the introduction of the Government’s reforms in April 2015. In July 2016, we published Terms of Reference for the ROR. In light of pension freedoms, market developments, and the Financial Advice Market Review (FAMR), ROR focuses on:

- ***Shopping around and switching.*** We want to understand to what extent consumers can compare the larger range of options and specific products now available to them. We want to understand whether they can compare products, shop around, switch providers where they are not receiving what they want and make good, informed, decisions.
- ***Non-advised consumer journeys.*** Consumers can now access complex products without advice. We want to understand whether non-advised consumer journeys have become more complex and numerous. We will explore whether there is complexity that causes consumers not to engage, or leads them to being drawn towards certain products, choices and decisions.
- ***Business models and barriers to entry.*** As firms adapt to the changes we are seeing in this market, we want to explore what business models and products are emerging and what risks they might pose to competition in this market. For example, how might firms’ business models impact on consumer engagement and switching, and are there barriers to entry for challenger firms?
- ***Impact of regulation on retirement outcomes.*** ROR will consider whether there are examples of FCA regulation that inadvertently contribute to barriers to entry or prevent useful product innovation by firms.

3. Proposals

- 3.1** This chapter outlines proposed changes to our rules to implement an information prompt in the annuity market. Four aspects relating to the information prompt are described:
- its content
 - its scope
 - when the information prompt must be provided, and
 - the date by which firm must implement the proposal.

Content

- 3.2** Our rules already set out the information that firms should provide to consumers for a potential annuity sale. These are summarised in Box 2.

Box 2- Current requirements for annuity sale disclosure

At present our rules in COBS 13 (preparing product information) and COBS 14 (providing products information) require firms to prepare and/or provide a generic Key Features Document (KFD) and a personalised Key Features Illustration (KFI) to consumers before the purchase of an investment product, including a 'pension annuity'. The Key Features Document explains a product's general features and aims. The requirement to produce a Key Features Illustration for an annuity is met through a statement of income payable to the annuitant.

Our rules currently require firms to disclose the level of income available to a potential annuitant and the terms on which that income is payable. Firms are also required, under COBS 19.4, to encourage their consumers to shop around for an annuity. At present there is, however, no requirement to communicate how much the consumer could gain from shopping around and switching.

- 3.3** We propose to build on the existing requirements in our rules so that firms must disclose not just the level of income that they are prepared to pay the consumer on purchasing an annuity, but also how much more could be available to them from other providers. Where the quote provided is already the best available, firms should include a statement to that effect.
- 3.4** We propose to insert a new section in COBS 19 to house the rules that will require firms to provide the information prompt. We propose to do this instead of trying to weave in the

proposed changes across both COBS 13 and COBS 14. Recognising that there may be some overlap between the existing rules in COBS 13 and COBS 14 and the new requirement to provide an information prompt we propose to extend an exemption from the need to comply with particular requirements in COBS 13 and COBS 14 where firms have complied with the new requirements we propose in the new section in COBS 19.

- 3.5 Our behavioural research, summarised in Chapter 2, concluded that a personalised annual form of the information prompt provoked the largest and most persistent increase in shopping around. Figure 3, below, shows how the personalised annual information prompt was presented to participants during the research. The comparison presented was done on a like-for-like basis: the consumer was shown the additional income they could receive from purchasing the same type of annuity from a different provider.

Figure 3 – Personalised annual quote comparison

Your pension provider

[See instructions](#)

Your pension provider

Annuity features

Pension pot £24,597	Single annuity
Paid quarterly	5 years guarantee period
Paid in advance	Increase by inflation

These cannot be changed

Our quote for this product
 The annuity product offered by us would provide you with an annual income of:

£1,379

Can you get a better income from your annuity?

Based on your key information, there are quotes available from other providers offering higher rates. If you select our product you would be losing out on **£46** a year.



	£1,425
	£1,379

Purchase our product

We are required by the Financial Conduct Authority to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please [click here](#) and you will be taken to a secure comparison site. Other providers will not know all necessary information about you or your circumstances. In order to shop around, you will need to provide **personal information**, including that relating to your health and lifestyle.

3.6 We propose to require firms to deliver the information prompt in this personalised annual form. The proposed change to our rules therefore requires firms to include the following content, in a format prescribed by our rules:

- the net annuity purchase amount (the pension fund that will be used to purchase the proposed annuity) used to purchase the proposed annuity,
- whether the annuity is single life or joint life,
- whether payment is in advance or in arrears of the start date,
- whether the rate of income paid by the annuity is guaranteed for any period,
- whether the annuity income paid will increase in line with inflation or some other specified rate,
- the provider's own quote, and
- how to shop around (the phone number and URL for the Money Advice Service).

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

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

3.7 Our behavioural testing confirmed that the simplicity of the figure presented is important to the effectiveness of the remedy. To produce this simple figure, firms will need to compare their own quote with those available from other providers, using the same underwriting information. They should then communicate the difference between their quote and the highest available from other providers. This will ensure that the figure presented to the consumer compares like with like.

Guaranteed and indicative quotes

3.8 Consumers can receive two different types of quotes before purchasing an annuity: indicative or guaranteed quotes. Indicative quotes are based on age, and answers to just a few general questions on health. Providing an indicative quote does not commit a firm to provide that level of income. Instead, the consumer who wishes to proceed is then asked to provide further personal information to arrive at a guaranteed price. This may be higher or lower than the indicative quote, following underwriting. When this is provided, the firm would then confirm an exact level of income payable before the consumer decides whether to purchase that annuity.

3.9 We propose to require the information prompt to be produced on the basis of only guaranteed quotes for two reasons:

- First, information prompts based on indicative quotes would be less likely to promote shopping around. Comparing an internal quote²¹ with indicative quotes from the open market would give consumers some idea of the gains they could make. However, it would also require them to input far more information to discover the exact quotes available to them. Consumers could therefore find that the quotes available to them are lower than

²¹ I.e. a quote from the same provider used for pension accumulation services. See FCA, OP5, p.7. <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-5.pdf>

those used to produce the original information prompt, and stop shopping around. Our behavioural research suggested that significant numbers of consumers may stop shopping around when asked to input further information in this way.²² Additionally, this would make the comparative figure presented to the consumer less certain and reliable.

