

# Retirement income market study: Final report – confirmed findings and remedies

March 2015





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In this final report we confirm the provisional market study findings and proposed remedies that we published in December 2014.

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## Abbreviations used in this paper

<b>AAE</b>	Actuarial Association of Europe
<b>ABI</b>	Association of British Insurers
<b>BIT</b>	Behavioural Insights Team
<b>CA</b>	Citizens Advice
<b>CESR</b>	Committee of European Securities Regulators
<b>COBS</b>	Conduct of Business Sourcebook
<b>CQF</b>	Common Quote Form
<b>DWP</b>	Department for Work and Pensions
<b>D2C</b>	Direct to Consumer
<b>ESMA</b>	European Securities and Markets Authority
<b>FSA</b>	Financial Services Authority
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>FSCS</b>	Financial Services Compensation Scheme
<b>GAA</b>	Governance Advisory Arrangement
<b>GAD</b>	Government Actuary's Department
<b>GAR</b>	Guaranteed Annuity Rate
<b>IFA</b>	Independent Financial Advisor
<b>IGC</b>	Independent Governance Committee
<b>MAS</b>	Money Advice Service
<b>RDR</b>	Retail Distribution Review
<b>RPI</b>	Retail Price Index

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<b>TPAS</b>	The Pensions Advisory Service
<b>tPR</b>	the Pensions Regulator
<b>TTYPE</b>	Track and Trace your Pension in Europe
<b>UFPLS</b>	Uncrystallised Fund Pension Lump Sum

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# 1.

## Executive summary

### Introduction

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- 1.1 Our interim report that we published in December 2014 found that competition in the retirement income market was not working well for consumers. We proposed a number of remedies to address the concerns we identified, with a particular focus on stopping things getting in the way of consumer choice, and improving the clarity and simplicity of communication between firms and their customers.
- 1.2 We have consulted on our provisional findings and proposed remedies, and the feedback we received has been largely supportive. We have also stayed close to market developments since we published our interim report. This final report summarises both the consultation feedback and market developments. We have refined, but not fundamentally altered, our thinking. We are therefore confirming that our findings are final and we will be taking our remedy proposals forward, with further consultation on design and implementation where appropriate. This next phase of our work will form part of our wider review of our rules in the pension and retirement area in summer 2015.

### Context

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- 1.3 From April 2015, in what is the biggest reform of the retirement system in a generation, consumers will be given much more freedom over how to access their pension savings. The reforms open up a range of choices and these new freedoms may be particularly beneficial for those savers with smaller pension pots and other sources of retirement income. To support consumers who benefit from these new freedoms, everyone with a defined contribution pension is entitled to access free, impartial pensions guidance when they retire from the Government created Pension Wise service.
- 1.4 We have a crucial role in supporting consumers in a landscape that is on the brink of major change, and in ensuring the market develops in a positive direction. There are a number of aspects to this. We are required to set standards for the guidance service (Pension Wise) and monitor designated guidance providers' compliance with these standards. Where necessary we are also required to make recommendations to the designated guidance providers and to Treasury in relation to breaches of the standards.
- 1.5 We have now also published new rules on retirement risk warnings, which will help to protect consumers wanting to access their pension savings. These new rules require firms involved in the sale of retirement income products to give additional warnings tailored to their customers. We have also committed to undertake a thorough review of the rules in the pension and retirement area this year as we seek to ensure that there is appropriate consumer protection in place following the reforms to the pensions and retirement market.

- 1.6** We have longstanding concerns about whether consumers exercise effective choice in the retirement income market, and these concerns have new urgency in light of the pension reforms. This market study explores these in detail. Alongside our interim report, we published a [thematic review of annuity sales practices](#), which considered whether firms' sales practices have contributed to consumers not shopping around and switching. This work is ongoing and once we have reviewed the additional evidence we have asked firms to gather, we will consider what further action, if any, to take.
- 1.7** We also have an interest in ensuring that consumers are treated fairly in the accumulation phase, as well as at retirement. We have introduced rules requiring pension providers to introduce new [Independent Governance Committees](#), tasked with ensuring value for money in workplace pension schemes, and introduced [charge caps](#) for default funds used for automatic enrolment in workplace pension schemes.
- 1.8** Finally, we have an ongoing responsibility to prevent, detect and enforce against investment scams. We remain on high alert for scams targeting consumers, including those who are at-retirement, and will continue to take robust enforcement action against such activity. We have also stepped up our activity by continuing our ScamSmart campaign targeted at those consumers most at risk, including retirees. This will continue to help consumers most at risk spot the warning signs and avoid investment scams. We will continue to monitor the market as the new landscape develops and will intervene further as required.

### Our approach

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- 1.9** The focus of this market study has been products purchased by UK consumers with their accumulated defined contribution pension pots that provide an income during retirement – specifically, annuities and income drawdown. Our provisional findings and proposed remedies were based on a broad range of analysis and evidence, including:
- Engagement with a wide range of industry stakeholders, consumer organisations and government departments.
  - Analysis of a range of information from firms, including strategy documents, contracts, product literature, consumer research and communications, and data relating to sales, pricing and profitability.
  - Information gathering from a variety of industry participants and other stakeholders both prior and subsequent to the 2014 Budget, which has helped inform our early views on how the market might evolve.
  - We commissioned both quantitative and qualitative consumer research and conducted a framing experiment to explore how consumers react when choices are presented in different ways.<sup>1</sup>
  - We commissioned an international comparative analysis of ten countries that have experience relevant to the UK.<sup>2</sup>

<sup>1</sup> [Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape; At-Retirement Consumer Research – exploring changes in the retirement landscape; Does the framing of retirement income options matter? A behavioural experiment](#)

<sup>2</sup> [The retirement income market: Comparative international research](#)

- We undertook an economic analysis of the value for money of annuities, both over time and compared to other retirement income strategies.<sup>3</sup>

**1.10** In light of our provisional findings, we proposed a number of remedies to address the concerns we had identified:

- 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 and switching provider (**Remedy 1**).
- Recommendations to improve the way information is framed to consumers to help them make decisions surrounding their retirement income (**Remedy 2**).
- Redesigning and behaviourally trialling the information that consumers receive from their providers in the run up to their retirement (**Remedy 3**).
- In the longer term, the creation of a pensions dashboard which will allow the consumer to see all their pensions in one place (**Remedy 4**).
- 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 (**Remedy 5**).

We have consulted widely on our provisional findings and proposed remedies. We held a consultation workshop with 41 interested stakeholders on 16 January 2015, and received 38 written responses to our consultation, which closed on 30 January 2015.

## Next steps

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### Confirmed findings

**1.11** We are confirming the provisional findings from our interim report as final. These findings are set out in more detail in Chapter 2 of this report. In summary, we are confirming that the retirement income market is not working well for consumers, in particular highlighting the following issues:

- Consumers have been missing out on a higher income by not shopping around for an annuity, and some do not buy the best annuity for their circumstances. Consumers are deterred from engaging with their options by the length and complexity of provider wake-up packs, or because they do not believe the sums involved make shopping around worthwhile.
- Consumers' tendency to buy annuities from their existing provider weakens competitive discipline in this market. Not only do incumbent providers feel less pressure to offer competitive vesting rates, but challenger firms find it difficult to attract a critical mass of customers.
- Pension savers display well-known biases, such as a tendency to under-estimate longevity, inflation and investment risk. Consumers are highly sensitive to how options are presented to them. Savers reaching retirement will face a landscape that is more complex, and will need support in making the right choices.

<sup>3</sup> Occasional Paper No.5: [The value for money of annuities and other retirement income strategies in the UK](#)

- Looking forward, we expect to see more new products emerging, for example combining features of annuities and income drawdown. Consumers will welcome this increased flexibility, however there is a risk that greater choice and more complex products reduce consumer confidence and appetite to shop around, thereby weakening competitive pressure.

### Remedies

**1.12** We will be taking forward our remedy proposals for design and implementation. Some of these proposed remedies (annuity quote comparisons and revised wake-up packs), will require changes to the FCA rules to be implemented. Other proposals (the pensions dashboard and our framing recommendations for Pension Wise) are for Government to consider and lead on with our input. We look forward to working closely with Government on the development of these remedies. Our monitoring remedy will take effect immediately. The next steps for each of our remedies are set out below:

- **Remedies 1 (annuity quote comparison) and 3 (replacing wake-up packs and the Association of British Insurers (ABI) Code):** it is important that these remedies are thoroughly behaviourally trialled to ensure that they are effective. We are already designing the behavioural parameters we will test with consumers. Following the publication of this report today we will be contacting industry firms to work together on the behavioural trials. Our trials will build on the work currently being undertaken by Treasury, the Behavioural Insights Team (BIT) and industry to design and trial signposting letters and standardised pension statements for inclusion in wake-up packs.

The results of our trials will inform the rule changes that we think are necessary to implement these remedies effectively. We will consult on these proposed rule changes as part of our wider review of rules in the pensions and retirement area in summer 2015. This will include the work we are already undertaking to consider how the ABI Code of Conduct (ABI Code) could fit into our rules. Subject to that consultation, we estimate that firms will be required to implement remedies 1 and 3 in 2016. In the meantime, we have agreed with the ABI that there will be a transitional period where the ABI Code will remain in place.

- **Remedy 4 (pensions dashboard):** we are in discussions with Government to explore the most effective and efficient way to develop a dashboard solution for our recommendation, with a view to implementation in the next few years. Development of the solution needs to consider various potential models and be undertaken and tested on an incremental basis, to allow the development of appropriate infrastructure. It is also important that the costs and benefits of eventual solutions are considered.

**1.13** In addition to the above, we are making recommendations to firms and Pension Wise to consider the role of framing effects. 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. We have already been working with Treasury and Pension Wise to ensure messages are framed in a way to promote good decision making. We will also consider the development of a rule of thumb for withdrawals from products such as income drawdown in the longer term, allowing us to consider the new products that will come to market. We will explore with Treasury how this could be used to support good consumer decision making in the longer term, in parallel with Pension Wise user testing and evaluation work.

**1.14** We will also be monitoring the market to track market developments, consumer behaviour and outcomes, as well as the take-up of the Pension Wise service. This monitoring will feed into the development of a common FCA view of the pensions and retirement area, in line with our publicly stated intention to create a common FCA view of what is happening in each

of the markets and sectors we regulate.<sup>4</sup> Examples of the aspects of this market that we will monitor are set out in Chapters 5 and 6 of this report. We will also explore how the data we gather in this market can complement data gathered by Government in the longer term. If our monitoring activities indicate that consumers appear not to be getting the support they need, and/or competition is failing to drive good value, then we will take the appropriate action to address this.

- 1.15** We are coordinating with the Pensions Regulator (tPR) and in discussions with the Department for Work and Pensions (DWP) on our remedies, to consider the interaction between the trust-based and FCA-regulated sectors of the market in respect of our remedies.
- 1.16** As we set out in detail in our interim report, we remain on high alert for scams targeting consumers including those who are at-retirement, and will continue to take robust enforcement action against such activity. In our November 2014 Policy Statement PS14/17, we also made it very clear that we are alert to scams in the new pensions and retirement income market, building on the focus we already have on pension liberation and investment scams. We are actively monitoring the market for firms falsely behaving in a way which indicates that they are giving a pensions guidance service under arrangements with Treasury. We will take tough and meaningful action against such firms where appropriate, in line with our wider strategy of credible deterrence.
- 1.17** We have also stepped up our activity by continuing our ScamSmart campaign targeted at those consumers most at risk, including retirees. This will continue to help consumers spot the warning signs and avoid investment scams.

<sup>4</sup> As set out in Our Strategy (December 2014).

## 2. Introduction

### Introduction

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#### In this final report on our market study we have:

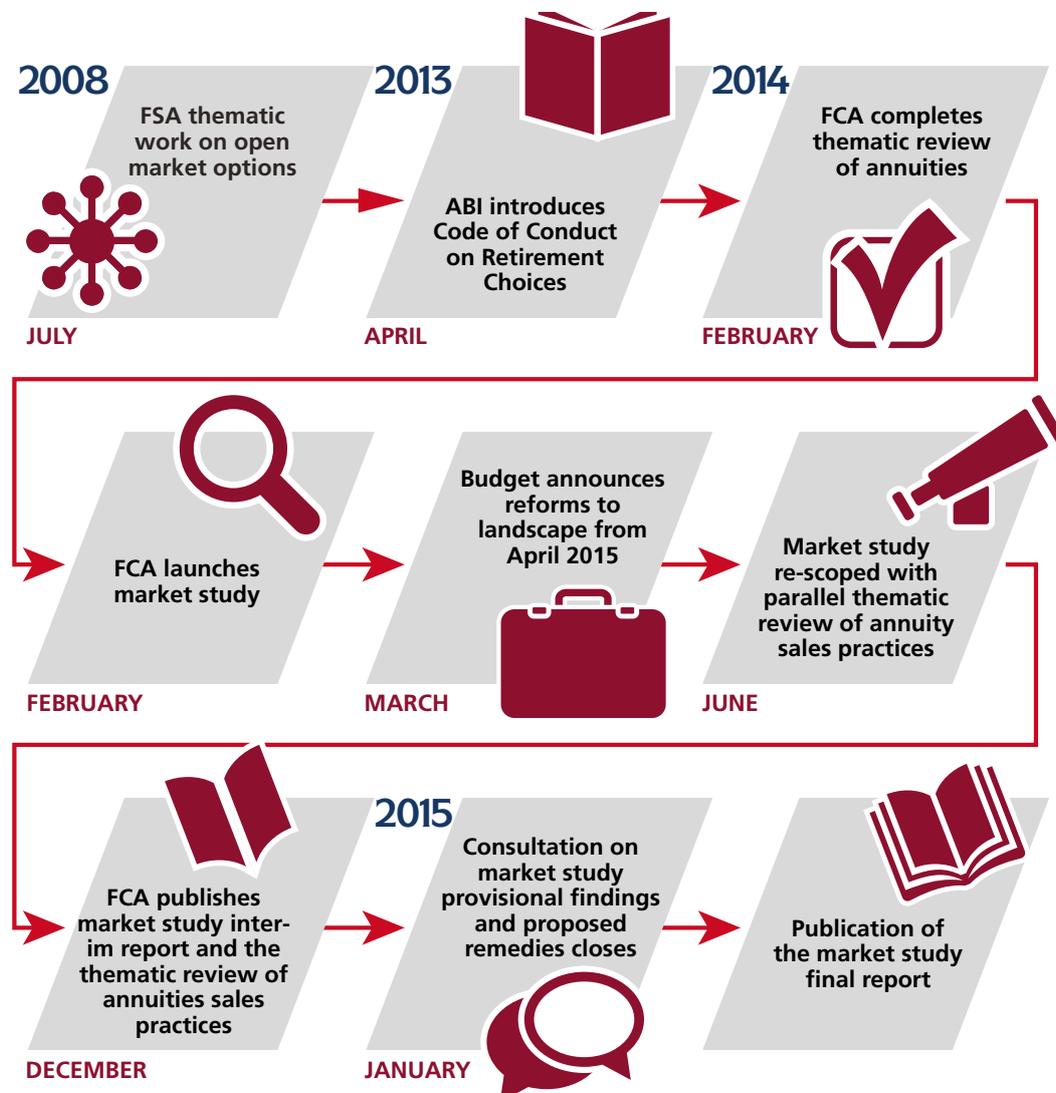
- Summarised the feedback we received on the provisional findings of our retirement income market study and our response to that feedback.
- Summarised the feedback we have received on our proposed remedies, including respondents' proposals for alternative remedies and our high level response to that feedback.
- Confirmed our provisional findings as final and our proposals for the draft remedies set out in our interim report. These remedies will be taken forward to the design and implementation phase.
- Set out the process and timescales for the next phase of our work, and how this will link to the changes to the retirement income landscape and the wider work we are undertaking in this market.

### Context

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- 2.1** In December 2014 we published the provisional findings of our retirement income market study. That report followed a range of work undertaken in this market by the Financial Services Authority, FCA, industry and Government as illustrated in Figure 1 below.

Figure 1: Retirement income - timeline of events



**2.2** In our interim report, we found that competition in the retirement income market is not working well for consumers, in particular highlighting a number of issues.

- Consumers were missing out on a higher income by not shopping around for an annuity, and some do not purchase the best annuity for their circumstances. Of the 40% of consumers we surveyed who purchased an annuity with their existing pension provider, one in five were unaware that they have the option to switch. Our qualitative consumer research indicated that other consumers are deterred from engaging with their options by the length and complexity of the ‘wake-up packs’ sent out by providers, or because they do not believe that the sums involved make shopping around worthwhile. Our [thematic review of annuity sales practices](#) also identified that providers’ verbal communications with their customers may not be going as far as they should to encourage shopping around. The economic analysis in our [Occasional Paper](#) indicated that the right type of annuity gives good value for money when purchased on the open market.
- Consumers’ tendency to buy an annuity from their existing pension provider weakens

competitive discipline. Not only do incumbent providers feel less pressure to offer competitive vesting rates, but challengers find it difficult to attract a critical mass of consumers. As a result there has been limited new entry into the decumulation market in recent years.

- Pension savers display well-known biases, such as a tendency to under-estimate longevity, inflation and investment risk. Our [research into framing effects](#) found that the choices savers make are highly sensitive to how the options are presented, which means that consumers may make different decisions, even when the underlying choice remains the same, depending on the way the information is provided.
- Looking forward, we expect to see more “hybrid” products emerge, combining annuity and drawdown features. While our consumer research showed that many consumers will welcome the increased flexibility that such products offer, there is a risk that greater choice and more complex products will reduce consumers’ confidence and appetite to shop around, thereby weakening competitive pressure to offer good value in this market.
- Savers reaching retirement will face a landscape that is more complex, and will need more support in making the right choices.

**2.3** We also identified some developments that we want to see, for example new tools and business models to support consumer decision-making, and the emergence of more flexible retirement products to support mass market consumer choice. However, we also identified a number of future risks.

- In future, converting accumulated pension savings into retirement income need not be a one-off, irreversible step as has been the case for consumers purchasing lifetime annuities. Savers will welcome the increased flexibility, including the ability to change course over time. However, without a clear moment in time to make a decision, it may be harder to prompt savers to shop around or switch.
- If more hybrid products appear on the market, savers should be better able to find a product that meets their particular needs. This may be especially true for the many savers who have other sources of retirement income and must choose how to draw down from their defined contribution pot alongside decisions about their defined benefit pension, other savings, and property. However, more complex products are likely to be less directly comparable which could make shopping around more difficult for consumers.
- While charges for lifetime annuities are effectively captured in the headline rate, the same is not true for products with a drawdown element. Complex or opaque charging structures make comparisons harder and weaken competitive pressure on value. We do not want to see such features in the new landscape.
- Previously, drawdown products were sold primarily with full advice to people with significant pots to invest. Going forward, the industry will need to develop appropriate mass market distribution and guidance arrangements for products with a drawdown element. Higher risk products must be sold responsibly.