- Secondly, the information prompt could be adversely influenced by the actions of some firms if it used indicative rather than guaranteed quotes. For example, it could be possible for a firm to attract business by providing high quotes on the open market, only to reduce them substantially once consumers answered additional questions, for reasons other than the factors reflected by additional underwriting. Consumers who have selected a high indicative quote might be reluctant to shop around again which would undermine the credibility of the information prompt. This business strategy would therefore exploit consumer inertia by attracting business with high indicative quotes that are never realised.

Scope

- 3.10** We propose that the prompt should apply to all annuity sales, including internal, open market, and panel sales²³ and have proposed to update our glossary definition of a pension annuity to reflect this. In reaching this conclusion, we considered both the need to promote competition in the interests of consumers (the policy intention of this change) and the cost to firms of doing so.
- 3.11** Consumers looking to purchase an annuity from their existing pension provider may benefit most from the information prompt. However we think that open market quotes should also be included within the scope of this measure.
- 3.12** During the consultation phase of RIMS many stakeholders suggested that this remedy should be based on quotes from a full range of providers. One reason for this was that 'open market' comparisons based on limited panels can understate the gains of shopping around. For instance, the best rate available through a panel may be significantly below the highest rates available elsewhere. For the same reason, we consider the proposed information prompt is needed for panel sales, since some of these do not reflect the full range of quotes available elsewhere.

Additional warnings

Pension Commencement Lump Sum (PCLS)

- 3.13** We expect that the proposed comparison will be appropriate for the majority of consumers. For some however, a simple comparison of levels of income available from different products may have unintended consequences. Certain consumers are entitled to a Pension Commencement Lump Sum (PCLS) that is higher than the current level of 25% of fund value. This means that, for this group, transferring to another pension scheme to purchase an annuity could have the unintended consequence of reducing the proportion of their fund they may withdraw without needing to pay income tax.²⁴ We expect firms to warn consumers who are entitled to a PCLS above the standard 25% of this potential loss if they switch provider. This warning should be

²² Oxera for FCA, "Increasing consumer engagement in the annuities market: can prompts raise shopping around?" <https://www.fca.org.uk/your-fca/documents/research/increasing-consumer-engagement-in-the-annuities-market>

²³ A panel may be used by an intermediary, whereby the intermediary has more than one annuity provider available to it on a list (or panel). The intermediary will place business with the firms on this list.

²⁴ In some cases, consumers may be able to both switch provider and benefit from a higher level of PCLS by taking this lump sum before they switch provider.

a prominent feature of the product disclosure sent to consumers before purchase, and should appear in addition to the information outlined above.

Guaranteed Annuity Rate (GARs)

- 3.14** A Guaranteed Annuity Rate (GAR) is an arrangement in a pension scheme to provide benefits where, in defined circumstances and irrespective of the prevailing market rate for annuities when those benefits come into payment, a member is entitled to an annuity at a minimum specified rate.²⁵
- 3.15** GARs are an important consideration in retirement decisions. Savers who are entitled to a GAR will lose entitlement to this rate if they choose to purchase an annuity from another provider. Two types of consumer are relevant here: those who are already entitled to exercise a GAR with their current provider, and those who will be entitled to do so at a future date.
- 3.16** Where a consumer is already entitled to a GAR with their current provider, we propose that these consumers should also receive the proposed information prompt. Firms should compare the rate available to the consumer making use of the GAR with the highest quote available on the open market. In many cases, this will conclude that the consumer would receive a lower level of retirement income from shopping around and switching. For these consumers, the information prompt should help consumers make an informed decision about their GAR.
- 3.17** In other cases, a consumer may be considering purchasing an annuity now, although they will be entitled to exercise a GAR at a future date. We propose that firms will be required to provide these consumers with a clear, prominent warning as part of the information prompt. This should clearly show the level of income they will be entitled to from their existing provider (using a GAR) and when this will be available.

Q3: Do you agree with our approach to dealing with special cases (enhanced PCLS entitlement and consumers who are entitled to a GAR or will be able to access a GAR in future)? Are there any additional categories of consumer who should also be warned when they see this comparison of annuity quotes?

Levels of underwriting

- 3.18** We propose that when producing the information prompt, a firm should use the same underwriting information to produce the comparison of quotes that they have used to produce their own quote. This will ensure that the comparison is done on a like-for-like basis. We expect that firms will retrieve quotes from the open market using software systems and databases that are already used in the market. We consider that this will ensure that implementation of the information prompts does not create unnecessary additional costs for firms.
- 3.19** In contrast, alternative approaches may create prohibitive costs for firms. For example, providers could produce information prompts on the basis of underwriting information used by other firms, even if they do not use that information in their own underwriting. This would also complicate the consumer journey, and cause firms significant additional costs. We therefore propose that firms should produce the information prompt on the basis of a comparison of quotes available, using the same underwriting information used to produce their own quote. We consider that this strikes an appropriate balance between ensuring that the information prompt achieves its policy intention, and enabling firms to implement prompts in a cost-effective manner.

²⁵ Or benefits equivalent to that annuity at that minimum specified rate.

3.20 We have also considered the potential unintended consequences of this measure. There is a risk that comparisons on the basis of existing underwriting information could lead firms to reduce the level of underwriting they provide to their consumers. Such an approach would reduce the differential between internal and open market quotes.²⁶ We will monitor firms' conduct closely to ensure that the delivery of information prompts is not adversely affected in this way. Where a firm intentionally reduces the level of underwriting provided to consumers for the purpose of deterring a customer from shopping around, we do not consider this would be in the client's best interest.

3.21 In some cases, the information prompt may understate the gains of switching, because it uses a like-for-like comparison. For example:

- **Firm A** is a consumer's current provider. Its quote is based on answers to **five questions** about the consumer's circumstances.
- **Firm B** is an open market provider. It underwrites its quotes in more detail. B's quotes are based on responses to **seven questions**.

3.22 In this case, Firm A would be required to provide the consumer with an information prompt that shows the gains available from switching, comparing quotes available on the basis of answers to the same **five underwriting questions** it uses. We recognise that the information prompt will not reflect the quote from Firm B, which may offer more attractive income for the consumer. We consider, however, that the proposed approach of using like-for-like comparisons strikes an appropriate balance between reducing implementation costs for firms and helping consumers to realise the benefits of increased competition.

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?

Timing

3.23 The timing of the proposed information prompt is important, as well as its content. Every sale must feature a pre-sale disclosure, irrespective of the nature of the preceding consumer journey. We therefore consider that the proposed information prompt should form part of the pre-sale disclosure for annuity sales. This will ensure that every consumer who goes on to receive a guaranteed quote and potentially purchase an annuity is presented with the information prompt. This is consistent with RIMS. There are a number of benefits to this approach:

- Consumers now have many decumulation options available to them from age 55, and the process they go through to make these decisions can be complex. It is important that they consider which option is right for them before shopping around for specific products or options.
- The information prompt could be more difficult for firms to implement at an earlier stage because they may not have collected underwriting information at that stage.

²⁶ For example by excluding quotes that pay the highest income on the basis of more detailed underwriting than the other firm in question.

- The information prompt will be complemented by other work to improve the earlier stages of consumer journeys. This includes the role of Pension Wise and our ongoing behavioural testing of wake-up packs (summarised in Section 2).

Q5: Do you agree that the information prompt should be provided before a consumer makes a decision to proceed to purchase an annuity?

Additional delivery of information prompts

3.24 Firms may convey a guaranteed quote to consumers in a non-written medium before reiterating it in writing through pre-sale disclosure. We propose that non-written communications should include information prompts in the same way as subsequent written disclosures. For example, where a consumer is told the level of income available to them during a phone call, they must be told, in pounds and pence, the difference between the provider's own quote, and the highest guaranteed quote available to the consumer on the open market (determined using comparison tools that include every provider on the market). This information should be given appropriate weight and delivered as an integral part of the conversation. Like subsequent written disclosure, this prompt must be placed in the context of:

- the net annuity purchase amount (the pension fund that will be used to purchase the proposed annuity) used to purchase the proposed annuity,
- whether the annuity is single life or joint life,
- whether payment is in advance or in arrears of the start date,
- whether the rate of income paid by the annuity is guaranteed for any period,
- whether the annuity income paid will increase in line with inflation or some other specified rate,
- the provider's own quote, and
- how to shop around (the phone number and URL for the Money Advice Service).

Q6: Do you agree that this requirement should apply in the same way to non-written and online communications?

Implementation

3.25 Subject to the outcome of this consultation, we intend to publish a PS in spring 2017. We propose that the requirement to deliver the information prompt should apply to firms from 1 September 2017. This should allow sufficient time for firms to make the necessary changes to their systems and processes.

Q7: Do you have any comments about our proposed implementation date of 1 September 2017?

Annex 1

List of questions

- Q1:** Do you agree with our proposal to require firms to disclose this content?
- Q2:** Do you agree with our proposal to require firms to use a prescribed format?
- Q3:** Do you agree with our approach to dealing with special cases (enhanced PCLS entitlement and consumers who are entitled to a GAR or will be able to access a GAR in future)? Are there any additional categories of consumer who should also be warned when they see this comparison of annuity quotes?
- 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?
- Q5:** Do you agree that the information prompt should be provided before a consumer makes a decision to proceed to purchase an annuity?
- Q6:** Do you agree that this requirement should apply in the same way to non-written and online communications?
- Q7:** Do you have any comments about our proposed implementation date of 1 September 2017?
- Q8:** Do you have any comments on our Cost Benefit Analysis?

Annex 2

Cost benefit analysis

Introduction

1. Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) of proposed rules. It also requires us to include estimates of those costs and benefits, unless these cannot reasonably be estimated or it is not reasonably practicable to produce an estimate (FSMA s.138I(8)(a)&(b)). If we consider that, in making the appropriate comparison, there will be no increase in costs, or there will be an increase in costs but that increase will be of minimal significance, we do not need to carry out a cost benefit analysis under FSMA 138L(3).

Rationale for intervention

2. The Retirement Income Market Study (MS14/3.3) found that consumers' tendency to buy an annuity from their existing provider weakens competitive pressure in the market. It concluded that this causes some pension providers to offer less competitive annuity rates, and makes it difficult for challenger firms to attract a critical mass of consumers. The Market Study proposed a number of remedies to address this issue by facilitating consumer choice to improve competition.
3. The first of these was an "annuity comparator" which requires firms to provide an information prompt to consumers who have decided to buy an annuity. The purpose of doing so is to ensure that consumers can easily identify if they could get a better deal by shopping around and switching provider. To implement this remedy, we propose to amend our rules to require firms to include an annuity comparison when an annuity quote is provided to a consumer. This should create benefits for consumers who switch and receive a higher level of retirement income as a result. Depending on the actual level of switching, some providers may revise upwards their offers. This would result in spreading benefits, even to consumers who do not engage in shopping around and switching. It should also make it easier for challenger firms to attract the number of clients they need to successfully enter the market.

Baseline for analysis

4. The relevant baseline against which we measure the additional impacts of this policy is the current level of shopping around and switching, and the costs currently incurred by firms to meet existing disclosure requirements for the sale of annuities. Firms are already required to provide consumers with information under, for example, COBS 13 (preparing product information) and COBS 14 (providing product information). Essentially, firms must prepare and/or provide a generic Key Features Document (KFD) and a personalised Key Features Illustration (KFI) to consumers before purchase. The generic KFD will be unaffected by our proposal. The

costs incurred by firms as a result of our proposals therefore relate only to provision of a personalised annuity statement. Our proposed rules will allow a firm that complies with our new rules relating to the information prompt to not also have to comply with the existing rule that requires a KFI to be produced and provided to consumers.

Costs

Scope of cost impact

5. The change will affect all firms that sell annuities to consumers. Existing providers include 14 firms that conduct “internal” sales to existing consumers, and an additional three firms that sell exclusively on the open market.