**2.4** In light of these findings, in December 2014 we set out a number of proposed remedies, recommendations and actions for consultation that we believe will go some way to addressing the concerns we identified. Given that the market is on the brink of major change, we focused on stopping things getting in the way of consumer choice, and improving the clarity and simplicity of communication between firms and their customers. Depending on how the market evolves we may need to revisit product design and sales practices in the future if we have concerns.

- **We proposed to require firms to make it clear to consumers how their quote compares relative to the open market.**
- **We recommended to both Pension Wise<sup>5</sup> and to firms to take into account framing effects and other biases when designing tools to support consumer decision-making.**
- **We would work with Government to develop an alternative to the current wake-up pack. This should be behaviourally trialled to assess the impact on consumers' awareness of their right to shop around, and the proportion of people who buy a product using their open market option.**
- **In the longer term, we recommended the development of a 'Pensions Dashboard' which would enable consumers to view all their lifetime pension savings (including their state pension) in one place.**
- **We would continue to monitor the market as it evolves using a combination of consumer research, market data and ongoing sector supervision.**

### Consultation process

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- 2.5** We invited stakeholders to set out their views on specific issues relating to each of our proposed remedies. We also invited views on whether there were any reasons why our provisional findings should not be confirmed as final.
- 2.6** As part of our consultation process, we held a stakeholder workshop on 16 January 2015, which 41 interested parties attended to discuss their views on the proposed remedies. The period for submitting written responses to our consultation closed on 30 January 2015.
- 2.7** We received 38 written responses to our consultation from a cross-section of stakeholders including industry participants, consumer associations, professional bodies and trade associations. Annex 1 lists the stakeholders that provided a written response to our consultation, except for those who asked to remain anonymous.

### Key messages from consultation feedback

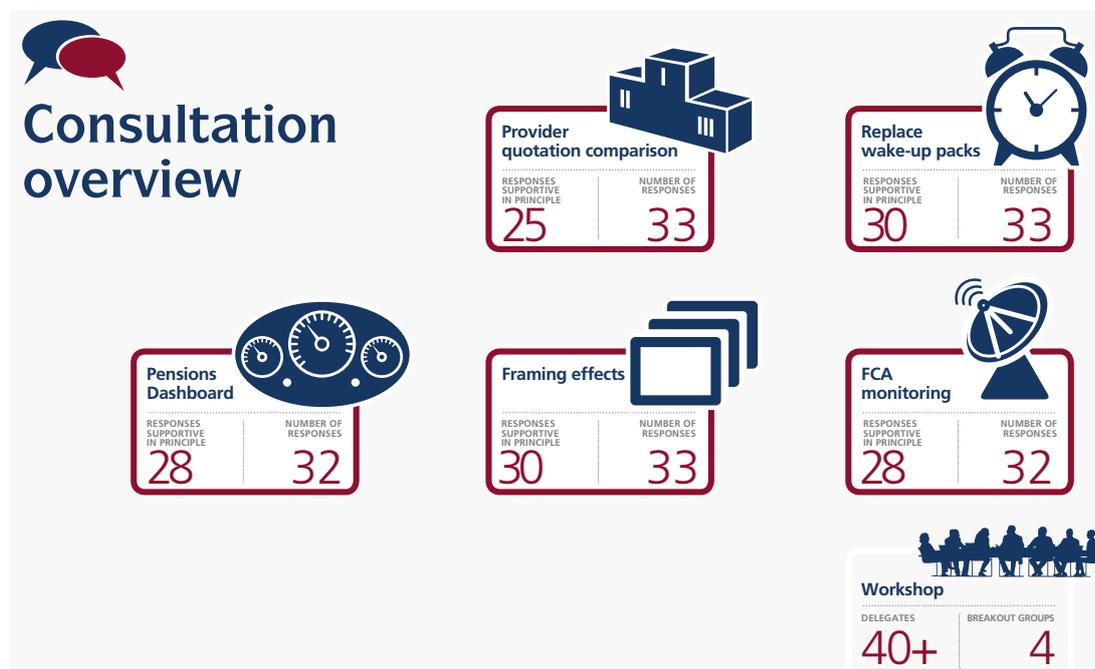
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- 2.8** There was broad support for both our provisional findings and proposed remedies. Most respondents agreed with our finding that competition in the retirement income market is not working well for consumers. Respondents provided a range of helpful views on practical issues relating to the detailed design and implementation of our remedies. The details of design and potential implementation of these remedies will be considered in further detail as part of our wider policy work on pension reforms. This will incorporate further consultation and cost-benefit analysis of any rule changes that we propose.<sup>6</sup>

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<sup>5</sup> In our interim report we referred to 'the pension guidance service' in the context of this recommendation. In January 2015 the Government announced that the branding for the pension guidance service would be 'Pension Wise'.

<sup>6</sup> Existing responses that provided feedback on the practical details of design and implementation will be considered again in this later consultation phase. Should respondents wish to respond on the same or different points at that stage they are welcome to do so.

Figure 2: Overview of consultation process and feedback<sup>7</sup>

### Key messages from our response to consultation feedback

- 2.9** This final report is focused on responding to the feedback we received on our provisional findings and our proposed remedies in principle. This report does not focus on the details of remedy design; we will consult separately on any rules changes that are needed. However, this report does summarise the feedback we received on remedies and provides a high level response indicating how this will influence our ongoing remedy design work.
- 2.10** We have considered the feedback we have received carefully, and our response is set out in Chapters 4 and 5 of this report. Our overall conclusion is that it does not change our conclusions on competition in this market and broadly supports our key findings and proposed remedies.

### Next steps

- 2.11** We have confirmed our findings as final and will take our remedy proposals forward. As set out above, we have already started work on remedy design and implementation.<sup>8</sup> The process and anticipated timescales for that phase of our work are set out in more detail in Chapter 6 ('Next steps') of this report.
- 2.12** In the next chapter we set out the relevant recent developments in the retirement income market since the publication of the interim report last December, and how they have been considered as part of our decision to confirm our findings and proposed remedies.

<sup>7</sup> Figure 2 presents the number of responses received for each of the proposed remedies, and the number of those that largely supported the remedy in principle. Responses also included further qualifications, alternative suggestions, and practical concerns about implementation.

<sup>8</sup> There will be further consultation and cost-benefit analysis where we propose changes to our existing rules in order to implement certain remedies.

## 3.

# Recent relevant developments

### Introduction

In this chapter we set out the recent relevant developments to the retirement income market study since the publication of the interim report last December.

These developments are grouped into:

- **market developments:** our early views on market developments and potential risks in the new landscape were set out in our interim report. Since then we have continued to gather information from industry participants and other stakeholders in order to understand how the new landscape may develop. The market position does not appear to have changed fundamentally since the publication of our interim report and the risks highlighted previously remain relevant.
- **FCA regulatory developments:** this section sets out recent wider work we have conducted that is relevant to the retirement income market, and our consideration of consultation feedback. In particular, we believe the wider work identified in this chapter goes some way to addressing some of the alternative and additional remedies that have been proposed by consultation respondents, and we have taken this into account when considering those remedy proposals.
- **landscape developments:** this section provides an update on wider landscape developments, specifically the development of the Pension Wise service and the work of the DWP on automatic transfers. These developments have been particularly relevant to the consideration of certain of our proposed remedies, as well as alternative and additional remedies proposed by consultation respondents.

### Market developments

#### Introduction

- 3.1** Since the publication of the interim report, we have continued to gather information from industry participants and other stakeholders to understand how the market may develop in the new landscape. Our research since December 2014 shows that although the scale and timing of plans at an individual firm level may have evolved, the market position does not appear to have changed fundamentally. Therefore, we consider that the risks highlighted in Chapter 8 of our interim report remain relevant. The key themes that we have identified from our market research are:

- Firms' main current focus is the ability for customers to gain access to their pension savings from April 2015, in particular for those consumers expected to take their savings as cash.
- Firms are developing their products, although primarily by augmenting or broadening existing product offerings, rather than developing entirely new products.
- We have seen innovation and significant operational resources being dedicated to firms' distribution propositions and engagement with consumers.
- Research we have conducted with a number of financial advisers shows that they view the changes as a positive for them. We are encouraged that they are also proactively reviewing their charging structures with a view to offering services with a personal recommendation to consumers with smaller pension pots.

### Product innovation in the new landscape

**3.2** In this section we set out our current view on the extent of product innovation being undertaken by firms, and the customer segments we expect these products to be directed at:

- **Lifetime annuities:** There continues to be a trend towards individual underwriting of lifetime annuities. In particular, firms acknowledge that sales of lifetime annuities to older retirees (post age 70) will be a growing base and there will be a need for individual underwriting at these ages given the greater likelihood of health related factors. Current annuities offer less flexibility than other product options although we expect to see developments in areas such as value protection, income shapes and guarantee options following the landscape changes.
- **Managed Drawdown:** Flexi-access drawdown solutions consisting of a small range of funds that seek to manage some of the investment risk on behalf consumers will be prevalent from April. These products will have multi-asset, diversified growth and managed volatility funds. Some will be more actively managed, while some are purely passive.

Managed drawdown products are being largely developed to service 'back-book' vesting customers and are directed at mass market customers, predominantly without a personal recommendation, through direct to consumer distribution channels. As we stated in our interim report, the variability of charges and investment propositions of these products means that consumers are likely to find comparison of these products more difficult. This could weaken competitive pressure on value.

- **Capital and income guarantee products:** New versions of variable annuity style products are being launched, with development in the frequency of lock in guarantees and how consumers' portfolios are managed between growth and fixed assets. Fund ranges look set to be slimmed down and death benefits are being revisited. The wrapper<sup>9</sup> choices for these products are also being considered by firms, with guarantee options potentially becoming available within ISA wrappers in the near future.

Fixed term annuities offering capital guarantees on maturity look set to be marketed more as 'bridging' products into later life over differing term periods, or as 'cash out' drawdown style plans over a short period (for example, 3 years). Fixed term products can act as a means of customer retention, as it provides firms and financial advisers with the opportunity for a secondary sale at a later date (for example, a lifetime annuity at age 70).

<sup>9</sup> A wrapper is a term used to describe a tax-efficient vehicle within which assets are held.

We expect both sets of product to be sold to mass market customers, potentially in some circumstances without a personal recommendation. There is a risk that customers purchase guarantees that they do not need or do not understand the complex trade-offs they are making with other product options.

- **Cash based products:** While there appears to be a desire for more cash based products, there is little room for innovation in the short term due to low interest rates, regulation on liquidity and client assets, and competing commercial interests between industry participants.<sup>10</sup> We expect the appetite for cash based products to persist in the medium term with new innovations potentially coming to market, such as peer to peer lending.
- **Uncrystallised Fund Pension Lump Sum (UFPLS):** The majority of providers plan to offer UFPLS as a means of customers gaining access to pension pots where scheme rules or systems may not facilitate flexible access income drawdown. This is likely to result in new entry into the decumulation sector, as closed book accumulation providers look to offer UFPLS to consumers looking to access their whole pot as cash. Providers will also offer UFPLS in order to retain their customers.

UFPLS will also be offered by a number of providers as an alternative means of consumers taking ad-hoc lump sums of income. With some consumers looking to withdraw their income rapidly over a short period, transferring customers into new drawdown arrangements will come at a cost to many providers and UFPLS offers an easier solution for handling these requests.

We expect UFPLS to be largely offered without a personal recommendation and typically being used by consumers with smaller pots. There is a risk that the benefits of other options (such as income drawdown) are not adequately explained to consumers and that UFPLS is potentially used as a default option.

- **Blended Solutions:** A growing number of providers have combined the above product offerings into 'retirement accounts' where consumers can pick and choose combinations of different products to service different needs and wants. For example, fixed term annuities may be used to provide a capital guarantee on a proportion of a consumer's pot until maturity, while drawdown can be used alongside this to meet more flexible needs. A lifetime annuity may then be available later in life when a guaranteed income and no investment risk is more suitable for the ageing consumer.

We expect these blended solutions to be largely sold through financial advisers, given the complexities of combining products. However, there is risk that bundling each unique product component into a blended solution makes it difficult to compare similar products, or whether the same results could be achieved by obtaining individual products from different providers. There is also a risk that firms do not invest in, or adequately develop IT systems and operational process that support blended solutions. This could affect customer service and administration, as well as the clarity of disclosure material provided.

### Supply chain innovation in the new landscape

- 3.3** We are continuing to see firms develop, and in some cases deploy, new or enhanced distribution propositions in response to the new landscape. Our current view on how the supply chain is developing is set out below.

<sup>10</sup> For example, platforms do not have the regulatory permissions to hold deposits as banks do. This means they are only able to offer cash account rates on their platforms where they have cash account with a bank, at rates provided by the bank which provides the underlying account. Given the competitive overlap between banks and platforms in this context, a bank will not offer a platform a better account rate than the rate available directly from the bank.

- **Direct to consumer (D2C) business models:** There continues to be a move (particularly by life insurance providers) towards D2C being developed. Many of these are online combined with telephony support, although some firms are developing primarily telephone based or online only solutions. Many D2C propositions include supporting guidance, decision trees, tools and calculators designed to help customers make an informed decision.

Firms developing new distribution arrangements and supporting tools, calculators, information and guidance will need to continue to be mindful of the boundaries between services that are information only, regulated advice and a personal recommendation (as set out in our [Finalised Guidance FG15/1](#) on Retail Investment Advice). In addition, firms need to ensure that they continue to be focused on customer need and the appropriateness of customer outcomes. For example, in some cases, firms are limiting the information they provide to consumers to information on options they offer, rather than all options available, without providing fuller information or making this limitation appropriately clear to customers. Without this clear understanding, there is a risk that consumers may view their retirement income options as limited to those offered by the firm, and fail to appreciate that there may be other options, not offered by the firm, that could be more suitable for their needs.

- **Digital customer engagement:** Firms are continuing to look to enhance their engagement and education of customers and online continues to be the default option for most firms. Whilst this can deliver significant consumer benefits, we would expect firms to be aware of the risks of providing too much proactive support to customers (for example, bombarding customers with communications, tools, options and large volumes of information, especially in the early stages of the customer journey).
- **Retirement advice:** Since the interim report, more firms (including life insurance providers and banks) have indicated they are deploying or planning to develop solutions that offer a personal recommendation for more mass affluent or mass market customers in the retirement income market. These solutions include simplified advice solutions, some of which are entirely online journeys. When designing these solutions, firms need to ensure that they are comfortable that they are capturing sufficient information in order to be able to identify, consider and evidence the suitability of the recommended solution.

Standalone financial advisory firms are also preparing for the landscape changes and are reviewing their charging structures with a view to offering services with a personal recommendation to consumers with smaller pension pots. The findings of our research also show that these firms also currently consider ensuring they are able to provide suitable services to be a key challenge, particularly given the potential for late product announcement and deployment by provider firms.

### FCA regulatory developments

- 3.4** This section sets out recent wider work we have conducted that is relevant to the retirement income market, and our consideration of consultation feedback. In particular, the wider work identified in this section goes some way to addressing some of the alternative and additional remedies that have been proposed by consultation respondents, and we have taken this into account when considering those remedy proposals.

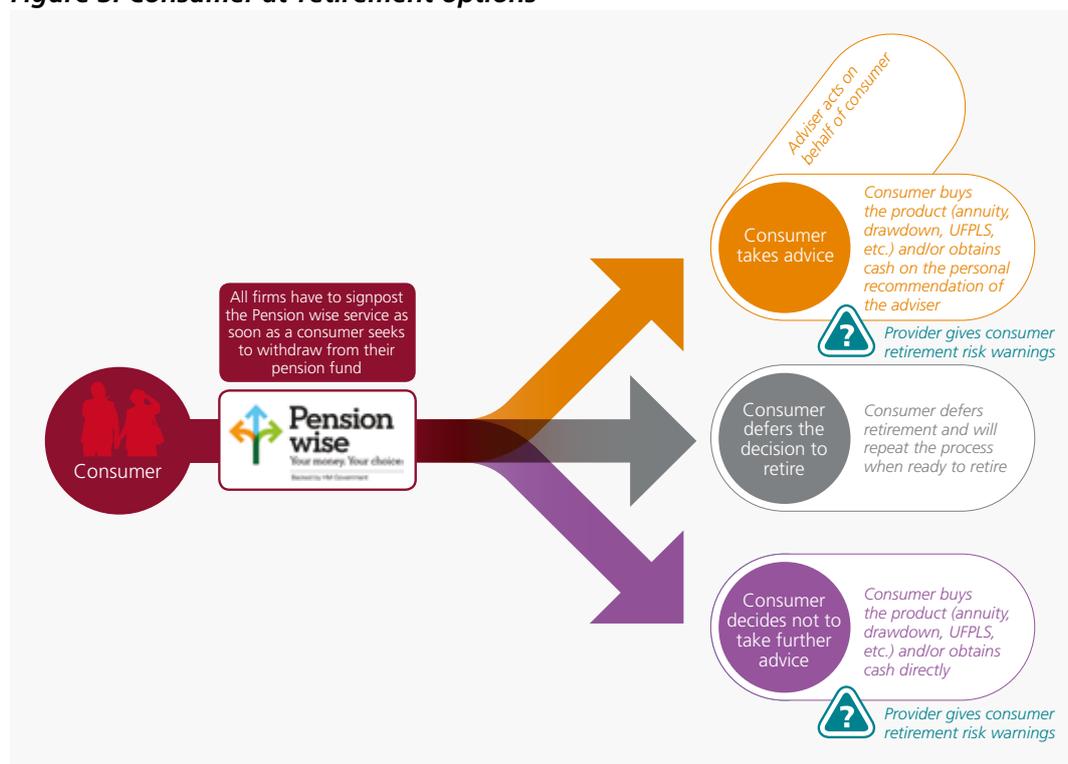
#### Retirement risk warnings

- 3.5** As noted in our [‘Dear CEO’](#) letter of 26 January, we are introducing new rules. We are doing so without consultation, relying on section 138L of the Financial Services and Markets Act

2000 (FSMA), on the grounds that the delay involved in consulting would be prejudicial to consumers' interests.