Up-front costs

6. We anticipate two categories of up-front costs: systems changes to allow retrieval of personalised quotes, and updates to existing disclosure materials.

Retrieving personalised quotes from the open market

7. Conversations with pension providers suggest that firms will incur up-front of up to approximately £200k per firm on average to amend systems to retrieve personalised quotes from the open market.²⁷ Some firms may experience costs far below this figure because they already have systems in place to retrieve quotes. For example, one firm told us that it already retrieves quotes in this way to provide an annuity panel. This system would require only minor changes. In contrast, firms that offer no such panel may incur higher costs. Up-front costs for retrieving personalised quotes from the open market may therefore be estimated at a maximum of around £3.4m across the whole industry.
8. Another source is available for estimates of costs for retrieving quotes from the open market. A similar proposal was made for the secondary annuity market proposed by government.²⁸ Like the information prompts proposed in this CP, this requirement would be met by firms by using commercially available quote comparison software. We estimated the up-front delivery costs for this requirement at £21k per firm, based on an IT project lasting 60 days at a cost of £350 per day. Assuming every firm in the primary market is “large”, these assumptions suggest that equivalent costs for the industry could be around £357k up-front.
9. We estimate that the up-front cost of changing systems to facilitate retrieval of quotes from the open market will fall at the midpoint between these two figures (£357k-£3.4m) at £1.88m.

Updating systems to deliver amended product disclosures

10. Figures in our 2006 Compliance Cost Survey suggested that changing systems to deliver KFI disclosures in a different format would cost medium-sized providers £295k per firm.²⁹ We consider that costs for updating systems to deliver disclosures that include information prompts in the annuity market would be of a similar level. Updating this 2006 figure for the CPI level of inflation,³⁰ this is equivalent to £397k per firm, or £6.74m for the industry.

²⁷ This version of the prompt will require firms to compare the quote they have provided to their consumer with those available to them personally on the open market. To do this, they will need to access open market information using a database system. The costs of accessing systems like these are minimal (under £30 per month per firm).

²⁸ FCA, CP16/12, <https://www.fca.org.uk/publication/consultation/cp16-12.pdf> P.54. This proposal also required delivery of an information prompt that would be delivered in the same way.

²⁹ FSA, Compliance costs of proposed changes to the investment product disclosure regime, 2006, P.17. http://www.fsa.gov.uk/pubs/consumer-research/compliance_costs.pdf

³⁰ The average annual figure was 2.51% between 2006 and 2016: ONS, CPI: Consumer Prices Index (% change), <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7>

Ongoing costs***Subscription to quote comparison software***

11. Although we will not mandate this, we expect that most firms will choose to use third party software to meet this requirement. Once firms have processed the system changes to retrieve quotes from the open market, they will then need to pay any relevant subscription fees for this software. Conversations with industry experts suggest that these ongoing charges will amount to around £21k per firm per year, or £306k per year for the whole industry.³¹

Additional customer contact

12. There will be one additional source of on-going costs: additional customer contact generated by information prompts. We propose to require firms to communicate the specified information prompt by phone when they intend to subsequently confirm that information in a written, durable format to satisfy existing disclosure requirements.
13. To acknowledge this, we assume that one in twenty of annuitants in the market phones their current provider for more information, having seen the information prompt. Given sales of around 80,000 per year, this is equivalent to around 4,000 extra consumer calls per year, across the industry. Assuming a call centre labour cost of £20 per hour. (including relevant resources), and each call lasts an average of an additional 10 minutes, this will therefore create on-going costs of around $10/60 \times 20 \times 4,000 = £13.33k$ per year.
14. In addition, firms also need to deliver information prompts in other formats where quotes are communicated in this way. For example, firms may convey a quote with consumers in a non-written medium before this is then reiterated in writing through pre-sale disclosure. We propose that these non-written communications should include information prompts in the same way that subsequent written disclosures do. For example, where consumers are told the level of income available to them during a phone call, the consumer should be told, in pounds and pence, the difference between the provider's own quote, and the highest guaranteed quote available to the consumer on the open market (determined using comparison tables that include every provider on the market). Based on conversations with industry experts, we have assumed that:
- half of annuitants each year receive the proposed information by phone,
 - additional call time is 5 minutes for each, in addition to existing customer phone calls,
 - the cost of call centre labour is £20 per hour, including relevant resources.
15. These assumptions suggest that, with assumed on-going sales of 80,000 per year, around 40,000 people will receive the information prompt by phone. Each will cause an additional cost to firms of £1.66. On-going costs from the delivery of information prompts by phone can therefore be assumed to be around $5/60 \times 20 \times 40,000 = £66.66k$ per year. Combined costs for these additional calls can therefore be estimated at around £80k per year.
16. The costs discussed above are summarised in Table 1:

³¹ Up-front: £21,000 X 17 = £357,000; on-going: (£18,000 X 17) = £306,000 per annum.

Table 1- Cost estimates

	Up-front	Ongoing
Retrieving quotes from the open market	£1.88m	–
Updating existing product disclosures	£6.74m	–
Subscription to quote comparison software	–	£306k p.a.
Additional customer contact: follow up calls from customers	–	£80k p.a.
Additional customer contact: longer calls to present the information prompt	–	£13k p.a.