- 3.6** The new rules described in the [Policy Statement PS15/4](#) will require firms to give appropriate retirement risk warnings to consumers accessing their pension savings. Firms must ask the consumer relevant questions, based on how the consumer wants to access their pension savings, to determine whether risk factors are present. If they are, risk warnings must be given.
- 3.7** The retirement risk warnings must be given to the consumer regardless of whether they have already received guidance from Pension Wise or taken regulated advice, unless:
1. an adviser is conducting a transaction on behalf of a consumer they have given financial advice to, or
  2. the firm has already provided retirement risk warnings under these rules in a previous communication, and believes that those warnings are still appropriate.
- 3.8** Figure 3 below illustrates the customer journey: the customer is signposted to the Pension Wise service, considers their retirement options and receives their retirement risk warnings.

**Figure 3: Consumer at-retirement options**



- 3.9** These warnings may include setting out options the consumer has, such as shopping around. We think that these retirement risk warnings can be given without providing regulated advice. We do not require firms to tell consumers what to do or imply that the consumer's decision will be wrong. We simply require firms to ensure the consumer is aware of the risks of the course of action they are seeking to take.

- 3.10** The new rules will come into force on 6 April 2015. Firms operating personal pensions, stakeholder pensions, selling pension decumulation products or facilitating the access of pension savings on an execution-only basis must make any changes necessary to comply with the rules before they come into force.
- 3.11** We plan to consult in summer 2015 on whether to retain, modify or add to these rules, as part of a wider consultation on the rules around consumers' interaction with providers as they approach retirement.
- 3.12** The Pensions Regulator (tPR) has published complementary draft guidance for trustees. The guidance provides clarity for trustees on the new requirements to signpost pensions guidance. In addition, it sets out tPR's expectations of trustees in relation to the provision of information to their members on the generic risks of the decumulation options.

#### **Retail investment advice finalised guidance**

- 3.13** In January 2015, we published the [Finalised Guidance FG15/1 Retail investment advice: Clarifying the boundaries and exploring the barriers to market development](#). The main focus of that guidance is:
- Clarifying the current regulatory landscape on personal recommendations in relation to retail investments and, in response to requests from the industry, bringing together in one place the existing guidance that is available to firms from the FCA (particularly on simplified advice) and from the Committee of European Securities Regulators (CESR) and the European Securities and Markets Authority (ESMA).
  - Providing detailed example scenarios and in each case offering a view on whether we think the example is regulated advice or not.<sup>11</sup>
- 3.14** The Finalised Guidance is intended to be the definitive source of information on the FCA's view on the boundaries of advice for retail investment products and it will take precedence over any previous non-handbook guidance which deals with the same material, other than the Perimeter Guidance Manual.
- #### **Independent Governance Committees**
- 3.15** In February 2015, the FCA published rules, in the [Policy Statement PS15/3](#), that require the providers of workplace personal pension schemes to set up and maintain Independent Governance Committees (IGCs). The rules come into force on 6 April 2015.
- 3.16** IGCs are a key part of the improvements in the governance of workplace pensions and are a significant step in a package of measures aimed at improving the value of workplace pensions. IGCs will have a duty to act solely in the interests of scheme members and will operate independently of the provider. They will assess and, where necessary, challenge providers on the value for money of workplace personal pension schemes. Providers with smaller and less complex workplace personal pension schemes will be able to establish a Governance Advisory Arrangement (GAA) as an alternative to an IGC. We intend to conduct a review of the effectiveness of IGCs in 2017.

<sup>11</sup> As explained in FG15/1 (page 10), the regulated activity of advising on investments under Article 53 of the Regulated Activities Order is wider in scope than investment advice under MiFID. Regulated advice is explained in FG15/1 (page 2) as: "Advice relating to a particular investment given to a person in their capacity as an investor or potential investor (or their agent) and relates to the merits of them buying, selling, subscribing for, or underwriting (or exercising rights to acquire, dispose of or underwrite) the investment."

### Post-Implementation Review of the Retail Distribution Review (RDR)

- 3.17** In December 2014 we published the findings of the [first phase of our post implementation review of the RDR](#).<sup>12</sup> The evidence from the first stage of the review shows a positive picture, with encouraging signs that the RDR is on track to deliver its objectives in many areas. The first phase of the post-implementation review found, however, that in some areas the market is adjusting and more time may be needed for the full effects of RDR to become apparent.
- 3.18** The next phase of the post-implementation review will be published in 2017, allowing us to draw from at least three years of evidence. As firms complete the transitional process, we expect to be able to undertake a more complete analysis as to the medium-term impacts of the RDR. We will also continue to monitor trends throughout the post-implementation review period. A subsequent, third phase of the review will consider the longer-term implications.
- Wider review of FCA rules in the pensions and retirement area**
- 3.19** As set out in our [Policy Statement PS14/17](#) in November 2014, and confirmed in the [Policy Statement PS15/4](#) we will undertake a thorough review of the rules in the pension and retirement area in 2015 as we seek to ensure there is appropriate consumer protection in place following the reforms to the pension and retirement market. We aim to consult in summer 2015 on any proposed changes to our rules.

## Landscape developments

### Pension Wise

- 3.20** To support consumers facing increased choice, the Government announced a guidance guarantee, which entitles everyone with a defined contribution pension to access free, impartial guidance on the choices they have when they retire. We have worked closely with the Government to develop standards for this guidance. Our [Policy Statement PS14/17](#) published in November 2014 sets out 'near final' rules and standards for the designated guidance providers delivering the Government's guidance guarantee and 'near final' rules for firms. These [rules](#) and [standards](#) have now been finalised following Royal Assent of the Pension Schemes Act 2015 on 3 March 2015.
- 3.21** In January 2015, the name and logo of the new pensions guidance service were unveiled. Pension Wise will offer free and impartial information and guidance to consumers approaching retirement with a defined contribution pension pot. The Pensions Advisory Service (TPAS) will deliver telephone guidance, and face-to-face guidance will be delivered through the Citizens Advice (CA).
- Automatic transfers**
- 3.22** The Government introduced a legislative framework to enable pension pots to follow members as they move employment in the Pensions Act 2014. This will see the automatic consolidation of members' small pots into the workplace scheme they are actively saving in. These legislative powers set out a number of key features in the design of an automatic transfers system where the pension pot will effectively follow the member into their new pension scheme:
- The system will be facilitated by pension schemes, rather than by employers.

<sup>12</sup> The review focused on the extent to which the RDR is on course to deliver its original aims and to flag any immediate issues, rather than definitively evaluate whether or not all of the expected impacts of the RDR have materialised, as this will be a longer process.

- Eligible pots below the pot size limit, built up in the money purchase default arrangement of workplace schemes will be automatically transferred.
- Members will be provided with information about the transfer and will have the ability to opt-out where they want to keep their pension pot with their current scheme.

**3.23** On 11 February 2015 the Minister for Pensions published a paper entitled *Automatic transfers: A framework for consolidating pension savings*, where he sets out how the Government expects to implement a system of automatically transferring pension pots.<sup>13</sup>

**3.24** The paper outlines the ‘federated model’, which was selected as the preferred model of implementation, and describes four key stages in the operation of automatically transferring a pension pot: pot flagging; pot matching; contacting the member; and pot transfer.

**3.25** The DWP’s next step is to develop the legislation for the federated model of automatically transferring pension pots from October 2016.

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<sup>13</sup> *Automatic transfers: A framework for consolidating pension savings*. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/402860/automatic-transfers.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/402860/automatic-transfers.pdf)

## 4. Our findings

### Introduction

In our interim report we asked whether respondents agreed with the conclusions we had drawn from our analysis and whether there were any reasons why our provisional findings should not become final. This chapter summarises the key themes coming out of the responses we received to those questions and our conclusions.

The key themes of the consultation responses to our findings fall into two broad categories:

- The findings of the market study.
- The scope of the market study.

Overall the consultation responses on our findings were supportive of the view that competition in this market was not working well for consumers.

There were some responses that provided challenge to our findings, and one respondent who challenged the scope of the market study. We have considered those responses (set out below) but they do not materially change our conclusions.

In light of the above, we consider that overall the consultation feedback we have received supports our conclusions on competition in this market. We confirm our provisional findings as final.

### Market study findings

- 4.1** A large majority of consultation responses supported the findings in our interim report.<sup>14</sup> The feedback we received broadly agreed that there was a need to improve the way the market operates, increase consumer engagement and improve consumer outcomes.

<sup>14</sup> 19 out of 24 respondents largely agree with the conclusions drawn.

- 4.2** While there was very little challenge to our provisional finding that competition in this market was not working well for consumers, one respondent explicitly stated that they did not agree citing the following reasoning and evidence:
- Many consumers choose a pension provider on the basis of brand rather than small financial differences that may be available by shopping around and switching. It is appropriate for consumers to make choices on this basis, and for firms to choose whether to compete on price or on other factors.
  - An informed choice by a consumer to value service and brand over small differences in price is not evidence of market failure. It is possible that a consumer's existing provider offers the best price and there is no benefit to switching in any event. The extent to which people exercise their open market option is not the correct measure of whether consumers have got the best deal based on their personal circumstances.
  - The FCA's own research (referring to our Occasional Paper published alongside the interim report)<sup>15</sup> shows that the right annuity purchased on the open market offers good value for money for people with average sized pension pots.
  - While there may be a small number of consumers who are unaware of their option to shop around, this is due to a failure by consumers to read the information that their provider sends to them. The fact that consumers do not read disclosure material is not evidence of market failure.
  - Elements of the FCA's own consumer research point to consumers not understanding products, but arguably these results could be interpreted in a way that demonstrates consumer understanding.<sup>16</sup>
- 4.3** This respondent stated that the provisional finding of our interim report that competition was not working well was disproportionate to the evidence presented. They argued that the majority of the evidence in the interim report related to annuities, but that the FCA had 'tared the whole market with the same brush'. Another respondent stated that our findings stem from a focus on part of the annuity market where consumers tend not to shop around and switch.
- 4.4** Another respondent, while not explicitly disagreeing with the findings in our interim report, suggested we should not assume that there has been a failure if consumers fail to obtain the absolute maximum level of income in retirement. The reasoning underlying this suggestion was that achieving the maximum level of income in retirement can only be achieved at significant time and expense to the consumer, and we should factor that into our analysis of outcomes.

<sup>15</sup> *Occasional Paper No. 5: The value for money of annuities and other retirement income strategies in the UK*

<sup>16</sup> Specifically, this respondent suggested that (a) consumers stating that their pension fund is at risk when purchasing an annuity reflects the fact that consumers view the absence of any death benefit on their annuity as loss of their pension fund; (b) consumers stating that the level of annuity income can fluctuate is recognition of this possibility through RPI-linked annuities; and (c) consumers stating that an annuity allows them to leave a lump sum to dependents is recognition of this possibility through capital protected annuities.

## Our response

The feedback we have received strongly supports the provisional findings and conclusions we reached in our interim report, and that there is a need for us to take remedial action.

We have considered the arguments raised by the small number of respondents challenging our finding that competition is not working effectively in this market. While we accept many of the points raised, we do not agree that they demonstrate that there is no market failure.

We consider price to be an important parameter of competition for annuities. Our analysis showed a significant distinction between the annuity rates available on the open market and the rates offered to existing customers by incumbent providers.<sup>17</sup> The additional income that can be obtained by consumers from shopping around on the open market and switching provider shows how consumers can drive price competition in this market.

We agree that firms should be able to compete on parameters of competition other than price (such as brand and service). In our interim report we explicitly stated that there were some positive non-price related reasons for consumers remaining with their existing provider, such as brand loyalty and trust.

We agree that there should not be an assumption of market failure if consumers fail to achieve the absolute maximum level of income in retirement. Our provisional findings were that many consumers were missing out on a higher income by not shopping around for an annuity,<sup>18</sup> and some do not purchase the best annuity for their circumstances.<sup>19</sup> This suggests that there is scope for the market to work better.

Our economic analysis showed the importance of shopping around: money's worth of annuities in the open market is generally higher than the money's worth of annuities bought from the existing providers, and selecting the best quote available in the open market as opposed to the average quote in the open market could lead to a significantly higher income. For instance, our analysis for selected profiles of customers demonstrated that retirees could achieve a 5 to 6 percent higher income by effectively shopping around and selecting the best quote in the open market.<sup>20</sup> In our view, there is clearly more that can be done to improve

17 Our [Thematic Review of annuities TR14/2](#) found that 80% of consumers who purchase their annuity from their existing provider could get a better deal on the open market. This finding is corroborated in the [Occasional Paper No. 5: The value for money of annuities and other retirement income strategies in the UK](#), which found that on average between January 2006 and June 2014, a 65 year-old male 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.

18 Our [quantitative consumer research](#) showed that 40% of consumers purchased an annuity from their existing provider. As set out in footnote 87 of our interim report, we are aware that other sources of research (including our previous thematic review) provide slightly different estimates, with a higher proportion of consumers not shopping around. This difference may be explained by the fact that GfK's research also includes consumers buying annuities through a panel or tied provider; hence GfK's finding (that 60% of consumers buy an annuity from a different provider) does not necessarily reflect the proportion of people that shop around and switch provider, by our definition.

19 For example, consumers purchasing a standard annuity when they would have qualified for an enhanced annuity.

20 See the [Occasional Paper No. 5: The value for money of annuities and other retirement income strategies in the UK](#). For instance, for a 65 year-old male annuitant with a £50,000 pot the average money's worth over the period January 2006 to June 2014 is 94%, but increases to 99% if we use the best quote available in the market at each point in time. Hence, all else equal, the retiree could achieve a 5.9 percent higher income by effectively shopping around and selecting the best quote in the market. Similarly, for a 65 year-old male with a £10,000 pot the additional income obtained by taking the best quote would be 5.1 percent higher.

consumer outcomes while recognising that there will always be consumers who choose a product with a lower annuity rate for a number of reasons.

We do not agree that the exercise of the open market option by consumers is not an important indicator of consumer outcomes, although we recognise that there are other important indicators and have considered the range of evidence in the round. In certain situations an incumbent provider may offer the best deal for a consumer given their circumstances (for example, because the consumer has a Guaranteed Annuity Rate). However, the findings of our analysis on the value for money of annuities suggest this is often otherwise.<sup>21</sup> Our thematic review of annuity sales practices also highlighted that some consumers may not be buying the right type of annuity for their circumstances from their existing provider. This is corroborated by the findings of our thematic review of annuities, which found that in 2012 5% of annuities sold by providers to their existing customers were enhanced annuities, whereas 50% of open market annuities sales were enhanced.<sup>22</sup> This suggests that there are important benefits to consumers available in the open market.

We also disagree that consumers failing to read disclosure material is not evidence that supports our overall conclusions on competition in this market. Our consumer research highlighted that current disclosure is not effective in facilitating consumer engagement.<sup>23</sup> Our thematic review of annuity sales practices also found that in general terms, while firm documentation mostly provides customers with information about shopping around, the messages are not always consistent and that some firms needed to make significant improvements to their documentation.<sup>24</sup> In our view, the lack of consumer engagement with firms' disclosure does impact on the effectiveness of competition in this market, as it contributes to the weaker demand-side pressure that consumers place on firms. Our broader work also suggests that smarter disclosure, with which consumers engage more readily, can have significant benefits.

We agree with the challenge from one respondent that our interpretation of specific questions in our consumer research relating to understanding of retirement income products is open to alternative interpretation as set out above.<sup>25</sup> However, we consider that our overall interpretation of these results is robust. We consider it unlikely that consumers were displaying the more technical understanding of annuities required to respond to our survey questions in the way this respondent suggested. This is because our research identified that although 93% of our respondents said they had heard of annuities, when asked how well they understood them, a third responded that they did not understand them well.<sup>26</sup> In addition, there is a range of previous consumer research that also points to a lack of understanding among consumers.<sup>27</sup>

21 See the [Occasional Paper No. 5: The value for money of annuities and other retirement income strategies in the UK](#) and page 5 of our [interim report](#).

22 See [Thematic Review of annuities TR14/2](#) (February 2014), page 22.

23 See our [quantitative](#) and [qualitative](#) consumer research that we published alongside our interim report.

24 See [Thematic Review of annuities TR14/2](#) (February 2014), page 16.

25 See footnote 16 above for details.

26 93% of pre-retired respondents, and 94% of retired respondents. See GfK report [At-Retirement Consumer Research – exploring changes in the retirement landscape](#), page 30.

27 See, for example: [Pension Annuities – A Review of Consumer Behaviour](#) (Jackie Wells, January 2014), pages 33 and 34; and [NEST Insight](#) (2014), page 29.

We agree that much of the evidence on which our provisional findings are based relates to annuities. However, in our view, this is to be expected, given the large proportion of retirement income product sales attributable to annuities as opposed to income drawdown. As we set out in our interim report, in 2013 sales of annuities had a total value of £11.9bn, as opposed to income drawdown sales, which had a value of £1.2bn. We recognise that this balance may change in favour of income drawdown products in the new landscape. However we expect our concerns around consumer engagement and switching to be relevant to other products as well, particularly as we expect there to be growth in the sales of income drawdown products without a personal recommendation. We have highlighted this as a risk in the new landscape. In that sense, we believe our findings have applicability beyond annuities.

We also note the comments that our findings are based on part of the annuity market where consumers tend not to shop around and switch. We assume that the “part” of the market being referred to by this respondent is sales of annuities to incumbent customers. In our thematic review of annuities we found that this accounted for 60% of annuity sales,<sup>28</sup> which we consider to be a significant part of the overall retirement income market.<sup>29</sup>

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### Scope of the market study

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- 4.5** One respondent raised concerns that our interim report had not given sufficient consideration to what it considered to be additional problems in the retirement income market. In summary, these additional concerns were:
- Further consideration should be given to the impact of advice and guidance<sup>30</sup> on achieving good customer outcomes, as we only made a limited assessment, noting costs in general terms. We also failed to draw any inferences from the fact that a greater proportion of people are buying products without advice, while paying similar intermediation costs to seeking advice and at the same time achieving poor outcomes.
  - Our consumer research should have tested consumer understanding of the difference between advice and no advice in terms of consumer protection. It failed to consider whether consumers could differentiate between guided product sales that provide substantial information but fall short of an advised process.<sup>31</sup> There was also no examination of advice costs versus the information/guided costs and the long term potential detriment of acting without advice when it was in the client’s clear interest to seek advice.
  - There is a regulatory bias between products sold via advice and products sold without advice in the form of intermediary remuneration and the degree of responsibility taken for the sale of the product by the seller versus the buyer. Firms interpret our requirements to provide sufficient information to enable an informed choice to be made as simply a requirement to disclose relevant information clearly and fully, rather than placing weight on the outcomes people receive from a product sale without advice. We should undertake

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<sup>28</sup> See footnote 18.