Benefits

17. The principal benefit to consumers of this policy is expected to take the form of better offers from providers, and eventually higher annuity payments than in absence of the proposed intervention. This impact can be described in terms of transfers from firms to consumers.³²
18. In our consumer research, the information prompt increased switching by 18 percentage points from 7% to 25%. It also increased shopping around from 13% to 40%. Table 2 shows the potential benefits to consumers of a five percentage point increase in switching in its first ten years³³. This shows that a five percentage point increase in switching would create £46.9m of cumulative benefits to consumers within its first ten years, through direct transfers from firms by way of increased annuity payments. This is a conservative assumption, given that the prompt increased switching by 18 percentage points in our testing:

Table 2: Potential additional benefits of a personalised comparator (five pp additional switching)

Year	0	1	2	3	4	5	6	7	8	9
<i>Benefits realised in year</i>	£0.85m	£1.7m	£2.6m	£3.4m	£4.3m	£5.1m	£6m	£6.9m	£7.7m	£8.5m
<i>Cumulative benefits to year</i>	£0.85m	£2.6m	£5.1m	£8.5m	£12.8m	£17.9m	£23.9m	£30.7m	£38.3m	£46.9m
<i>Discounted benefits realised in year</i>	£0.85m	£1.6m	£2.4m	£3.1m	£3.7m	£4.3m	£4.9m	£5.4m	£5.8m	£6.3m
<i>Cumulative discounted benefits to year</i>	£0.85m	£2.5m	£4.9m	£8m	£11.7m	£16m	£20.8m	£26.2m	£32m	£38.3m

32 The potential estimated aggregate benefits calculated in the TR14/2 were based on a total number of 330,000 annuitants during 2012. Reducing this figure to reflect current sales figures would produce an aggregate annual benefit of around £2.6m (down from the £11m estimated in TR14/2). Clearly, the other factors mentioned above will reduce this number further. It is difficult to quantify the degree to which they will do so with any precision. Taking account of these factors, we estimate that the benefit to consumers of the increased shopping around created by this policy change will be of the order of £1m-2.6m per year. For simplicity, assume consumers purchase an annuity at age 65. At that age, the ONS calculates an average life expectancy of 18.4 years for men, and 20.9 years for women: an average of 20, to the nearest whole number.

33 The assumed discount rate is 3.5%, which HM Treasury recommended as an effective "social rate of time preference" for assessing government policy and regulation. See p.26 in [HM Treasury, The Green Book: Appraisal and Evaluation in Central Government, 2003](#).

19. As is usually the case when competition improves, there are also potential efficiency gains on top of these transfers. This means that a higher number of mutually beneficial transactions may take place as a result. Increased shopping around and switching by consumers increases the commercial incentives that firms have to create innovative products that meet consumers' needs. These may meet demand at lower cost than current products. Similarly, increased shopping around also increases firms' incentives to streamline their business models. This may reduce the cost at which innovative products may be delivered to the consumer. Furthermore, better offers may curb a downwards trend in the purchase of annuities and promote provision of longevity insurance at a level that meets consumers' needs and preferences.
20. The policy change should create these benefits in four ways:
- individual consumers who switch provider to receive a better vesting rate will benefit from an increased level of income throughout their retirement,
 - individual consumers who do not switch should nonetheless benefit from more competitive vesting rates. The Retirement Income Market Study suggested that low rates of shopping around and switching cause these consumers to receive a lower rate than they otherwise would do,
 - increased potential volumes on the open market making it easier for challenger firms to attract a critical mass of business, causing increased competition over the long-term,
 - higher volume and value of transactions in comparison with the counterfactual scenario in the absence of the intervention.

Q8: Do you have any comments on our Cost Benefit Analysis?

Annex 3

Compatibility statement

1. We are required under section 138I(2)(d) of the Financial Services and Markets Act (FSMA) to explain why we believe our proposed rules are compatible with our strategic objective, advance one or more of our operational objectives, and have regard to the regulatory principles in section 3B of FSMA. We are also required by section 138K(2) of FSMA to state whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons. This Annex explains our reasons for concluding that our proposals relating to the Handbook rules in the consultation are compatible with these requirements under FSMA.
2. **The need to use our resources in the most efficient and economical way:** We have had regard to this principle and do not believe that our proposals will have a significant impact on our resources or the way in which we use them. We will monitor firms' implementation of these changes using existing supervision plans, avoiding additional regulatory costs and costs to industry.
3. **The principle that a burden or restriction should be proportionate to the expected benefits:** In Annex 2, we have set out our analysis of the costs and benefits of these proposals. Overall, we believe that our proposals are a proportionate response to the need to improve competition in this market.
4. **The desirability of sustainable growth in the economy of the United Kingdom in the medium and long term:** Our proposals have regard to the desirability of sustainable growth in the medium and long term. We do not expect the proposals to have a material impact on growth in the UK. The proposals set out in this consultation will impact the annuity market. As set out in our CBA in Annex 2, it is assumed that this measure will create benefits for consumers and improve competition in the annuity market. We do not believe that these effects will have a broader adverse impact on UK growth in the medium and long term.
5. **The general principle that consumers should take responsibility for their own decisions:** Consumers need to decide whether they wish to purchase an annuity, and which provider to use if they do want to do so. The proposals in this CP are therefore in accordance with the general principle that consumers should take responsibility for their own decisions. They are designed to help consumers to make an informed decision about whether they wish to shop around and switch providers if they do purchase an annuity.
6. **The responsibilities of the senior management of persons subject to requirements imposed by or under FSMA, including those affecting consumers, in relation to compliance with those requirements:** We have had regard to this principle and do not believe that our proposals undermine it. The proposed change is an amendment to firms' existing disclosure requirements.