<sup>29</sup> [Thematic Review of annuities TR14/2](#) (February 2014), pages 7, 12 and 13.

<sup>30</sup> The terms “advice” and “guidance” in this context are those used by the respondent. In light of our finalised guidance on [retail investment advice](#), the FCA refers to services that provide a personal recommendation and services that do not.

<sup>31</sup> By “advised process”, we consider the respondent is referring to services that involve a personal recommendation.

more detailed work in this area to understand what the implications are of removing the regulatory bias that favours intermediation without advice over advice.

- We have not considered linking outcomes to information provided, and we should have made it clear that firms have obligations to intervene if there are good reasons to suggest that people are making evidently poor decisions. While the ‘Dear CEO’ letter<sup>32</sup> issued by the FCA may be a step in the right direction, it will have limited impact if it focuses on pre-sale information rather than point of sale information.

### Our response

We have considered the feedback provided on the scope of the market study and the additional concerns this respondent feels we should have considered further. We make a number of points in response:

The consumer research we undertook as part of the market study did consider the role of “advice” in consumers’ retirement income decisions. Our qualitative research found respondents were unsure how to judge advice they are given as there are no visible measures to assess the quality of one adviser over another. Cost was also a barrier to seeking financial advice, and many consumers found the cost of a financial adviser to be prohibitive given the size of their pension pot.<sup>33</sup> That said, 40% of respondents to our quantitative consumer research claimed to have received regulated advice about their retirement choices, and felt better prepared to make decisions at retirement and were clearer about those decisions.<sup>34</sup>

Consumers’ perceptions of “advice” were also considered in our recent Retail Distribution Post-Implementation Review, which found that by revealing the true cost of full advice, RDR has led some consumers to consider the extent to which these services represent good value for money, and in some cases they have concluded that they do not. Our review found that this group of consumers included those who would be likely to pay for a cheaper form of service involving a personal recommendation, such as simplified advice.<sup>35</sup> We also note that the Money Advice Service (MAS) is currently developing a new adviser directory, which will allow consumers to search for suitable advisors not only on the channel through which they provide advice (namely face-to-face, online or telephone), but also to search for advisors in terms of the scale of business they handle on retirement income and pension related matters.

Our interim report did consider the relative costs of purchasing an annuity using full advice and using a service without a personal recommendation. We noted that in certain circumstances (depending on the commission rates charged), the costs of purchasing through both services can be equivalent.<sup>36</sup> We also stated very clearly that we require firms to provide information on the specific costs

32 The ‘Dear CEO’ letter is a reference by this respondent to our forthcoming additional protection rules; see Chapter 3 for more details.

33 Ignition House report [Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape](#), pages 18 and 42.

34 GfK report [At-Retirement Consumer Research – exploring changes in the retirement landscape](#), page 7.

35 See [Post-implementation review of the Retail Distribution Review - Phase 1](#), Chapter 3, page 3.

36 This assessment was based on typical rates for standard and enhanced annuities identified through research by the Financial Services Consumer Panel and information we requested from firms as part of the market study. It also took into account the potential for broker commission to be incorporated into the annuity rate offered to the consumer through a service without a personal recommendation. See the market study interim report, page 56.

involved by virtue of our Conduct of Business (COBS) rules, specifically COBS 2.2.1R (1), 4.2.1R and 4.5.2R.<sup>37</sup>

The implications for a consumer from using services without a personal recommendation are clearly set out in our recent Finalised Guidance on Retail Investment Advice.<sup>38</sup> In services that do not amount to full advice, the customer must be made aware of the limitations of the service and, assuming they have been properly described, accept those limitations. Where the service does not involve giving advice, but is execution-only, the customer will inevitably be taking responsibility for the decision themselves and recourse to redress would be limited.<sup>39</sup> The guidance also clearly states what constitutes regulated advice under the Regulatory Activities Order, and that when firms give regulated advice that does not involve a personal recommendation, certain requirements in our Handbook such as our Principles for Business and COBS will apply.<sup>40</sup>

The suggestion that firms intervene at point of sale where consumers are evidently making poor decisions will be addressed by the retirement risk warnings we will be putting in place from April 2015.<sup>41</sup> These rules will apply to the point of sale process, and will require warnings to be provided in wider circumstances than when consumers are making evidently poor decisions. They will be provided in all point of sale interaction other than when a financial adviser provides a personal recommendation to a consumer and purchases the product on the consumer's instruction.

We acknowledge that there is scope to give further consideration to the impact on consumer outcomes of using services that provide a personal recommendation and those that do not. Although this has not been within the scope of this piece of work, it is a broader issue that we are giving further consideration.<sup>42</sup>

## Overall conclusions on our findings

Having considered the consultation feedback we have received, it does not change our conclusions on competition in this market and overall supports the provisional findings that we set out in our interim report, for the reasons set out above. We have therefore decided to confirm our provisional findings as final. Comments from consultation respondents on how we propose to address our findings through our proposed remedies are considered in the next chapter.

<sup>37</sup> See the market study interim report, page 56.

<sup>38</sup> FG15/1 - Retail investment advice: Clarifying the boundaries and exploring the barriers to market development

<sup>39</sup> FG15/1 - Retail investment advice: Clarifying the boundaries and exploring the barriers to market development, page 46.

<sup>40</sup> FG15/1 - Retail investment advice: Clarifying the boundaries and exploring the barriers to market development, page 11.

<sup>41</sup> See Chapter 3 for details.

<sup>42</sup> As set out in our 2015-16 Business Plan, from April 2015 we will scope and plan a follow up to the market study into the outcomes consumers receive from the products and services they buy at retirement. This will review how well the market is working after the reforms and the guidance guarantee have been introduced, in particular after the full pensions flexibilities are introduced in April 2015. We will look at both purchases made with a personal recommendation (reviewing the suitability of advice given) and without a personal recommendation (reviewing the information provided). We would expect to launch this work in early 2016 once we have a greater evidence base of actual outcomes.

# 5.

## Our remedies

### Introduction

In our interim report we asked respondents for their views on specific questions relating to each of our proposed remedies. We also sought views on the effectiveness of our proposed remedies and whether there were any other remedies we should consider.

This chapter summarises the key themes coming out of the responses we received to those questions and our response. Overall, the consultation feedback we have received has been supportive and we have decided to confirm our proposed remedies, which are:

- Requiring firms to provide annuity quotation comparisons 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 and switching provider (**Remedy 1**). We also acknowledge the need to develop comparison tools for income drawdown and other new products in the longer term, as the market develops and these new products come to market.
- Recommendations to improve the way information is framed to consumers to help them make decisions surrounding their retirement income (**Remedy 2**).
- Redesigning and behaviourally trialling the information that consumers receive from their providers in the run up to retirement (**Remedy 3**).
- In the longer term, the creation of a pensions dashboard which will allow the consumer to see all their pensions in one place (**Remedy 4**).
- 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 (**Remedy 5**).

We have set out the next steps and anticipated timescales for our proposed remedies. We have also received a number of alternative remedy proposals, which we have considered in more detail in Annex 1 of this report. We do not propose to take some of these suggested remedies forward; however there are others that we will consider further as part of our wider work in this market.

## Effectiveness of remedies

- 5.1** The overarching feedback we received was that the proposed remedies would go some way to addressing the concerns we identified. The majority of respondents supported the proposed remedies, although there was a divergence of views about the extent to which respondents felt the proposed remedies would address the concerns we identified. Some respondents fully supported the proposed remedies, while others supported them but considered them to be more of a starting point for further reform and regulatory change. In some cases, those respondents also proposed alternative or additional remedies. These are considered in more detail later in Annex 1 of this report.
- 5.2** In terms of challenge we received on the effectiveness of our remedies generally:
- Some respondents noted that the practicalities of design and implementation would need more detailed consideration to avoid unintended consequences.
  - Other respondents considered that the remedies focused too much on making annuities the default choice for consumers, rather than ensuring that consumers choose from a range of retirement income products. For example, one respondent considered that the remedies appeared to focus on delivering better outcomes for consumers who purchase annuities from their existing provider, rather than nudging consumers to consider products from other providers.
  - One respondent requested that before finalising our remedies we should give more detailed consideration to the interaction between the trust-based scheme sector and the FCA-regulated sector.
  - Another respondent argued that it was too early for us to develop our remedies and we should defer the process until there was a better understanding of the new market.

### Our response

There is broad support from respondents' feedback that our proposed remedies would be effective in addressing the concerns identified in our interim report. However, we recognise the views and challenges expressed by some respondents and respond to them below.

We recognise that further remedies in addition to those we have proposed could also be implemented. However, the primary objective of our remedies is to increase the effectiveness of the information that is provided to consumers to help address consumer inertia, encourage shopping around, and if appropriate, switching. Given that the market is on the brink of major change, we have focused on stopping things getting in the way of consumer choice, and improving the clarity and simplicity of communication between firms and their customers. Depending on how the market evolves we may need to revisit products and sales practices in future if we have concerns. That said, we have considered alternative and additional remedy proposals and some of these will be considered in further detail as part of our wider work in this market.

We do not agree that we should defer developing the proposed remedies until we have a better understanding of the new landscape. The objective of our proposals is to increase the quality of the information that is provided to

consumers to help them make effective choices. Regardless of how the market develops in terms of specifics, consumers will face a more complex landscape, and will need more support in making the right choices. However, we will of course keep the rest of this sector under review and amend our approach if necessary over time.

Some respondents considered that our remedies were designed to create a consumer default to annuities in the new landscape, and focused too heavily on improving outcomes for customers purchasing from their existing provider. We do not consider this to be the case as our only annuity specific remedy (the quote comparison) is designed to be effective once a consumer has taken the decision to purchase an annuity, rather than to nudge a consumer at an early stage towards deciding to buy an annuity. The remainder of our remedies are in no way intended to be annuity-specific or to be focused on consumers purchasing from their existing provider. Their intention is to increase the quality of information available to all consumers to make good decisions relevant to their circumstances. Furthermore, we consider that consumers will be guided to a specific retirement income product type primarily by reference to what they wish to use their savings for, rather than the ease of comparison of specific products.<sup>43</sup>

We also acknowledge the need to develop comparison tools for income drawdown and other new products (such as 'hybrid' products) in the longer term, as the market develops and these new products come to market. The flexibilities introduced by the landscape reforms should enable consumers to consider alternative products to annuities. There will also be guidance available to consumers on how to shop around for specific products through the Pension Wise service, and consumers should be reminded to consider the appropriateness of products for their circumstances when they receive retirement risk warnings.

We agree that the practical details of designing and implementing our remedies will need to be considered in more detail. The purpose of this consultation has been to consult on our remedy proposals in principle. We are already considering these details in the work we are undertaking to design the behavioural trials we need to conduct for our annuity quote comparison and wake-up pack remedies. This will also be considered through further consultation and cost-benefit analysis where we propose changes to our rules. We would encourage firms to work with us in this phase of our work, particularly on our behavioural trials.

We agree with the comments from one respondent that our remedy proposals need to consider the interaction between trust-based and FCA-regulated sectors of the market. We have set out how we will do this in respect of each remedy (as relevant) throughout the remainder of this chapter.

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<sup>43</sup> See GfK [At-Retirement Consumer Research – exploring changes in the retirement landscape](#), page 56, which states that there was a high degree of awareness of the landscape reforms, and that this may impact on the retirement income products consumers choose to purchase with their savings.

## Remedy 1 – annuity quotation comparisons

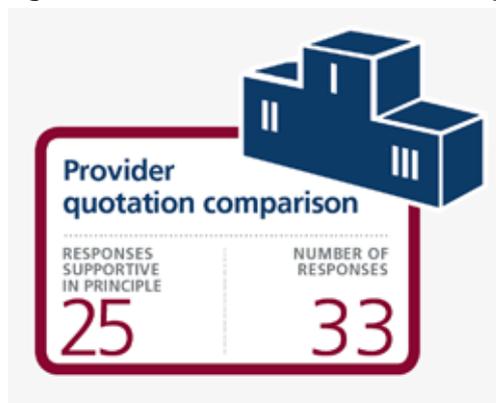
### Overview of remedy proposal from our interim report

Our interim report highlighted that a significant number of consumers demonstrate a lack of awareness of their retirement income options and they tend not to shop around for alternative products and providers or switch away from their existing provider, particularly when purchasing an annuity. To increase consumer awareness of the benefits of shopping around, we proposed requiring firms to tell their customers how the rate they offer on annuities compares to their competitors' quotes available on the open market. We proposed that this information should be delivered during telephone conversations with customers and in written communications sent to customers setting out the provider's own quote. We suggested that this information could be provided using annuity price comparison websites, such as the Money Advice Service (MAS) to provide quotes for a particular consumer from other providers operating on the open market.

### Consultation feedback – effectiveness of proposed remedy

- 5.3 We received broad support for our proposal. The feedback we received on the whole agreed that we should implement a remedy to make it clear to consumers how their quote compares relative to other providers operating in the open market. Figure 4 provides an illustrative overview of the number of supportive responses we received.<sup>45</sup>

Figure 4: Overview of consultation responses to remedy 1



- 5.4 Feedback from our workshop attendees included the following points:
- Consumers should be given a comparison of quotes if an annuity is the right answer for them, although it was important to ensure a full range of providers were included in the comparison.
  - The remedy proposal was to disturb consumers and that it would be an extra push to prompt them to consider the benefits of shopping around and encourage switching.

<sup>44</sup> See market study interim report, pages 89 and 90.

<sup>45</sup> 25 out of 33 respondents largely supported our remedy 1 proposal. Responses also included further qualifications, alternative suggestions, and practical concerns about implementation.

- While it would be difficult to provide a fully personalised comparison (particularly without any interaction between the provider and the consumer), the proposed remedy would provide consumers with the context they need to understand the consequences of the choices they were making.
- It would be important for the impact of the remedy to be properly researched with consumers and to consider costs and benefits.

**5.5** Written consultation responses cited a number of reasons why this remedy is appropriate, including:

- It will address the concerns identified in our interim report in relation to consumer awareness of, and outcomes from, not shopping around and switching, as well as the concerns identified in the thematic review of annuity sales practices regarding enhanced annuities.
- It will help increase consumer awareness of the open market options, that they may get a better deal elsewhere and how to go about doing so.
- That it is a necessary part of improving consumer outcomes, and in future the annuity purchaser will be more aware, better informed and better able to use the information available.

**5.6** Many respondents supported showing not only the annual difference in retirement income between the quotes provided, but also the estimated difference over 20 years and the projected retirement duration.

**5.7** The consultation feedback did reveal a number of objections to the remedy, as well as concerns about how the remedy will be implemented and alternative suggestions. These included:

- Including annuity quotes would signal to the consumer that an annuity is at least one of (a) the default option; (b) the only option; and/or (c) the best retirement income option for them, and discourage them from considering all of their retirement income options.
- While the remedy would be effective in facilitating comparability and shopping around for annuities, it would not allow comparison across the various forms of annuities nor take into account an individual consumer's wants and needs.
- Not including annuity quotes for comparison would be more effective in making consumers more proactive and engaged to obtain (more accurate) quotes themselves.
- Firms risk inadvertently providing personal recommendations when giving quote rankings.
- The amount of information provided to consumers should instead be vastly pared back to, for example, a single sheet of paper signposting guidance and advice, with no quotes for comparison.
- Concerns regarding the implications for individuals who have pension pots with more than one provider.
- Concerns that firms will take different approaches to the provision of enhanced annuities resulting in the provision of an inaccurate comparison, or quotes that are out of date.

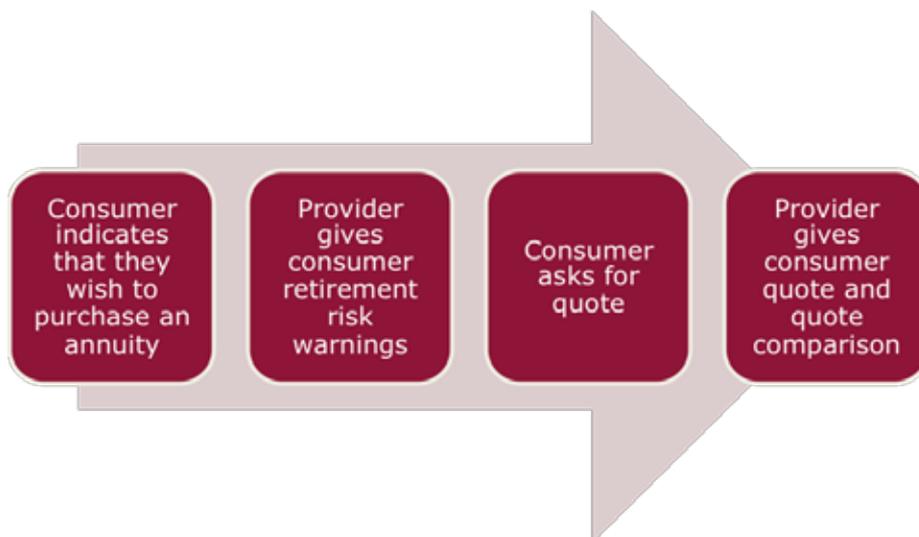
- The remedy is unnecessary as market forces are enough to exert pressure on providers who consistently deliver poor returns to their consumers.
- Concerns around ensuring an adequate number and range of quotes providers would be expected to provide.
- The IT costs involved could be burdensome for providers, and may be passed on to consumers, disadvantaging those consumers who would have shopped around in any case.

**Our response**

There is strong support from our consultation feedback for our proposal to require firms to make it clear to consumers how their quote compares relative to other providers operating on the open market. We note though that there is a divergence of views across stakeholders of how the proposal could be best implemented and practical challenges with introducing it.

We believe that many of the objections to the proposed remedy of quote comparison are due to the perception that the comparison would be provided at a very early stage, before the consumer has decided how they wish to take their retirement income and before any advice or guidance has been received. However, we propose that firms provide a quote comparison only once there is customer-instigated communication (when they actively ask their provider for an annuity quote and have considered the retirement risk warning from the provider). This would therefore allow quote comparisons tailored to the individual consumer. It would not, in our view, create a product bias towards annuities as consumers will be guided to a product based on their requirements rather than ease of comparison. Figure 5 below illustrates the point in the customer journey at which we envisage this remedy applying.