- 7. The desirability where appropriate of the FCA exercising its functions in a way that recognises differences in the nature and objectives of the business it regulates:** We have had regard to this principle and do not believe that our proposals undermine it. In particular, we have considered how this measure will affect firms that already use panel distribution arrangements and those that do not, as well as its effects on challenger firms and established incumbents.
- 8. The desirability of publishing information in relation to persons:** We have had regard to this principle and do not believe our proposals undermine it. We have the power to publish information relating to investigations into firms and individuals. This power is not affected by the proposals in this CP.
- 9. The principle that we should exercise our function as transparently as possible:** Feedback on this proposal was first invited during the Retirement Income Market Study. Since then, we have continued to take account of comments from industry and consumer stakeholders throughout the policy's development. In July we published our behavioural research on information prompts in the annuity market in full. We invite further feedback in response to this CP, and will continue to liaise with stakeholders.
- 10. Compatibility with our competition duty:** We have a duty, so far as is compatible with acting in a way which advances the consumer protection objective or the integrity objective, to discharge our general functions in a way that promotes effective competition in the interest of consumers (section 1B(4) FSMA). As noted above, our rules are aimed at enhancing competition in the market by making consumers more aware of the benefits of shopping around and switching provider. This is intended both to produce benefits for individual consumers, and to drive more effective competition in the market. We also consider our proposals are consistent with our strategic objective, to ensure relevant markets work well, as the information prompt is designed to help ensure the annuity market works well.
- 11. Impact on mutual societies:** Section 138K of FSMA requires us to prepare a statement about the impact of proposed rules on mutual societies. In particular, we are required to set out whether this will be significantly different from their impact on other authorised persons and, if so, give details of the difference. We do not expect the proposals in this paper to have a significantly different impact on mutual societies than other authorised persons or give them more or less of a burden than other authorised persons.
- 12. Legislative and Regulatory Reform Act 2006 (LRRRA):** We are required under the LRRRA to have regard to the principles in the LRRRA and to the Regulators' Compliance Code when determining general policies and principles and giving general guidance (but this duty does not apply to regulatory functions exercisable through our rules). We have had regard to the principles in the LRRRA and the Regulators' Compliance Code for the parts of the proposals that consist of general policies, principles or guidance. We have engaged with firms throughout this process, and consider that the proposals are proportionate and result in an appropriate level of consumer protection, when balanced with impacts on firms and on competition.

Appendix 1

Draft Handbook text

**CONDUCT OF BUSINESS SOURCEBOOK (PENSION ANNUITY COMPARATOR)
INSTRUMENT 2017**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on [*date*].

Amendments to the Handbook

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B

Citation

- E. This instrument may be cited as the Conduct of Business Sourcebook (Pension Annuity Comparator) Instrument 2017.

By order of the Board
[*date*]

Annex A**Amendments to the Glossary of definitions**

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend the following definition as shown.

pension annuity ~~an investment purchased with the sums derived from the vesting (partial or full) of a pension policy or pension contract, for the purposes of securing the beneficiary's entitlement to immediate or future benefits~~ means a policy which is a contract to pay an annuity on human life which is purchased by a retail client (wholly or partially) out of the funds of an occupational pension scheme, a personal pension scheme or a stakeholder pension scheme in which the retail client has an interest and includes a short-term annuity.

[*Editor's note:* The numbering of the new section COBS 19.9 inserted by this instrument takes into account changes currently being consulted on in CP16/30 'Transaction cost disclosure in workplace pensions'.]

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

14.2 Providing product information to clients

...

Exception: key features illustration

14.2.6 R ...

14.2.6A R *A firm is not required to provide a key features illustration in relation to a pension annuity if the firm provides the information required by COBS 19.9 (Pension annuity comparison information).*

...

After COBS 19.8 (Disclosure of transaction costs and administration charges information in connection with pension schemes) insert the following new section. All the text is new and is not underlined.

19.9 Pension annuity comparison information

Definitions

19.9.1 R In this section:

- (1) a "guaranteed quote" is a quote that:
 - (a) is provided by a *firm* to a *retail client* for the purchase of a *pension annuity*; and
 - (b) is based on sufficient information to successfully underwrite the proposed *pension annuity*;
- (2) a "market-leading *pension annuity* quote" is a quote for a *pension annuity* that:

- (a) is generated by a *firm* by searching for, obtaining and comparing, *pension annuities* that are available to the *retail client* from across all of the *pension annuity* market using the same information as the *firm* has used to generate a guaranteed quote; and
 - (b) provides the *retail client* with the highest annual income from amongst all of the quotes generated under (a);
- (3) “*pension annuity benefit*” means either or both of the following:
- (a) an existing or future entitlement to a *guaranteed annuity rate*;
 - (b) an entitlement to a pension commencement lump sum that exceeds 25% of the value of the *retail client’s* benefit under the *occupational pension scheme, personal pension scheme or stakeholder pension scheme* in which the *retail client* has an interest;
- (4) “*pension annuity comparator information*” means the information that a *firm* must provide under this section; and
- (5) “*pension commencement lump sum*” has the meaning in Part 1 of Schedule 29 to the Finance Act 2004.

Application

- 19.9.2 R This section applies to a *firm* that:
- (1) provides a *retail client* with a guaranteed quote for a *pension annuity*; or
 - (2) is asked by another *firm* (“F”) for a quote for a *pension annuity* where F is seeking a quote for the purposes of generating a market-leading *pension annuity* quote.

Purpose

- 19.9.3 G This section specifies:
- (1) when a *firm* must provide:
 - (a) a *retail client* with *pension annuity* comparator information, including whether the *pension annuity* it is offering will provide more or less annual income than the market-leading *pension annuity* quote; and
 - (b) a quote to another *firm* seeking a quote for the purposes of the other *firm* generating a market-leading *pension annuity* quote;
 - (2) how a *firm* must compare a guaranteed quote and a market-leading *pension annuity* quote and, if applicable, how a *pension annuity*

benefit should be factored into the comparison; and

- (3) the content and format of the *pension annuity* comparator information that must be provided in different circumstances.

Content of pension annuity comparator information

- 19.9.4 R When providing a guaranteed quote to a *retail client* a *firm* must use the relevant template in *COBS* 19 Annex 3R to provide:
- (1) the following information about the features of the *pension annuity* that is being offered:
 - (a) the cost of the *pension annuity* where the cost is expressed as a single sum in pounds sterling net of any *adviser charges*;
 - (b) if applicable, the amount and details of any *adviser charges* that the *firm* will be paying;
 - (c) if applicable, the amount of any *commission* that will be paid and to whom any such *commission* will be paid;
 - (d) the annual income the *pension annuity* will provide to the *retail client* expressed as a single sum in pounds sterling;
 - (e) whether the annual income referred to in *COBS* 19.9.4R(1)(d) is guaranteed for any period of time and, if so, the duration of that period;
 - (f) the frequency of payments that will be made to the *retail client* and if such payments will be paid in advance or in arrears;
 - (g) whether the *pension annuity* will provide an annuity to only the *retail client* or to the *retail client* and another beneficiary; and
 - (h) whether the annual income in the *pension annuity* will increase in value over time and, if so, the basis upon which it will increase.
 - (2) if applicable, information about the *guaranteed annuity rate* that a *retail client*:
 - (a) is already entitled to; or
 - (b) will be entitled to in the future,

and in the case of (b), the date from when the *guaranteed annuity rate* will be available to the *retail client*;
 - (3) if applicable, information about the maximum pension commencement lump sum that the *retail client* is entitled to and whether that lump sum would represent more than 25% of the value

of the *retail client's* benefit under the *occupational pension scheme*, *personal pension scheme* or *stakeholder pension scheme* in which the *retail client* has an interest;

- (4) the helpline phone number and the website address for the *Money Advice Service* and an explanation that the phone number and website can be used to obtain *pension annuity* quotes from other *pension annuity* providers; and
- (5) the comparison information required under *COBS 19.9.6R*.