**Figure 5: position of quote comparison remedy in customer journey<sup>46</sup>**



<sup>46</sup> A consumer may request a quote for a number of reasons, for example because they have decided to buy an annuity, or because they want to compare an annuity against another retirement income product.

We agree the quote comparison requirement would need a certain degree of consistency across consumer communications channels to be effective. However, it would be primarily intended to prompt consumers to consider the benefits of shopping around and switching (if appropriate), and in our view does not need to be fully comprehensive in order to achieve this. We recognise that an over-simplified underwriting process might lead to imprecise quotes for some consumers. However the full underwriting questionnaire for all consumers might also unnecessarily add to the length of the process for other consumers.

We recognise the potential benefits of a wider ranging comparison (across options, and within products other than annuities), and are keen to work with industry on this as the new landscape develops. In terms of enabling comparability across multiple pension pots, this would be possible if the consumer decided to purchase separate annuities with separate pots, as a quote comparison would be generated for each quote requested. However, this is not the primary purpose of this remedy and the issue of multiple pots would be addressed by other solutions, such as the development of a pensions dashboard or a pension statement.<sup>47</sup>

We do not agree that **not** providing annuity quotes and comparisons would result in more proactive and engaged consumers. We believe that demonstrating the benefits of shopping around to consumers can help stimulate them to shop around and undertake comparison.<sup>48</sup> The provisional findings of our market study also point to the fact that market pressures alone are not enough to bring about effective competition in this market.

Some responses cited cost as a potential burden for firms that would ultimately be passed on to consumers. However we have not been presented with any specific evidence to demonstrate that the proposal would be overly burdensome. In any event, before putting any requirement into our rules we must carry out a cost-benefit analysis.

As firms implement the new Retirement Risk Warnings, it is likely that annuity comparison tools could provide an important additional way to communicate the risks and benefits associated with choosing an annuity. We would expect the timing of the delivery of the annuity comparison tool to correspond with the retirement risk warning process (see Figure 3 and Figure 5 above for illustrations).

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<sup>47</sup> A pension statement (often referred to by consultation respondents as a pension passport) is a document that provides the consumer with key information **on a specific pension fund that they have with a specific firm**. Examples of the information that it could include are: policy number; pension fund size; maximum tax free cash available; and whether any guarantees or reductions apply to that policy. A Pensions Dashboard, on the other hand, provides the consumer with an overview of the key information on **all the pension funds that they have**. Unless referring to the views of consultation respondents, in this document we refer to a pension statement.

<sup>48</sup> See previous FCA publications on behavioural economics, such as [Occasional Paper No. 1: Applying behavioural economics at the Financial Conduct Authority](#); and also the [Cash Savings Market Study report MS14/2.3](#), where we show that the way in which customer communications are timed and presented can have significant effects on consumers' shopping around behaviour.

### Consultation feedback - practical issues in the remedy design

- 5.8** On the question of how the proposal could be best implemented and the practical issues resolved, we received helpful feedback, summarised below:
- We received support for the suggestion of using MAS as one source of comparison quotes and note the suggestion of extending the service to include other features, such as a standard that uses the industry-wide common quotation form.
  - Many respondents supported showing not only the annual difference in retirement income between the quotes provided, but also the estimated difference over 20 years and the projected retirement duration.
  - Impaired annuity quotes should be disclosed even if the customer doesn't provide health information.<sup>49</sup>
  - There were calls for a centrally available and neutral source for the quote comparison, with a standard range of factors for the quotes produced on a like-for-like basis.
  - Firms should provide the quote comparison with a 'Pension Passport', together with signposting the Pension Wise guidance service.
  - The requirement to provide this comparison should not be applied to trust-based schemes where the trustees have selected a preferred supplier or a panel of annuity providers.
- 5.9** Although the majority of respondents agreed that the positioning and timing of this remedy within the customer's decision-making journey would be key, there was some divergence on when the comparison should be presented to be most effective, and the degree of personalisation that the quote should take. Some respondents argued that the quote ranking should be based on standard assumptions, which would allow it to be included in early firm communications with the customer, while others asserted the importance of a fully personalised and tailored quote illustration in line with the ABI Code.<sup>50</sup>
- 5.10** On how best to implement this remedy, there were mixed views about whether we should use prescriptive disclosure rules, to ensure the consistency and accuracy of provider communications, or adopt a principles-based approach, to avoid inadvertently favouring one option over another.
- 5.11** There was a divergence of views on what information could feasibly be provided over the phone and in writing. The key points that came out of the feedback in this respect were:
- Most of the information provided would have to be in writing due to the complexity of the information to be provided, to aid consumer understanding, but that such information must be in simple 'layman' terms.
  - Others supported information being provided primarily via digital channels only, with the concern that information provided over the phone and in writing should be limited due to the difficulty in implementing a full solution via phone/written communication. Digital

<sup>49</sup> As explained at page 16 of our interim report, enhanced and impaired annuities provide higher income because the annuity income is expected to be provided for a shorter period of time due to life expectancy being affected by lifestyle choices such as smoking (enhanced annuity) or certain medical conditions, such as cancer (impaired annuity). Throughout this report 'enhanced annuity' should be read as a reference to both enhanced and impaired annuities.

<sup>50</sup> Section 6 of the ABI Code of Conduct requires that a personalised illustration must be provided to the customer before the sale of an annuity is completed. This may be provided by telephone or in writing, or any other method the provider considers appropriate. However, it does not require that the provider include a comparison of the personalised illustration to other providers available on the open market.

channels are believed to be user-friendly, enabling consumers to click through and obtain information and quotes in real time.

- That any written or telephone communication should use and/or refer to the MAS website. There was support for the role of bodies such as CA for those who are not comfortable using digital channels.
- There was a concern that telephone communication can make it difficult to relay the different retirement income options, resulting in confusion. There was also concern that this method can favour the incumbent firm as well as making it difficult to check compliance with the impartiality of providers. One respondent was concerned that providing information over the phone risks customers being left with the impression that they have received advice. However, there was also some consensus that any quotation over the phone should be followed up by written communication.
- Others asserted that written disclosures may not be read or understood, but that a part-scripted telephone conversation covering key points could be useful, with appropriate risk warnings. Advocates stated that phone calls are easier for customers, provided they are relatively short, but that any telephone discussions should be followed up in writing to check and confirm understanding.
- One respondent asserted that any information disclosure should be kept to a minimum and that the focus should instead be on directing people towards Pension Wise.

**5.12** Finally, respondents raised specific concerns around the design of the remedy, in particular relating to the following areas:

- Ensuring an adequate number and range of quotes providers would be expected to provide.
- That the proposed remedy could give rise to the risk of anti-competitive information exchange between firms.
- The use of the MAS annuity comparison site as a source of quotations. The majority of respondents supported our suggestion of using the services of an independent, standardised and neutral source for comparison, such as MAS. However some respondents noted that the MAS website uses a restricted set of rating factors for generating quotations as compared to the industry standards. Furthermore, a number of respondents suggested considering the positive role that can be played by commercial price comparison sites and tools available from other commercial providers in this area.

### Our response

After considering the consultation feedback in the round, we will proceed with this proposed remedy. We appreciate the input on how the proposal could be best implemented, and will take the suggestions into consideration when further developing the remedy. In particular, we note the support for differences in annuities to be demonstrated over long time periods. Given that individuals tend to underestimate their longevity we believe it is even more important to demonstrate the differences over their retirement lifetime, with appropriate caveats for those entitled to enhanced annuity rates on health or lifestyle grounds. However, it is not clear to us how we would require firms to disclose

enhanced annuity quotes to consumers in circumstances where consumers did not provide relevant health or lifestyle information.

We also appreciate the suggestion that consideration be given to how to illustrate differences over the longer term of selecting a single life as opposed to joint life annuity. In terms of whether or not the quote comparison should form part of the existing requirements of the ABI Code to provide a personalised illustration or not is an issue we will consider in the next phase of work.

We recognise that firms and consumers can currently access competitor price information on the MAS website now, and any firm can access current competitor pricing from price comparison websites more generally. There are a number of annuity-specific comparison websites currently active in the market. We do not foresee any increased risks of competitors sharing future or intended pricing information from a competition law perspective from its proposed remedy, as it would only require firms to source current prices (quotations) from a price comparison website and this information is already publicly available.

We do not think that there should be a restriction on which price comparison websites could provide the quotation comparison service to firms, although we would want to ensure that any price comparison website providing the service is at least as comprehensive and impartial in terms of the information they provide as the MAS service.<sup>51</sup> If firms have flexibility over the price comparison websites they use, we consider that this may help address concerns regarding the different approaches firms may take to providing enhanced annuities. There is a risk (as is the case in other retail markets) that firms may decide to not provide quotes on a voluntary basis to price comparison websites, which could impact on the effectiveness of this remedy. We will consider the extent to which it is necessary to require firms to provide quotations to price comparison websites in the next phase of our work, which will be subject to further consultation.

There were comments from respondents on the restricted factors the MAS comparison service uses to provide comparisons quotes. MAS has confirmed to us that the factors it uses to generate quotes are derived from a common quote form (CQF) provided by IRESS, which is also used by Independent Financial Advisors (IFAs) and conforms to Origo standards.<sup>52</sup> In response to feedback from consumers and IFAs, the number of questions used by MAS has been limited to the key considerations for individuals when shopping around and some of the more common lifestyle and health factors. That said, MAS is able to extend the factors that it currently takes from its IRESS CQF should that be deemed necessary. MAS have also confirmed to us that over the three months since its revised service was launched (1 December 2014 to 28 February 2015), the number of customers who go through the whole website journey and generate a quote is 86%.

We note the various suggestions from respondents relating to adopting a prescriptive or principles-based approach to any new rules arising from this remedy. This report does not consider the specific rules that may be required for implementing this remedy. We will consider the best way to implement any

<sup>51</sup> However, we note that the Pension Wise will signpost consumers to the MAS annuity comparison service as appropriate.

<sup>52</sup> Specifically, Origo messaging Standard 3.7.

required rule changes in further consultation before any decision to implement the remedy is taken.

We note the feedback received on whether this remedy should apply to trust-based schemes. We have discussed this issue with tPR and the DWP and agreed that we will engage with them as we consult on this remedy later this year. Ultimately, any implementation of this remedy to the trust-based sector may require consideration of further legislation.

We acknowledge the diverse range of responses on how much information could be feasibly provided over the phone and in writing, as well as the issue of digital interaction. We will consider this further as we conduct the next phase of our work, but note at this stage that our segmentation data provides a mixed view on the use of digital technology by retired consumers.<sup>53</sup> In terms of the role of organisations such as MAS and CA providing guidance to consumers uncomfortable using digital channels, it is not clear exactly what is being proposed, and whether this would lead to duplication of existing services provided by MAS.

### Consultation feedback - comparison of products other than annuities

**5.13** As part of the consultation, we asked how the proposal could be applied to other retirement income products, such as income drawdown. Respondents differed in their views about this. The key points that came out of this feedback were:

- Many respondents believe that while it will be challenging to provide comparisons for other retirement income products such as income drawdown (due to the number of variables), it is possible. Suggestions for factors of comparison included cost, service, online capabilities and investment options, payment frequency, product duration, level of income, security of income, fund choices, the availability of any guarantees, increases in payment and explicit costs. However it was asserted that this would require the development of infrastructure to support the comparison process.
- Some respondents were concerned about how comparability might be promoted for those retirement income products and options that have yet to emerge following the change to the landscape in April.
- One respondent was concerned that if consumers are encouraged to look only at headline price without looking at the value provided for that price, providers would be disincentivised to offer innovative, valuable new product features.
- One respondent expressed concern that disclosure rules could inadvertently favour one product over another and that it could therefore be useful to consider standardised approaches to showing charges and risk ratings for certain products.

<sup>53</sup> In particular, our Consumer Spotlight (<http://www.fca-consumer-spotlight.org.uk/>) shows that in response to the statement “When I need information the first place I look is the internet”, 43.6% of the ‘Retired with resources’ segment agreed, while 44.2% of the ‘Retired on a budget’ segment disagreed, and a further 31% of this latter segment stated that the question did not apply to them. In response to the statement “I would rather look at information in a paper leaflet than on a website”, 68.7% of the ‘Retired with resources’ segment and 68.2% of the ‘Retired with a budget’ segment agreed.

### Our response

We appreciate the input on how the proposal could be applied to other retirement income products. Despite the challenges raised by some respondents, we believe that it is possible to provide consumers with information comparing products such as income drawdown and we are aware of solutions that are currently in development to perform this role.

We agree that it will be important to consider how comparability might be promoted for those retirement income products and options which may emerge following the change to the landscape post April 2015. We consider that this is work that should be undertaken over the longer term, allowing consideration of product and distribution developments for new products such as income drawdown.<sup>54</sup> MAS has also informed us that it will consider its broader response to drawdown products as part of the ongoing development of its retirement proposition. This will involve further research as the market develops to explore multi-product comparisons in terms of risk and price-based factors.

### Consultation feedback - alternative proposals

- 5.14** Some respondents set out alternatives to our proposed remedy. We have considered these alternative proposals but do not consider them to be as effective as our remedy in addressing the concerns we have identified. The specific proposals we received and our response to those proposals are set out in Annex 1.

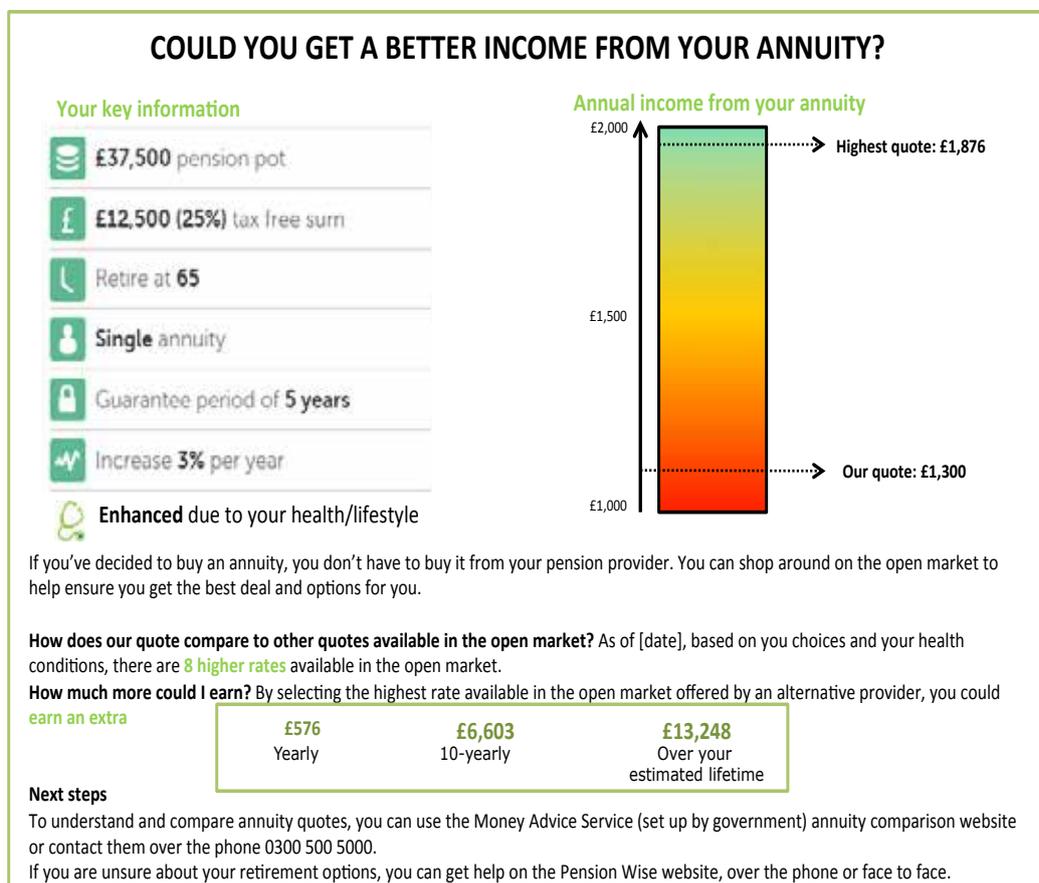
### Next steps

In light of the supportive feedback we have received we have decided to confirm this proposal as a remedy we will take forward. It is important that the annuity quote comparison remedy is thoroughly behaviourally trialled to ensure that it is effective. We are already designing the behavioural parameters we will test with consumers. At this stage, we have produced our initial thinking on an example of a potential example of the written aspect of the annuity quote comparison.<sup>54</sup> This is set out in Figure 6 below.

<sup>54</sup> See Chapter 3 for an overview of market developments since December 2014.

<sup>55</sup> It is important to note that this example is only indicative of the types of potential solutions that we will consult on at a later stage.

Figure 6: Example of potential written annuity quote comparison<sup>56</sup>



Following the publication of this report we will be contacting firms to give them the opportunity to work with us on the behavioural trials. Our trials will build on the work currently being undertaken by Treasury, BIT and industry to design and trial signposting letters and standardised pension statements for inclusion in wake-up packs.

The results of our trials will inform the rule changes that we think are necessary to implement this remedy effectively. We will consult on these proposed rule changes as part of our wider review of rules in the pensions and retirement area in summer 2015.<sup>55</sup> Subject to that further consultation, we estimate that firms will be required to implement this remedy in 2016. We have discussed this remedy with tPR and the DWP and agreed that we will continue to engage with them on it as our work progresses.

<sup>56</sup> We are also required to conduct a cost-benefit analysis before putting any requirements into our rules.

## Remedy 2 – framing effects and biases

### Overview of remedy proposal from our interim report

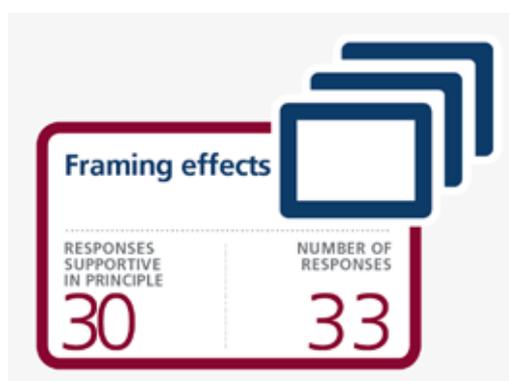
The behavioural research published alongside our interim report confirmed that how options are presented to consumers had a strong impact on outcomes, even when the underlying choice remains the same.<sup>56</sup> Our economic analysis also showed that factors such as a consumer's risk appetite and life expectancy can have a significant impact on the returns consumers can make from retirement income products that do not provide guaranteed income, and also the risk of them running out of money in retirement.<sup>57</sup> Therefore, we proposed making the following recommendations:

- firms should present options in a way that supports good decision-making, rather than one that drives sales of particular products,
- consideration should be given to appropriate framing and behavioural triggers as the Pension Wise service develops,
- consideration should be given to the development of a rule of thumb for consumers to use when withdrawing funds from products such as UFPLS and income drawdown.<sup>58</sup>

### Summary of consultation feedback

**5.15** Overall the feedback we received agreed that framing has a considerable impact on the outcome of consumer choices. Figure 7 below provides an illustrative overview of the number of supportive responses we received.<sup>60</sup>

**Figure 7: Overview of consultation responses to remedy 2**



<sup>57</sup> See *Does the framing of retirement income options matter? A behavioural experiment*, and market study interim report, page 90.

<sup>58</sup> See *Occasional Paper No.5: The value for money of annuities and other retirement income strategies in the UK*, and market study interim report, page 90.

<sup>59</sup> In our interim report (page 90) we explained that the concept of a rule of thumb was identified in our international research as a successful initiative in the USA.

<sup>60</sup> 30 out of 33 respondents largely supported our remedy 2 proposal. Responses also included further qualifications, alternative suggestions, and concerns about implementation.

**5.16** The feedback we received on framing during our consultation workshop included the following:

- The idea of a rule of thumb was considered to be a good idea, although there were concerns that providers could inadvertently provide personal recommendations through its use. There was reference to tools such as drawdown calculators that include rules of thumb which have received positive feedback from consumers.
- On the other hand, it was suggested that framing could be used effectively by promoting the benefits of shopping around.
- It was important to give careful consideration to which frame is most appropriate for consumers to make an informed decision.
- There was consensus that framing should inform rules of thumb, rather than the other way around, and that degrees of uncertainty with rules of thumb should be made clear.
- We should use framing effects to prevent inappropriate sales practices, stating clearly what we would not want to see used. The example provided in the context of this feedback was the potential for providers to focus on tax free cash in communications with customers in an attempt to retain them.

**5.17** Written consultation responses provided a number of suggestions on how effective framing can be achieved:

- Framing guidance should be as general as possible, and information provided should be simple, clear and succinct. There should be a simplification of product categories presented to consumers, for example annuities, income drawdown and hybrid products. This would help consumers to shop around and switch, tackle framing bias, promote competition and encourage awareness of longevity.
- We should issue examples of good and poor practice, and monitor firms to ensure compliance and unbiased use of framing. However, other respondents suggested that there should be greater certainty around the regulation of framing, for example limiting the extent to which the use of framing is reviewed by the FCA. Another respondent implied that we should take a light touch approach to regulation of framing, suggesting that effective approaches to framing could be found 'in-house'.
- In terms of monitoring framing use, feedback suggested there should be regular consumer research and internal firm reporting to ensure framing is having the desired impact. A number of respondents stated that we should work with other Government related organisations (such as the Government Actuary's Department (GAD), MAS, CA and TPAS) to assist in the monitoring of framing, provide first level advice on product categories and raising the level of confidence in the independence of the advice given.
- In terms of the practical use of framing, respondents suggested that this could be achieved through means such as employing experienced people to assist with framing, eliminating commission based product placement, and developing tools to help consumers make their decisions (such as calculating longevity risk). Respondents considered that tools derived from government sources (such as GAD) would promote consumer confidence in their independence.

**5.18** A few consultation responses challenged our proposals. One respondent was not convinced that framing would have a significant impact on consumer choices. To support this, they cited

research undertaken by the ABI, which showed that among those consumers who remembered receiving a wake-up pack, the majority only skim read the document or did not read it at all.

- 5.19** Another respondent implied that it was not necessary for us to undertake further work to explore the development of rules of thumb for consumers to use when withdrawing from products such as income drawdown and UFPLS. The reason cited for this was that rules of thumb already exist from the GAD in relation to the limits for capped drawdown.<sup>61</sup>
- 5.20** Some respondents also expressed concern that the use of framing could result in firms straying into providing consumers with personal recommendations, when their business models and risk appetite were designed on the basis that this service was not provided. Reference was made to how the use of phrases such as ‘people like you’, and even the use of a rule of thumb for product withdrawals, could lead to firms incurring these risks.
- 5.21** There was varied feedback on the proposal for developing a rule of thumb for withdrawals through UFPLS. A number of respondents stated that they would consider a similar approach for UFPLS as for products such as income drawdown. Others expressed concern with applying the same principles to UFPLS as they characterised UFPLS as a different tool altogether (as a tax option rather than a retirement income product). A number of respondents also considered it prudent to have separate advice on the use of UFPLS and only for those consumers who would actually have this as an option. Most respondents seemed to agree that the tax implications of UFPLS should be carefully considered.

### Our response

There was strong support for our findings on framing, and that the use of effective framing could help consumers to make effective choices. We have received a wide range of suggestions for how to implement the use of framing effectively.

We have considered the feedback from one respondent that framing would not have a significant impact on consumer outcomes, based on previous research that examined consumer engagement with provider wake-up packs. In response to this, we would point to the findings of the framing experiment that we undertook as part of this market study.<sup>62</sup> We agree that current retirement communications do not effectively engage consumers with the choices that they need to make. It is precisely for this reason that we proposed replacing them with new, behaviourally trialled communications that disclose information more effectively, and framing will, in our view, need to be considered as part of that trialling process.

We note the concerns that the use of framing could lead to firms inadvertently providing personal recommendations to consumers. Our published guidance on retail investment advice clarifies the current regulatory landscape on personal recommendations in relation to retail investments and provides detailed example scenarios, with our view on whether we think the example involves a personal recommendation and whether or not it constitutes regulated advice.<sup>63</sup> In respect of the specific concern raised in respect of the rule of thumb resulting

<sup>61</sup> See page 17 of our [interim report](#) for an explanation of capped income drawdown.

<sup>62</sup> See footnote 56.

<sup>63</sup> See chapter 3 for an overview of [FG15/1 - Retail investment advice: Clarifying the boundaries and exploring the barriers to market development](#).

in a personal recommendation, it is not clear to us how simply making the consumer aware of a rule of thumb developed by an independent body such as GAD would lead to a firm providing a personal recommendation.

We note the comments from one respondent that the development of new rules of thumb may not be necessary given the existence of GAD limits for capped drawdown. We accept that there are some rules already in existence, but these are by no means comprehensive for the new landscape. There will be a wider range of drawdown products for consumers to choose from, as well as the option of UFPLS, and the tax implications linked to the use of those options. We consider that income drawdown may be used quite differently in the new environment.<sup>64</sup> However, existing tools such as the capped drawdown limits may be a useful starting point for developing new rules of thumb.

We also note the differing views expressed on whether a rule of thumb should be applied to withdrawals through UFPLS. There were some concerns expressed that UFPLS should not be treated as a retirement income product. In response to this, we have previously stated that we view the risks and issues for consumers for UFPLS are broadly similar to those for income drawdown products. Our publicly stated intended approach is to treat these options consistently in our regulatory approach.<sup>65</sup>

We received feedback on monitoring the use of framing. In respect of monitoring firms' use of framing, we are able to engage with firms through our supervisory activities. Monitoring the use of framing as part of the Pension Wise service can be undertaken as the service develops as part of our monitoring role of the service standards.

Finally, we note the comments from one respondent that implied that the FCA should take a light touch approach to regulating the use of rules of thumb, as these answers can be found in house. To some extent we agree with this view as demonstrated, for example, by the approach we are taking to our rules on retirement risk warnings (discussed in more detail in the next section below), which give a certain degree of flexibility to firms in how they script these conversations. We consider that this is an important area where firms should be considering our findings on framing effects.

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## Next Steps

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In light of the feedback received, we consider that framing is an important factor in determining good consumer outcomes. We believe that it is important for both firms and the Pension Wise service to take account of framing effects when designing tools and processes to assist decision making.

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<sup>64</sup> See [PS14/17: Retirement Reforms and the Guidance Guarantee, including feedback on CP14/11](#), page 23.

<sup>65</sup> See footnote 63.

Firms should reflect on their product governance and distribution arrangements and consider whether their use of framing is appropriate. We recognise that framing options to consumers depends to a certain extent on a consumer's circumstances. Firms may not always have all of the information on an individual's situation to be able to frame product options in a way that guarantees the best possible outcome for a consumer. However, we believe that it is a straightforward task for firms to avoid framing options to consumers in a way that systemically drives poor or inappropriate outcomes.

The framing experiment we conducted as part of this market study demonstrates that presenting annuities and income drawdown in different frames can significantly alter an individual's relative preference for these retirement income products. When faced with the same underlying choice between an annuity and alternative drawdown strategies, consumers, on average, preferred the annuity under a consumption frame, but preferred drawdown alternatives under an investment frame. We expect firms to take account of these findings and present options to consumers in a way that helps them to make informed decisions, rather than to drive sales of higher margin products.

We also expect firms to take account of framing effects when designing their retirement risk warning processes. Our rules in this area will come into effect from April 2015, and will not prescribe the specific content of the retirement risk warning conversations, giving firms a certain degree of flexibility. Again, however, we expect firms to use framing responsibly in order to ensure their retirement risk warnings provide the additional layer of consumer protection that we intend them to have.

From the perspective of Pension Wise, our recommendations on framing were positioned in the longer term and that continues to be the case. The FCA has a monitoring role in respect of the standards to be delivered by Pension Wise, and as part of this role we have already been working with Treasury and Pension Wise to ensure messages are framed in a way to promote good consumer decision-making. We welcome the commitment of Treasury to ongoing improvement of the Pension Wise service and will continue to assess how framing could be incorporated into tools and processes as the service develops, working with Treasury to build on refinements made in the context of its Pension Wise user testing and evaluation work.

We have had initial discussions with GAD and Treasury on the scope for developing rules of thumb for products such as UFPLS and income drawdown. We consider that this is something we will consider exploring further in the longer term, allowing us to consider the new products that come to the market and the impact these may have on suitable rules of thumb. This will also be considered in parallel with Pension Wise user testing and evaluation work.

We have also had discussions with tPR on how our framing recommendations might apply to the trust-based sector. We have agreed that we will coordinate with tPR to consider how our framing recommendations might apply to its generic risk warnings.

### Remedy 3 – develop new, behaviourally trialled at-retirement communications

#### Overview of remedy proposal from our interim report

The consumer research we published alongside our interim report highlighted that the current system of wake-up packs is not an effective way of providing consumers with the information they need to make informed decisions on their retirement income needs. The thematic review of annuity sales practices published alongside the market study found that the quality of customer literature in this area varied, and that some firms needed to make significant improvements.

We recommended that changes are made to existing at-retirement communications to ensure clarity and simplicity for consumers, allowing them to exercise choice effectively. We stated that any new at-retirement communications would benefit from being behaviourally trialled to make them as effective and informative as possible.

We also proposed consulting on replacing the ABI Code of Conduct with FCA rules. We stated that we considered the potential benefits of doing this to be to ensure that:

- those aspects of the ABI Code that we incorporate within our rules are fit for purpose in the new landscape,
- consumers receive information which informs them of their right to shop around and prompts them to exercise their open market option.

#### Summary of consultation feedback

**5.22** There was overwhelming agreement that there was a need for new at-retirement communications that motivated and engaged consumers with their retirement choices. Figure 8 below provides an illustrative overview of the number of supportive responses we received.<sup>67</sup>

**Figure 8: Overview of consultation responses to remedy 3**



<sup>66</sup> See market study interim report, page 91, and TR14/20: Annuities sales practice (December 2014) page 16.

<sup>67</sup> 30 out of 33 respondents largely supported our remedy 3 proposal. Responses also included further qualifications, alternative suggestions, and concerns about implementation.

- 5.23** The feedback from our consultation workshop provided a number of helpful insights, in particular:
- The overwhelming consensus was that new communications should be pared down to the minimum amount of information required. Some attendees stated that the objective should be for a single page of information.
  - The communication should focus on highlighting the benefits of using the Pension Wise service and giving the consumers the information they needed to have an effective conversation with the service. In this regard, presenting the information in a 'Pension Passport' format would be helpful.
  - A further objective of the wake-up pack should be to make it clear to consumers that they have to make a decision, and getting them to engage with that decision. There was general agreement that the pack should not be product focused.
  - In terms of design, some attendees suggested that the starting point should be what should **not** be included in the pack, and consideration should be given to making it different in appearance to annual statements.
  - On the proposal to incorporate the ABI Code, some attendees felt the Code requirements were less relevant in the new landscape. However, others thought incorporation was a good idea as it would broaden the application of requirements to firms who are not members of the ABI, and would provide for more effective enforcement if there were breaches of requirements.
- 5.24** Many written consultation responses stated that there was a need to ensure that wake-packs were simpler and shorter. In some cases, respondents suggested that it should be no more than a single page. Some respondents also suggested that the content of the packs be standardised rather than firm-specific. However, one respondent disagreed with standardised content.
- 5.25** There was some divergence of views about the specific content of wake-up packs, but also agreement about the broad categories of information that should be included, in particular:
- A short, simple 'Pension Passport' summarising the key information and data the consumer needs to engage with the Pension Wise service, and clear signposting to the Pension Wise Service and additional sources of advice and guidance.
  - A brief description of all the options available to consumers at retirement, and how these may meet different needs, and a signpost to further information on their state pension entitlement.
  - A statement prompting the consumer to consider factors such as risk appetite and how that may change with age, and sustainability of income and longevity.
  - A clear statement highlighting the irreversible nature of cashing in a pension fund or purchasing an annuity and the consumer's ability to shop around and explaining that different providers have different product features.
- 5.26** A number of respondents also considered that retirement communications should be a phased process, beginning at a much earlier age, (for example 50), starting with simple information on options and a signpost to further advice and information. It was also suggested that these earlier phases of communication should ask the consumer to consider questions such as timing, affordability and form of retirement benefits. As the consumer approached retirement, a

shorter, simpler wake-up pack should be provided, setting out the options available and with a signpost to the Pension Wise service. One respondent suggested that this stage could combine written communication with digital functionality.

- 5.27** None of the consultation respondents explicitly disagreed with our proposal that new communications are behaviourally trialled to assess their effectiveness. Some industry respondents explicitly agreed that trialling was important and expressed a willingness to assist us in conducting trials.
- 5.28** Another point raised in relation to communication generally was that the FCA and the DWP should consider the implications for trust-based schemes of revising communications, as much of the auto-enrolment market is conducted online.
- 5.29** One respondent raised the question of whether there was a tension between our proposal to simplify the information presented to consumers at retirement and the requirements of our thematic review, which they argued suggested that retirement communications required further information to be included.
- 5.30** In relation to our proposals to incorporate the ABI Code into FCA rules, the majority of feedback we received supported incorporating relevant aspects of the ABI Code into our rules. Of those respondents who did not support the proposal, the disagreement centred on whether the ABI Code was the best starting point for developing new rules, rather than disagreement that further FCA rules were required. For example, one respondent suggested that we should seek to match the DC Code<sup>68</sup> and supporting guidance, to bring consistency of approach between trust and contract based schemes.
- 5.31** The specific points of challenge that we received in our consultation feedback on our proposal were:
- A number of stakeholders expressed the view that the ABI Code did not go far enough, and that additional rules would be required beyond incorporating the ABI Code into our rules. In particular, they pointed to the following perceived weaknesses in the ABI Code in its current form:
    - The fact that the Code focuses on positive action firms must take rather than action they should not take.
    - That the Code is not sufficiently prescriptive in terms of the length of wake-up packs and the positioning and prominence of information.
    - That the Code does not require firms to give customers a comparison of the impact of underwriting on their annuity.
    - That new rules will need to require firms to signpost consumers to the Pension Wise service and to sources of professional advice.
    - That the Code does not require firms to explain the different retirement options available to the customer, including the types of products they do not offer.
    - That new rules should require the disclosure of information to increase transparency of rates and pension provider incentives to retain internal business.

<sup>68</sup> The DC Code is the Code of Practice, issued by tPR: *Governance and administration of occupational defined contribution trust-based pension schemes* <http://www.thepensionsregulator.gov.uk/docs/code-13.pdf>

- There was also a divergence of views on whether any new FCA rules should be prescriptive or principles based. Some respondents suggested that the FCA could adopt a more principles based approach to incorporating the ABI Code into our rules, while others felt a more prescriptive approach was required. One respondent considered a prescriptive approach to be particularly important in terms of ensuring that consumers were provided with clear and consistent information, including ensuring enhanced annuities were highlighted and there is a signpost to advice and support.

### Our response

The feedback we received strongly supports the development of new forms of retirement communications. We have received a wide range of suggestions for the form and content of future retirement communications, but there are also a number of broad areas of agreement among stakeholders that responded to our consultation. None of our consultation respondents expressly disagreed with our proposal that new communications should be behaviourally tested, and some offered to work with us on trials.

In light of the feedback we received we confirm this proposal as a remedy we will take forward for consultation on design and implementation. We will consider the proposals we have received in this consultation as part of the further work we will undertake later this year to develop retirement communications. This work will involve behavioural testing of potential communications and we look forward to working with interested parties as part of that process. We acknowledge the range of views expressed in terms of specific content of retirement communications, and consider that behavioural trialling and working with industry participants will help us to identify the key information that should be included.

In relation to the incorporation of the ABI Code into our rules, the vast majority of the feedback we received either supports our proposal (in some cases with additional requirements proposed) or asks us to develop new rules from scratch to support retirement communications and choices. We will therefore proceed with our policy development work to produce new rules in this area. As part of this process we will consider the feedback we have received on the content of those rules, and how they may be incorporated into our Handbook.

We do not consider that there is a tension between the proposals in this market study and the disclosure requirements set out in our thematic review of annuity sales practices. The requirements of the thematic review relate to the prominence and consistency in presentation of key information in retirement documentation (such as the consumer's right to shop around). These requirements are not designed to produce lengthy additional disclosure, but greater clarity and consistency. The objectives of our proposed remedy are to ensure clarity and simplicity of communications.

One respondent stated that further consideration needs to be given to the impact of revising communications on the trust-based sector. We have had initial discussions with tPR and the DWP on the potential application of this remedy to the trust based sector and we will continue to engage with them as our work progresses.

## Next steps

It is important that the wake-up pack remedy is thoroughly behaviourally trialled to ensure that it is effective. We are already designing the behavioural parameters we will test with consumers. Following the publication of this report we will be contacting industry firms to work together on behavioural trials. Our trials will build on the work currently being undertaken by Treasury, BIT and industry to design and trial signposting letters and standardised pension statements for inclusion in wake-up packs.