19.9.5 G A *firm* should consider *COBS 19.9.10R* in cases where it is not clear whether a *retail client* is entitled to a *pension annuity* benefit.

Information comparing a guaranteed quote and a market leading pension annuity quote

19.9.6 R A *firm* must:

- (1) generate a market-leading *pension annuity* quote before providing a guaranteed quote to a *retail client*;
- (2) determine:
 - (a) whether the *pension annuity* offered by the guaranteed quote (“A”) or the market-leading *pension annuity* quote (“B”) will provide the highest annual income; or
 - (b) where a *retail client* is entitled to, or will be entitled to, a *guaranteed annuity rate* (“C”), which of A, B or C will provide the *retail client* with the highest annual income;
- (3) use the template in:
 - (a) Part 1 of *COBS 19 Annex 3R* where B offers a *retail client* with the highest level of annual income; or
 - (b) Part 2 of *COBS 19 Annex 3R* where A or C offers a *retail client* with the highest level of annual income;
- (4) where B will provide the highest annual income:
 - (a) calculate as a single sum in pounds sterling the amount by which B will provide a higher annual income than A;
 - (b) include that amount in the relevant place in the template; and
 - (c) include a statement making it clear that a *retail client* could obtain a higher annual income by searching the open market for a *pension annuity*;
- (5) where A will provide the highest annual income include a statement

that A will provide the *retail client* with the highest annual income;

- (6) where C will provide the highest level of annual income:
- (a) calculate as a single sum in pounds sterling the amount by which C will provide a higher annual income than A; and
 - (b) include that amount in the relevant place in the template; and
 - (c) warn the *retail client* that:
 - (i) an entitlement to a *guaranteed annuity rate* will be extinguished if the *retail client* accepts A; and
 - (ii) accepting A will result in the *retail client* receiving a lower annual income than the *retail client* is entitled to pursuant to C.

- 19.9.7 G When required to generate a market-leading *pension annuity* quote a *firm* may use:
- (1) the facility on the *Money Advice Service* website at <https://comparison.moneyadviceservice.org.uk/en/Annuity/FindAnnuity/YourDetails>; or
 - (2) commercially available software, or any other means, that will enable the *firm* to search for, obtain and compare *pension annuities* available to the *retail client* from across all of the *pension annuity* market.

Requirement to provide another firm with a pension annuity quote

- 19.9.8 R A *firm* must provide another *firm* (“F”) with a *pension annuity* quote where F requests such a quote pursuant to a requirement on F under this section to generate a market-leading *pension annuity* quote.

Pension commencement lump sum

- 19.9.9 R (1) This *rule* applies if a *retail client* is entitled to a pension commencement lump sum that would amount to more than 25% of the value of the *retail client’s* benefit under the *occupational pension scheme*, *personal pension scheme* or *stakeholder pension scheme* in which the *retail client* has an interest.
- (2) A *firm* must warn the *retail client* if the *pension annuity* offered by:
- (a) the guaranteed quote; or
 - (b) the market-leading *pension annuity* quote,
- will, if accepted, reduce the pension commencement lump sum that a *retail client* would otherwise be entitled to receive.

Information about pension annuity benefits

- 19.9.10 R (1) This *rule* applies where a *retail client* is unable to confirm an entitlement to a *pension annuity* benefit.
- (2) This *rule* does not apply if a *firm* is the *retail client's* current provider of a *pension annuity*.
- (3) A *firm* must take reasonable steps to assist a *retail client* ascertain whether the *retail client* is entitled to a *pension annuity* benefit.
- (4) If, despite having taken reasonable steps under (3), it remains unclear whether a *retail client* is entitled to a *pension annuity* benefit, a *firm* must proceed as if the requirements to provide information in *COBS* 19.9.4R(2) and *COBS* 19.9.4R(3) are not applicable.
- 19.9.11 G (1) *COBS* 19.9.10R is likely to apply where a *retail client* does not know, or cannot recall, their entitlement to a *pension annuity* benefit.
- (2) A *firm* may wish to consider doing any of the following as part of taking reasonable steps to assist a *retail client* ascertain whether the *retail client* is entitled to a *pension annuity* benefit:
- (a) suggesting the *retail client* locate any relevant documentation which may contain relevant information about a *pension annuity* benefit; and
- (b) encouraging the *retail client* to contact their existing *pension annuity* provider for relevant information relating to a *pension annuity* benefit.
- (3) *COBS* 19.9.10R does not apply to a *firm* that is a *retail client's* current *pension annuity* provider because that *firm* will be in possession of information relevant to determining whether a *retail client* is entitled to any applicable *pension annuity* benefits.

Retail client's consent to generate a market-leading pension annuity quote

- 19.9.12 G Before generating a market-leading *pension annuity* quote a *firm* should consider whether it needs the consent of the *retail client* to use any personal data for the purposes of generating the quote.
- 19.9.13 R (1) This *rule* applies to a *firm* where the *firm* requires the *retail client's* consent to the *firm* generating, on behalf of the *retail client*, a market-leading *pension annuity* quote and that consent is not obtained.
- (2) A *firm* must take reasonable steps to obtain a *retail client's* consent.
- (3) Where this *rule* applies:
- (a) *COBS* 19.9.6R does not apply;

- (b) a *firm* must include information warning the *retail client* that a higher annual income might be obtained by searching the open market for a *pension annuity*; and
- (c) a *firm* must use the template in Part 3 of *COBS 19 Annex 3R* to provide the applicable *pension annuity* comparator information.