The results of our trials will inform the rule changes that we think are necessary to implement this remedy effectively. We will consult on these proposed rule changes as part of our wider review of rules in the pensions and retirement area in summer 2015. This will include the work we are already undertaking to consider how to incorporate the ABI Code into our rules. Subject to that consultation, we estimate that firms will be required to implement this remedy in 2016. In the meantime, we have agreed with the ABI that there will be a transitional period where the ABI Code will remain in place. We have discussed this remedy with tPR and the DWP and agreed that we will continue to engage with them on it as our work progresses.

## Remedy 4 – creation of a ‘Pensions Dashboard’

### Overview of remedy proposal from our interim report

**In our interim report we pointed to qualitative evidence from our international research indicating that the pensions dashboard in the Netherlands, which allows individuals to view their total pension and non-pension assets, has encouraged consumer engagement with pensions by making them more tangible and visible to retirees.**

**We stated that in the longer term, we would like to see the development of a pensions dashboard in the UK which would enable consumers to view all of their lifetime pension savings, including their state pension, in one place. This would allow consumers with several pension pots to have a clear understanding of their accumulated pension wealth, and is likely to benefit increasing numbers of people in the future with the introduction of automatic enrolment. Consumers with a better understanding of their accumulated pension wealth should make better informed decisions when taking their benefits.**

### Consultation feedback

- 5.33** The overall feedback was very supportive of introducing the pensions dashboard in principle and recognised the benefits it could bring to consumers. Figure 9 below provides an illustrative overview of the number of supportive responses we received.<sup>69</sup>

<sup>69</sup> 28 out of 32 respondents largely supported our remedy proposal. Responses also included further qualifications, alternative suggestions, and concerns about implementation.

**Figure 9: Overview of consultation responses to remedy 4**

**5.34** The feedback we received in our consultation workshop was that overall the dashboard was a good idea, but that incremental steps should be taken to its implementation. Some attendees stated that the recommendation was an opportunity for the industry to do something different, and take essential steps towards achieving customer-centric outcomes. However, there were also a number of practical issues raised, in particular:

- The logistical challenges of implementation, and whether all pension schemes would have the information and infrastructure to provide the data required for the dashboard to work effectively.
- The costs involved in developing the dashboard. Some respondents suggested it could be a relatively simple solution, using data feeds to provide the information required. However, some respondents considered this would be a very expensive solution, potentially costing firms up to £100m each.
- There was agreement that the Dutch and Danish experiences were useful in terms of lessons to be learned, but also recognition that the UK system is more fragmented.
- Whether there should be one provider of the dashboard service, or whether use could be made of the range of calculators and tools that currently exist.
- Whether there was a need for a regulatory driver to make the development of the dashboard happen.

**5.35** In the written consultation responses there were practical concerns raised relating to the actual implementation of the pensions dashboard, which centred on the following issues:

- The costs involved and potential sources of funding for introducing and operating the pensions dashboard. Some respondents suggested using unclaimed assets from legacy products.
- Possible data protection issues given the large amounts of potentially sensitive data on the pensions dashboard.
- The coverage of the dashboard, ensuring all relevant products are included on the pensions dashboard, including legacy products.
- The potential for duplication of work and conflicting requirements. Some respondents pointed to the work already being undertaken by the DWP on automatic transfers.

- The owner of the pensions dashboard, in particular whether it should be owned by the FCA, another government department (such as the DWP), or a trusted third party.
- Concerns around ensuring fund values provided on the pensions dashboard, in particular the fact that values could be based on different dates, and that unique identifiers for policyholders may not be readily available.
- The risk that commercially sensitive information such as current offers and upcoming rates of return become available to competitors. These information exchanges could lead to tacit collusion between pension providers.

**5.36** Some respondents also took the view that we should adopt a ‘wait and see’ approach before setting up the pensions dashboard. The basis for this view was (a) pension providers are likely to produce tools and information that consumers can use for accumulation and decumulation, and (b) it will allow us and industry to better understand the impact of automated transfers.

**5.37** Respondents added that for remedies to be truly effective there needs to be a cultural shift as consumers need to be more engaged and play their part in updating the pensions dashboard. Related to this point, one respondent stated that it was important that we considered the cultural differences between the UK and other countries with a pensions register or dashboard.

**5.38** It was also suggested that customers should be able to populate the pensions dashboard with information and that guidance should be provided (for example difference between DB and DC schemes). In addition, respondents pointed out that the pensions dashboard will need to cater to those consumers who do not have internet access or who are uncomfortable using such technology.

### Our response

With respect to costs and funding, we note the proposal by some respondents to use unclaimed assets from legacy products. It is suggested that these assets are approximately £400m. This suggestion is not within our remit to consider, and is ultimately a suggestion for Government to address.<sup>70</sup>

Issues surrounding data protection and privacy will also play a key role when developing the pensions dashboard and it is important that there are appropriate security measures for handling personal information on all customers. In our opinion, the experience of other countries indicates potential solutions to these issues. In the Netherlands and Denmark, the data security issue has been addressed by using a ‘Service Bus’ model, which automatically gathers different pieces of information from the various sources as the consumer logs in, and data simply disappears as the consumer logs off; no data is stored on the system.<sup>71</sup>

<sup>70</sup> In terms of the costs of the Netherlands Pension Register, we are aware in the first two years of operation of the Pensions Register the providers paid a fee of €0.70 per member per year. This cost incorporated all of the initial set-up costs. The current cost is €0.41 per member per year and the budget for the Register is currently around €3.5m per year. The Actuarial Association of Europe (AAE) *Report on the key issues from the review of the national tracking service* also notes that the costs of setting up a national tracking service in Finland, Denmark, Holland and Sweden can be split into two major categories: initial costs and annual costs for maintaining the tracking service. The initial costs across vary, with a maximum of € 10 million, and the annual costs are up to a maximum of € 3.5 million. Available at: <http://www.actuary.eu/documents/Report%20national%20Tracking%20Services%20Sw-Fi-DK-NL%20Final.pdf>. It is important to state that these costs cannot be compared easily between different countries, because they depend, among other things, on the tooling available within the national tracking services. We note the differences in pension systems may mean that the costs in other countries are not necessarily directly comparable to the costs of a UK pensions dashboard.

<sup>71</sup> Actuarial Association of Europe (AAE) *Report on the key issues from the review of the national tracking service*. Available at: <http://www.actuary.eu/documents/Report%20national%20Tracking%20Services%20Sw-Fi-DK-NL%20Final.pdf>

In the UK, TISA recently announced the concept of a 'Digital Passport', where the individual consumer grants access and permission to their data on a firm by firm basis.<sup>72</sup>

In line with most of the consultation responses, we believe that the dashboard should be as comprehensive as possible, in terms of sources of income displayed, for consumers to make informed decisions. We nevertheless understand that this will need to be a gradual process, and the first step will be that of setting up the appropriate infrastructure to deal with issues raised in the feedback such as fund value dates and policy identifiers.

The concept of a pensions dashboard should only contain information that relates to the consumer, rather than detailed information of firms' future strategies or pricing. The pensions dashboard should therefore not give rise to any additional risks of anti-competitive information exchange between firms as suggested.

In terms of the issue of ownership, both we and Government are aware that there is a range of work ongoing in this area. To share learnings and ensure a coordinated approach we are working with Government to explore the most effective and efficient way to develop a dashboard solution, with a view to implementation over the next few years. This is discussed in more detail below.

We note that on 10 March 2015 the Work and Pensions Select Committee published its report on pensions and auto-enrolment, and that one of its recommendations was that the next Government ensures that regulators prioritise the introduction of a pensions dashboard.<sup>73</sup> The Committee also stated that ideally a pensions dashboard should include both private and state entitlement, and that it should be mandatory for pension providers to use the facility.

We are also aware that there is currently research underway at European level into the feasibility of a 'European Pension Tracking Service'. In 2012, the European Commission launched a comprehensive agenda on creating adequate, safe and sustainable pensions. Within this agenda there is a clear focus on tracking and tracing pension entitlements for cross-border workers within the EU. This is viewed as increasingly important as there are a large number of internationally mobile European citizens navigating the European labour market. The "Track and Trace your Pension in Europe" (TTYPE) consortium will shortly publish a proposal for a high level design of a European Tracking Service, including some implementation recommendations.<sup>74</sup>

Some respondents commented that cultural differences between the pension systems in the UK and countries such as the Netherlands need to be recognised. We do recognise this but also note the similarities in terms of a roadmap to a potential dashboard solution. This is discussed in more detail in our next steps below.

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72 See [http://www.tisa.uk.com/releases.html?release\\_id=578](http://www.tisa.uk.com/releases.html?release_id=578) and [http://www.tisa.uk.com/publications/578\\_20150130TISIPDigitalPassport-FINAL.pdf](http://www.tisa.uk.com/publications/578_20150130TISIPDigitalPassport-FINAL.pdf)

73 *Work and Pensions - Fourth Report Progress with automatic enrolment and pension reforms*, available at: <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmworpen/668/668.pdf>

74 TTYPE was established in June 2013 as a project partnership between six experienced pension institutions from the EU: four Dutch (PGGM, MN, Syntrus Achmea and APG), one Finnish (ETK) and one Danish (PKA). TTYPE is commissioned by the European Commission. *Towards a European Tracking Service for Pensions, Intermediate results of the TTYPE project*. Available at: <https://www.pggm.nl/wat-vinden-we/Documents/TTYPE-Intermediate-Report.PDF>

## Next steps

We are in discussions with Government to explore the most effective and efficient way to develop a dashboard solution, with a view to implementation over the next few years.

It is important to recognise that developing an effective dashboard solution needs to consider various potential models and be undertaken and tested on an incremental basis, to allow development of the appropriate infrastructure. It should also build on the ongoing work being undertaken by the DWP in relation to automatic transfers<sup>74</sup>, and the learnings obtained from that work to date (for example, relating to standards and information sharing). As part of this work, we believe it is important that consideration is given to the costs and benefits of potential solutions. We also consider that it is important that industry participants are involved in developing solutions. The DWP's work on automatic transfers has demonstrated the benefits of industry involvement and engagement.

Development of a dashboard solution should also build, to the extent possible, on the experiences of other countries such as the Netherlands.<sup>75</sup> We note that the development of the Netherlands Pension Register<sup>76</sup> built on the existing infrastructure that was developed to allow the creation of standardised pension statements. These statements are very similar to the concept of standardised pensions statements which are currently being trialled as part of work being undertaken by Treasury, BIT and industry.

## Remedy 5 – market monitoring

### Overview of remedy proposal from interim report

**Our interim report set out our initial thinking on the possible extent and form of product and supply chain innovation in the new landscape, and we identified some potential risks that could arise from those developments. We proposed to monitor the retirement income market to develop a macro-level picture of how the market is developing, building on the work we currently undertake as part of our responsibilities.**

**Our interim report also identified the existence of barriers to a well-functioning market from a consumer perspective. Therefore, we proposed to monitor consumer behaviour and outcomes in this market through the use of regular consumer surveying to understand changes in consumer behaviour and awareness in the new landscape.**

<sup>75</sup> The DWP published an update paper on Automatic Transfers: A Framework for Consolidating Pension Saving in February 2015 (<https://www.gov.uk/government/publications/automatic-pension-transfers>). The paper outlines the work that has taken place and confirms the intention to implement a system of transferring pension pots in October 2016. The paper also acknowledges the feasibility in the future of how Automatic Transfers could be expanded to provide or link into pension dashboard information.

<sup>76</sup> We also recognise the cultural differences between the UK and Netherlands pension systems, such as the greater prevalence of Defined Benefit pension schemes in the Netherlands in comparison to the United Kingdom, and the smaller number of pension schemes overall.

<sup>77</sup> The Netherlands pension register provides consumers with an overview of all of their pension wealth, but not their non-pension wealth and assets. However, there are also private initiatives in the Netherlands to develop wider financial dashboards, such as the Knab financial dashboard, which was launched in 2012. The solution we envisage in this report is one that provides information on pension wealth only.

### Summary of consultation feedback

- 5.39** The feedback we received overwhelmingly agreed that the FCA should undertake monitoring of market developments and consumer outcomes. Figure 10 below provides an illustrative overview of the number of supportive responses we received.<sup>78</sup>

**Figure 10: Overview of consultation responses to remedy 5**



- 5.40** The discussions on this remedy in our consultation workshop were wide ranging. The key feedback we received was as follows:

- Monitoring needed to focus on what consumers actually do in the new landscape, and consideration should be given to identifying the new 'normal' choice for consumers. In terms of market monitoring, it was suggested that we should monitor both the 'advised' and 'non-advised' sectors.<sup>79</sup>
- The monitoring activities should be coordinated with tPR to ensure a linked up approach to monitoring issues such as fraud and scams in the market.
- There should be consideration to tracking the same cohorts of consumers over time to map the outcomes they achieve against the optimum outcome for their circumstances.
- Consideration should be given to the cost of our monitoring activities, and whether it represented good value for money.

- 5.41** Written consultation responses cited a number of specific reasons why monitoring activities were appropriate, including:

- To establish how consumers are using their pension funds, monitor levels of shopping around, switching and take-up of the Pension Wise service.
- To identify emerging scams and act to address risks associated with unregulated activities.
- To identify potential competition issues and inappropriate sales practices, products, distribution arrangements and charging structures.

<sup>78</sup> 28 out of 32 respondents largely supported our remedy proposal. Responses also included further qualifications, alternative suggestions, and concerns about implementation.

<sup>79</sup> In other words, we should monitor the sectors of the market that offer services that provide a personal recommendation, as well as sectors that offer services that do not provide a personal recommendation. See our [finalised guidance on retail investment advice](#).

- To assist in identifying levels of compliance with the Treating Customers Fairly regime, particularly in relation to new products.

**5.42** The feedback revealed a diverse range of views in terms of the scope of the monitoring activity we should undertake. A number of respondents agreed with our proposals and did not suggest any additional activities that we should undertake. Other respondents however, suggested that our monitoring activities should include a wide range of activities and metrics, including:

- Sales data by value and volume of internal and external provider sales, across all products, not just annuities. This should include data on consumers surrendering GARs.
- Data on the number of consumers using UFPLS, including the use of UFPLS without first accessing the open market, and the promotion by firms of “quick access to cash”.
- Consumer research to track consumer reactions and behaviour to the landscape changes. Some respondents also suggested conducting a longitudinal study of consumer outcomes over time to inform the effectiveness of the reforms.
- Intensive research on firm practices and consumer outcomes in relation to sales of drawdown products without a personal recommendation.
- Monitoring the behaviour of each provider’s internal customers, including how they respond at retirement, the decisions they take and whether they take decisions themselves or after seeking advice from an independent financial adviser.

**5.43** There was also a divergence of views across respondents as to the process the monitoring activities should follow and the involvement of stakeholders in that process. The key points that came out of the feedback in this respect were:

- The extent to which the data gathering process should be formalised, including whether we would prescribe the information gathering requirements for firms.
- The transparency of the monitoring activities, for example whether we would publish its findings through an annual progress report.
- The extent to which the FCA would conduct its monitoring in conjunction with tPR.

**5.44** In terms of challenge to our proposals, one respondent stated that it was unclear how much extra work and therefore cost our monitoring activities would incur. This respondent also stated that any consumer research undertaken as part of future monitoring activities should incorporate better designed questions to avoid responses that can be interpreted in different ways. Another respondent stated that in addition to our proposed activities, we should consider measures to improve consumer awareness of pension issues in advance of retirement.

### Our response

There is clearly strong support from our consultation feedback for our proposal to monitor market developments and consumer outcomes in the new landscape. We note the divergence of views across stakeholders of the scope and extent of the monitoring and data gathering activities we should undertake.

We will consider the additional areas of monitoring that respondents have suggested as we develop our initial monitoring activities. One respondent commented on the design of consumer survey questions, and we will take that feedback on board as part of our design work.

We recognise, however, the need to balance the objectives of our monitoring activities with the associated costs. While we consider our monitoring proposal is proportionate given the new landscape risks we have identified, it may be the case that it is not proportionate to undertake all of the suggested additional areas of monitoring as part of our initial activities. As respondents themselves have noted, initial monitoring activities can be undertaken which may identify additional areas of concern or interest that can be monitored subsequently.

In terms of setting out our requirements on firms with regard to data collection, in our [corporate strategy](#) we have said that we need to make better use of the data we collect and intend to create a common FCA view of what is happening in each of the markets we regulate. This work is ongoing and we are assessing our data requirements as part of that process. In line with our data strategy, we will look to use existing sources of data rather than collecting new data. However, where there are significant gaps we will need to consider how best to proceed.

We also note the comments of certain respondents that our monitoring activities should be published and conducted in conjunction with tPR to achieve a holistic view of the new landscape. We agree with respondents on this point, and the actions we have agreed with tPR are set out in the next steps section below.

### Next steps

We will proceed with our monitoring proposals in light of the consultation feedback we have received. Our proposed monitoring activities at this stage are set out below.

The FCA plans to run further consumer surveys in this market each year. In 2015 and 2016 this will comprise a repeat of the quantitative research undertaken as part of the interim phase of this market study within a second wave of research in the form of an annual Pensions and Retirement Consumer Perspectives Tracking Survey. This latter study will also include a deeper qualitative look at this market from the consumer perspective.

The FCA is tasked by Treasury to monitor compliance with the standards set for the Pension Wise service. As set out in our recent [Policy Statement](#), each year we will gather evidence on whether each of the standards is being met through for example: regular Management Information (MI); direct self-assessment by the designated guidance providers; FCA-commissioned market research on users of the service; designated guidance provider assessments and discussions with stakeholders such as consumer organisations.

We are discussing with tPR how best to coordinate monitoring of this market from both a market development and consumer outcomes perspective. We will also discuss the market research agenda with other stakeholders such as TPAS, MAS and CA moving forward.

In our corporate strategy we have stated that we intend to create a common FCA view of what is happening in each of the markets and sectors we regulate. We will be monitoring developments in this market and this work will feed into the development of a common FCA view of the pensions and retirement sectors. We will assess our data requirements as part of that process. In line with our data strategy, we will look to use existing sources of data rather than collecting new data. However, where there are significant gaps we will need to consider how best to proceed. We will also explore how the data we gather from this market can complement data gathered by Government in the longer term.