Medium of disclosure

- 19.9.14 R (1) A *firm* must provide the *pension annuity* comparator information in a *durable medium* or make the information available on a website (where that does not constitute a *durable medium*) that meets the *website conditions*.
- (2) If the requirement to provide the *pension annuity* comparator information arises during a telephone conversation with a *retail client*, a *firm* must:
- (a) orally provide the *pension annuity* comparator information over the telephone and need not use the templates for that purpose;
 - (b) provide the *pension annuity* comparator information in a *durable medium* or via a website (where that does not constitute a *durable medium*) that meets the *website conditions*; and
 - (c) conclude a sale of a *pension annuity* only if the *retail client* agrees to receiving the *pension annuity* comparator information referred to in (b) after the sale has been concluded.
- (3) If a *firm* provides the *pension annuity* comparator information on paper, it must use a single sheet of A4 paper.

After *COBS 19 Annex 2* (Communications about options to access pension savings) insert the following new Annex. All the text is new and is not underlined.

19 Annex 3R **Format for annuity information**

This annex belongs to *COBS 19.9.6R(3)* and *COBS 19.9.13R(3)(c)*.

1 Format of bar graph in the Part 1 template

1.1 Format of bar graph

1.1.1 When a *firm* is creating the two bar graphs as set out in Part 1, the *firm* must ensure:

- (1) the annual income offered by the *pension annuity* in the guaranteed quote is presented on the left hand side of the two bar graphs;
- (2) The y-axis must:
 - (a) start with a monetary value which is £20 below the annual income of the *pension annuity* being offered by the *firm* in the guaranteed quote;
 - (b) use a scale which clearly and fairly depicts the difference in annual income that a *retail client* will obtain if a market leading *pension annuity* quote is accepted; and
 - (c) not include any numbers or details which are not required by the *rules* in *COBS* 19.9 or the provisions of this annex.

Part 1: Template for cases where the guaranteed quote does not provide highest annual income

Where the quote is not the highest available

Firm Logo	keyfacts [®]
Annuity features	
Cost of annuity £XX,XXX	No guarantee period
Paid quarterly in advance	Payments increase by 2% per year
Joint life annuity	<i>[Other key features of annuity]</i>

If relevant, include key information here such as:

You are entitled to a Guaranteed Annuity Rate from [date] paying an annual income of £X,XXX.

You are entitled to a Pension Commencement Lump Sum greater than 25% of your pension pot.

You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, we will pay £ZZZ commission to your intermediary.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote for this product

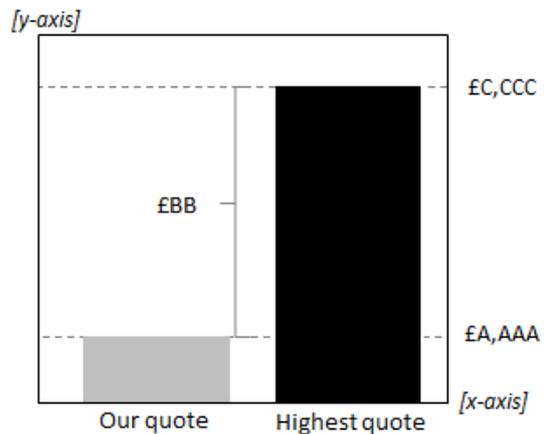
The annuity provided by us would provide you an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, there are quotes available from other providers offering higher rates. If you select our product, you would be **losing out on £BB per year.**

And, if applicable: You are entitled to a Guaranteed Annuity Rate from your current pension provider from [date] paying an annual income of £X,XXX. If you select our product, you would be **losing out on £DD per year.**



We are required by the Financial Conduct Authority to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit <https://www.moneyadvice.service.org.uk/en/tools/annuities> or call 0800 138 7777.

Company contact details and other key information

Part 2: Template for cases where the guaranteed quote or the GAR provides the highest annual income

Where the quote provided is also the highest available or only the GAR which the consumer is entitled to is higher

Firm Logo



Annuity features

Cost of annuity **£XX,XXX**

No guarantee period

Paid **quarterly** in advance

Payments **increase** by 2% per year

Joint life annuity

[Other key features of annuity]

If relevant, include key information here such as:

You are entitled to a Guaranteed Annuity Rate from [date] paying an annual income of £X,XXX.

You are entitled to a Pension Commencement Lump Sum greater than 25% of your pension pot.

You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, we will pay £ZZZ commission to your intermediary.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote for this product

The annuity provided by us would provide you an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, our quote is the highest available to you.

Or in the event that the consumer is entitled to a Guaranteed Annuity Rate which is higher:

You are entitled to a Guaranteed Annuity Rate from your current pension provider from [date] paying an annual income of £X,XXX. If you select our product, you would be **losing out on £DD per year.**

We are required by the Financial Conduct Authority to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit <https://www.moneyadvice.service.org.uk/en/tools/annuities> or call 0800 138 7777.

Company contact details and other key information

Part 3: Template for cases where the a retail client does not consent to a market leading quote being generated

Where appropriate consent has not been given to allow the production of the personalised quote comparison

Firm Logo



Annuity features

Cost of annuity **£XX,XXX**

No guarantee period

Paid **quarterly** in advance

Payments **increase** by 2% per year

Joint life annuity

[Other key features of annuity]

If relevant, include key information here such as:

You are entitled to a Guaranteed Annuity Rate from [date] paying an annual income of £X,XXX.

You are entitled to a Pension Commencement Lump Sum greater than 25% of your pension pot.

You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, we will pay £ZZZ commission to your intermediary.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote for this product

The annuity provided by us would provide you an annual income of:

£A,AAA

Can you get a better income from your annuity?

You may be able to get a higher income by shopping around.

If you want to see what other options are available from other providers please visit <https://www.moneyadviceservice.org.uk/en/tools/annuities> or call 0800 138 7777.

Company contact details and other key information



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