We will be closely monitoring key aspects of the market around sales practices and product charges, as well as other aspects of the market, for example:

- product sales by type and channel,
- the proportion of consumers purchasing from their existing provider as opposed to shopping around,
- consumer take-up of the Pension Wise service and financial advice,
- the number of consumers giving up GARs, and
- levels of transfers from defined benefit to defined contribution schemes.

If our monitoring activities indicate that consumers appear not to be getting the support they need, and/or competition is failing to drive good value, then we will take appropriate action to address this.

### Alternative remedy proposals

- 5.45** In our interim report we asked for views on whether there were any additional remedies we should consider addressing the concerns we identified in our provisional findings. A number of respondents proposed alternative remedies and actions for us to consider undertaking. Some of these proposals were positioned to us as more high level objectives that we should seek to achieve rather than actual remedies, for example increasing the number of people shopping around, helping people focus on income in retirement, and providing greater consumer awareness. We did, however, receive some specific proposals for additional and alternative remedies. These proposals and our response to them are set out in Annex 1. We do not propose to take some of these remedies forward; however, there are others that we will consider further as part of our wider work in this market.

## 6. Next steps

### Introduction

**In this report we have confirmed our findings as final and that we will take our remedy proposals forward for further consultation (where relevant) on design and implementation.**

This chapter sets out, in summary:

- The process and anticipated timescales for the next phase of our work on our annuity quote comparison, wake-up pack and pensions dashboard remedies.
- Our framing recommendations for firms and the Pension Wise service.
- How we will take forward our monitoring activities.
- Our ongoing work in relation to investment scams, including scams targeted at retirees.

### Remedies – next steps

- 6.1** We have confirmed our provisional findings and proposed remedies as final and will now enter the remedy design and implementation phase. The next steps in that work are set out below.

#### **Remedies 1 and 3 – annuity quote comparison and wake-up packs**

- 6.2** It is important that these two remedies are thoroughly behaviourally trialled to ensure that they are effective. We are already designing the behavioural parameters we will test with consumers. Following the publication of this report today we will be contacting industry firms to work together on behavioural trials. Our trials will build on the work currently being undertaken by Treasury, BIT and industry to design and trial signposting letters and standardised pensions statements for inclusion in wake-up packs.
- 6.3** The results of our trials will inform the rule changes that we think are necessary to implement these remedies effectively. We will consult on these proposed rule changes as part of our wider review of rules in the pensions and retirement area in summer 2015. This will include the work we are already undertaking to consider how to incorporate the ABI Code into our rules. Subject

to that consultation,<sup>80</sup> we estimate that firms will be required to implement these remedies in 2016. In the meantime, we have agreed with the ABI that there will be a transitional period where the ABI Code will remain in place.

- 6.4** We have discussed these remedies with tPR and the DWP and agreed that we will continue to engage with them as our work progresses this year. Ultimately, any implementation of this remedy to the trust-based sector may require consideration of further legislation.

#### **Remedy 4 – Pensions Dashboard**

- 6.5** We are in discussions with Government to explore the most effective and efficient way to develop a dashboard solution, with a view to implementation in the next few years.

- 6.6** It is important to recognise that developing an effective dashboard solution needs to consider various potential models and be undertaken and tested on an incremental basis, to allow the development of the appropriate infrastructure. It should also build on the ongoing work being undertaken by the DWP in relation to automatic transfers, and the learnings obtained from that work to date (for example, relating to standards and information sharing). Development of a dashboard solution should also build, to the extent possible, on the experience of other countries such as the Netherlands, and the roadmap used there to implement the Pensions Register.

#### **Framing recommendations and FCA monitoring**

- 6.7** In addition to the remedies set out above, we will proceed with our recommendations to firms and Pension Wise on framing effects and with our proposal to monitor the market.
- 6.8** Framing is an important factor in determining consumer outcomes. We believe that it is important for both firms and the Pension Wise service to take account of framing effects when designing tools and processes to assist decision making.
- 6.9** From a firm perspective, we encourage firms to reflect on their product governance and distribution arrangements and consider whether their use of framing is appropriate. We expect firms to take account of our findings on framing effects and present options to consumers in a way that helps them to make informed decisions, rather than to drive sales of higher margin products. Firms should also take account of framing effects when designing their retirement risk warning process. Our rules in this area do not prescribe the specific content of the retirement risk warning conversations, giving firms a certain degree of flexibility. However, we expect firms to ensure their retirement risk warnings provide the additional layer of consumer protection that we intend them to have.
- 6.10** From the perspective of Pension Wise, our recommendations on framing were positioned in the longer term and that continues to be the case. The FCA has a monitoring role in respect of the standards to be delivered by Pension Wise, and as part of this role we have already been working with Treasury and Pension Wise to ensure messages are framed in a way to promote good consumer decision-making. We will also continue to work with Treasury to assess how framing could be incorporated into Pension Wise tools and processes as the service develops. This will be considered in parallel with Pension Wise user testing and evaluation work.
- 6.11** We have also had discussions with tPR on how our framing recommendations might apply to the trust-based sector. We have agreed that we will coordinate with tPR to consider how our framing recommendations might apply to its generic risk warnings.

<sup>80</sup> Additionally, we are required to carry out a cost-benefit analysis before putting any requirements into our rules.

- 6.12** We have had initial discussions with GAD and Treasury on the scope for developing rules of thumb for products such as UFPLS and income drawdown. We will consider exploring this further in the longer term, allowing us to consider the new products that come to market and the impact these may have on suitable rules of thumb. This will also be considered in parallel with Pension Wise user testing and evaluation work.
- 6.13** We will proceed with our monitoring proposals in light of the consultation feedback we have received. Our proposed monitoring activities at this stage are set out below.
- 6.14** We plan to run further consumer surveys in this market each year. In 2015 and 2016 this will comprise a repeat of the quantitative research undertaken as part of the interim phase of this market study, within a second wave of research in the forms of an annual Pensions and Retirement Consumer Perspectives Tracking Survey. This latter study will also include a deeper qualitative look at this market from the consumer perspective.
- 6.15** The FCA is tasked by Treasury to monitor designated guidance providers' compliance with the standards set for the Pension Wise service. As set out in our recent Policy Statement, each year we will gather evidence on whether each of the standards is being met through for example: regular Management Information (MI); direct self-assessment by the designated guidance providers; FCA-commissioned market research on users of the service; designated guidance provider assessments and discussions with stakeholders such as consumer organisations.
- 6.16** We are discussing with tPR how best to coordinate monitoring of this market. We will also discuss the market research agenda with other stakeholders such as TPAS, MAS and CA moving forward.
- 6.17** In our corporate strategy we have stated that we intend to create a common FCA view of what is happening in each of the markets and sectors we regulate. We will be monitoring developments in this market and this work will feed into the development of a common FCA view of the pensions and retirement sectors. We will assess our data requirements as part of that process. In line with our data strategy, we will look to use existing sources of data rather than collecting new data. However, where there are significant gaps we will need to consider how best to proceed. We will also explore how the data we gather in this market can complement data gathered by Government in the longer term.
- 6.18** We will be closely monitoring key aspects of the market around sales practices and product charges, as well as other aspects of this market, for example:
- product sales by type and channel,
  - the proportion of consumers purchasing from their existing provider as opposed to shopping around,
  - consumer take-up of the Pension Wise service and financial advice.
  - the number of consumers giving up GARs, and
  - levels of transfers from defined benefit to defined contribution schemes.
- 6.19** If our monitoring activities indicate that consumers appear not to be getting the support they need, and/or competition is failing to drive good value, then we will take the appropriate action to address this.

**Scams**

- 6.20** As we set out in detail in our interim report, we remain on high alert for scams targeting consumers, including those who are at-retirement, and we will continue to take robust enforcement action against such activity. In our November 2014 [Policy Statement PS14/17](#), we also made it clear that we are alert to scams in the new pensions and retirement income market, building on the focus we already have on pension liberation and investment scams. We are actively monitoring the market for firms falsely behaving in a way which indicates that they are giving a guidance service under arrangements with Treasury. We will take tough and meaningful action against such firms where appropriate, in line with our wider strategy of credible deterrence.
- 6.21** We have also stepped up our activity by continuing our ScamSmart campaign targeted at those consumers most at risk, including retirees. This will continue to help consumers most at risk spot the warning signs and avoid investment scams.

# Annex 1

## Alternative remedy proposals

	Proposed remedy	Our response
1	<p>Providers should provide only factual information about the policy the consumer holds with them, such as the size of the pot, and any other product features they should be aware of. Providers could also alert their customers to the retirement income products they provide, but not provide a quote at this stage. Instead, the customer should be directed to the pension guidance service to discuss their options.</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>We believe that clearly illustrating to consumers how much they stand to benefit over a period of their retirement from shopping around, using a simple quote comparison, can be a much more powerful way of encouraging consumers to shop around, promoting more effective competition. We do, however, agree that consumers should be signposted to the Pension Wise service at various stages along the retirement income journey, and some of the suggestions raised in this proposal may be more relevant to the development of new at-retirement communications.</p>
2	<p>A customer should only receive the provider's own quotation if this has been expressly requested, and the customer has been prompted to shop around in the open market, and is able to show this (through an audit trail of customer transactions).</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>We believe that providers giving the quote comparison next to their own quotation can be a very effective way of communicating such benefits to consumers. We agree that this comparison should only be provided at the point that a consumer has decided to buy an annuity and has requested a quotation.</p>
3	<p>Inter-provider agreements should be put in place between providers such that a fair and transparent service fee would be payable by the receiving provider to the ceding provider. This would mitigate the risk of providers having little incentive to promote competitors' products.</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>It is not clear why putting in place a series of referral arrangements between provider firms would be more effective or beneficial to consumers than our proposed remedy.</p>
4	<p>Prevent pension providers from selling annuities to their existing customers if the rate they offered was more than 5% below the best available on the MAS website, or if they do not provide enhanced or impaired annuities.</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>We consider that this provides less benefit than our annuity quotation comparison proposal, as it potentially restricts the ability of firms to compete on other parameters of competition (such as service) as well as limiting consumer choice.</p>
5	<p>Annuity quotes should be categorised according to a 'Red', 'Amber', 'Green' basis depending on the percentage difference between their quote and the best rate available on the MAS website.</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>We consider that this proposal provides less benefit than our annuity quote comparison proposal, as it could incentivise firms to only move their pricing to the lowest level that still allows their quote to be categorised as 'Green', as opposed to competing with the best quote available on the open market. We also consider that our proposal provides consumers with greater clarity of the potential financial benefits of shopping around.</p>

	<b>Proposed remedy</b>	<b>Our response</b>
6	<p>An Annuity Bureau should be created to process sales to consumers and ensure that they get the best outcomes.</p> <p><b><i>(Proposed as an alternative to our annuity quote comparison remedy)</i></b></p>	<p>We consider that this proposal is essentially to create a clearing house for annuities. We believe that this could have adverse consequences for consumer freedom and choice, which is ultimately the objective of the reforms to the new landscape. Our international research also indicates that similar remedies to our proposal involving price comparison websites have been successful (for example, in Chile) without being as restrictive as a clearing house.</p>
7	<p>Develop a single consistent medical questionnaire that could be mandatory and used by all providers to allow a common approach to full underwriting of all annuities.</p> <p><b><i>(Proposed as an alternative to our annuity comparison remedy)</i></b></p>	<p>We have considered the issue of the factors used in relation to underwriting annuity quotes in response to the feedback we received on our annuity comparison remedy. We currently consider that the CQF used by the MAS comparison service is sufficiently robust for the purposes of our remedy, and can be expanded upon if necessary. We note that the same CQF is used by financial advisers on behalf of their clients. Industry participants may wish to consider using their expertise to develop such a questionnaire if they consider it is appropriate.</p>
8	<p>Before annuity quotes are provided the consumer should be asked a number of simple questions about the type of benefits they are seeking to generate from their pension pot. The answers to these questions would be used to produce a range of illustrative options for the consumer to consider and avoid in appropriate product choices. A simple comparison table of different product options could also be provided to the consumer.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>We consider that the objectives of these proposals are already addressed through consumer engagement with the Pension Wise service and through our rules on retirement risk warnings. Therefore it is not clear to us why we would place additional requirements on firms.</p>
9	<p>Providers should be required to provide a comprehensive range of quotes to consumers via the MAS website.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>It is not clear how this proposal differs from our annuity quote comparison remedy. As part of our consideration of this remedy, at this stage we do not think there should not be a restriction on the price comparison websites that provide quotation comparisons to firms, subject to minimum requirements on the level of information they provide.</p>
10	<p>The FCA should introduce a Pension Passport.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>We have already clarified that information about a customer's pension pot must include, at a minimum, the current value of the pension fund and whether there are any guarantees or other relevant special features that apply to the pension. Building on this, Treasury will, as part of its trials, be working with industry to develop and test a short, simple, standardised product for communicating all the key information about an individual's pension pot.</p> <p>We consider some level of standardisation may be desirable to encourage consumer engagement. We will consider whether, following the review of our pension and retirement rules later this year, a standardised pension information statement should be explicitly required in our rules.</p>
11	<p>Provide safety net checks for consumers at the point of purchase, on the assumption that this will not be covered by forthcoming FCA rules.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>We consider that we are already addressing this issue through our forthcoming rules relating to retirement risk warnings.</p>

	<b>Proposed remedy</b>	<b>Our response</b>
12	Provide greater financial incentives to provide employees with financial guidance at key points, for example by providing an allowance of £500 to £1000 as opposed to £100. <b>(Proposed as an additional remedy)</b>	The Government has developed the Pension Wise service to support consumers in understanding their retirement choices, and employees should be signposted to this service if they require financial guidance.
13	There should be clearer definitions of product types based on individual underwriting to prevent firms claiming a minor improvement in annuity rate justifies enhanced status. <b>(Proposed as an additional remedy)</b>	There is a case for greater standardisation of communications in the pensions market, as the need for consumers to engage has never been more acute. With the aim of improving consumers' confidence to navigate the market, understand their chosen pension investment and the choices open to them throughout the product lifecycle, we are keen to explore whether different areas of industry could work together to demystify jargon to help consumers. We will shortly be publishing a discussion paper seeking input in this area.
14	Greater clarity on consumer protection, particularly to purchasers of mass drawdown products under the Financial Services Compensation Scheme (FSCS). <b>(Proposed as an additional remedy)</b>	The FCA will monitor developments and in particular what proportion of consumers chose to go into drawdown or similar products post-April 2015. We have committed to reviewing the funding arrangements of the FSCS in 2016, and will consider levels of protection as part of this.
15	FCA should take action on provider sales practices, and undertake a further review of provider sales practices in 12 months' time. <b>(Proposed as an additional remedy)</b>	The FCA is already undertaking work to address the findings of the thematic review of annuity sales practices.
16	FCA should incorporate the ABI Code into its rules as quickly as possible. <b>(Proposed as an additional remedy)</b>	We will publish a consultation paper in summer 2015 which will consider the issue of incorporation of the ABI Code into our rules.
17	FCA should conduct more proactive and public monitoring of, and enforcement against annuity comparison websites. It should also clarify the obligations of "non-advised" annuity brokerages (specifically, COBS 2.21R (1), 4.2.1R and 4.5.2R). FCA should embed in its rules a code of conduct applicable to firms selling annuities on a "non-advice" basis. <b>(Proposed as additional remedies)</b>	Our recently published financial promotions review and Finalised Guidance relating to annuity comparison websites clearly states that in order to be viewed as fair, clear and not misleading, annuity comparison websites must include sufficient information regarding their charges and commission (where applicable). As part of the review, we contacted a number of firms operating in this area who all made the relevant amendments. <sup>81</sup> If firms or individuals see a financial promotion which they believe is unfair, unclear or misleading, they can report this to us so that we may investigate further. <sup>82</sup> We have also recently clarified the requirements on firms providing services without a personal recommendation in our Finalised Guidance on Retail Investment Advice. We would encourage firms to use this definitive guidance in order to understand their responsibilities in this area. We will be consulting on the extent to which the ABI Code of Conduct should be incorporated into our rules.

81 Full details of this review can be found here: <http://www.fca.org.uk/static/documents/finalised-guidance/fg14-06.pdf>

82 Reporting details are available on the FCA website at: <http://www.fca.org.uk/firms/being-regulated/financial-promotions/report-misleading-promotions>. Please note that for legal reasons we cannot comment on individual complaints.

	<b>Proposed remedy</b>	<b>Our response</b>
<b>18</b>	<p>There should be additional requirements placed on firms to provide simplified, standardised charges for hybrid products.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>We are keen to explore whether more could be done to help consumers compare drawdown products. We will monitor other market developments and take action to help consumers shop around where necessary. There is a need to develop comparison tools for drawdown in the longer term as the market evolves.</p>
<b>19</b>	<p>FCA should require pension providers to publish figures annually on:</p> <ul style="list-style-type: none"> <li>• Consumers reaching retirement age.</li> <li>• Consumer take-up of the Pension Wise service and other sources of advice.</li> <li>• Levels of incumbent annuity purchases.</li> <li>• Aggregate annuity income paid to incumbent customers, as well as aggregate annuity income those consumers would have received according to the best quote on the MAS website.</li> </ul> <p><b><i>(Proposed as additional aspects of FCA monitoring)</i></b></p>	<p>We are currently considering our data requirements and will seek to balance those requirements with the regulatory burden and cost placed on the industry.</p>
<b>20</b>	<p>Improve governance around decumulation products through the use of independent trustees and Independent Governance Committees.</p> <p><b><i>(Proposed as an additional remedy)</i></b></p>	<p>We have already undertaken work in this area, following the publication of our rules requiring firms to set up and maintain Independent Governance Committees, alongside a commitment to review the effectiveness of Independent Governance Committees in 2017.</p>

## Annex 2

# List of non-confidential respondents

Association of British Insurers

Aegon

Association of Consulting Actuaries

Association of Professional Financial Advisers

Building & Civil Engineering Benefit Schemes

Fidelity

Financial Services Consumer Panel

Friends Life

Hargreaves Lansdown

Institute and Faculty of Actuaries

Institute of Financial Planning

Intelligent Pensions

IRESS

Just Retirement

MetLife

MGM Advantage

Money Advice Service

National Association of Pension Funds

NEST Corporation

PA Consulting

Partnership

Pension Income Choice Association

Pension PlayPen

Mr Peter Scawen

Professor David Worrall

Royal London Group

Standard Life

The Equity Release Council

The Investment Association

The Money Charity

The Pensions Advisory Service

TISA

Virgin Money

Mr Wayne Davies

Which?



Financial Conduct Authority



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