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Dear Rob

Consultation: Annuity rate transparency

This is the Financial Services Consumer Panel's response to the ABI consultation paper: annuity rate transparency.

The Panel supports the ABI's commitment to increasing transparency around annuity rates and its work to assist consumers to make better-informed choices at retirement. We think the proposals in the Paper could go a long way towards providing consumers with helpful contextual information as they consider how to secure their income in retirement. As we said in our response to the original consultation on the Code of Conduct on Retirement Choices, it is our view that many consumers may not be able to make the best choice of income product without the benefit of advice. This is an issue outside the ABI's remit, but nevertheless we think it important that visitors to the website are signposted to sources of independent financial advice. The overall credibility of the website would be greatly enhanced by a systematic process of independent scrutiny of the data provided. We would like to see this put in place from the outset.

We would also like to see questions such as data presentation and the content of the tables tested with consumers at an early stage.

Our comments on the specific questions in the consultation paper are set out below.

Q1: Do you agree with the proposals for presenting the rates?

We agree with the premise in the paper that the information needs to be published in an accessible, understandable way on a customer-friendly website. The re-developed ABI website is the natural default choice, but not one with which many consumers would be familiar. Ideally the information would be published as widely as possible – the paper mentions potential links to the site from the Money Advice Service and the Pensions Advisory Service sites – and we would like to see the new FCA website included if possible. In addition it would be helpful for the websites of those firms participating in the survey to include a link to the annuity rate information.

The ABI has made it clear that the annuity rate information will not be a shopping around tool in itself, but rather a means of demonstrating the need to shop around. Many consumers will be familiar with 'best buy' tables so care will have to be taken to ensure that the distinction is absolutely clear. We suggest that this is an area that should be the subject of consumer testing to identify the best format for presenting the information.

We think that brief information about the firms providing the notional rates would be helpful, including whether they compete in the open market. The way in which this information is presented should also be standardised, kept factual and should be covered in a couple of sentences. A link to the firm's website could also be included.

Q2: Do you agree with the proposals for collecting the rates?

This is not a completely straightforward area and there are some problematic issues, such as the implications of competition law identified in the paper. For the rates to be useful the participants in the survey will have to base their rates on the same assumptions and, as noted in the paper, this brings with it the possibility of 'gaming' the survey for commercial advantage. Clearly the ABI has considered this issue carefully, but since insurers provide the rates for each survey they will know in advance the hypothetical customer profile. This raises the question of how consumers can be confident that firms will not simply have adjusted the relevant rates in their favour. The risk could be mitigated by a programme of monitoring or preferably periodic independent research – we have commented on this further in our response to question 3 below.

We agree that a quarterly survey would not be frequent enough. Every two months may be appropriate, but we would prefer to see monthly surveys in the first instance. This could be reviewed in the light of experience after, say, twelve months.

While the information set out in the consultation paper is comprehensive, it is difficult to imagine how it will appear to consumers unfamiliar with annuities. We would like the ABI to carry out consumer testing before taking a final decision on how to present the rates and supporting factual information.

Q3: Do you agree with these risks and our approach to mitigating them?

and

Q4: Do you have any suggestions on how we can independently validate the customer profiles we are using for the survey?

As already mentioned, we agree with the ABI that there is a risk of 'gaming'. We acknowledge the argument put forward in the paper that gaming itself carries a reputational risk and we note the compliance requirements that will be imposed by the ABI. Nevertheless we think that an independent governance structure, incorporating a review or audit function, would go some way towards mitigating the gaming risk still further and would, in addition, increase the 'validity' or trustworthiness of the information from a consumer perspective. This is an important area as consumers will want to be confident that the information being provided is not a sales pitch in disguise.

We are not in a position to make detailed suggestions as to how the process could be carried out, but clearly it would have to be undertaken by specialists or researchers independent of the ABI and its members.

It goes without saying that there should be nothing in the survey or publication of data that infringes competition law or the FSA's requirements on financial promotions.

Q5: Is there other information you believe should be published, and what would the purpose of publishing it be?

We do not want to see consumers overwhelmed with data. The ABI's efforts to improve consumer outcomes could be hampered if consumers decided that the website/tables were too complicated, although of course it might well be useful for advisers to be able to access more comprehensive information. We would like the ABI to test a limited range of publication options with consumers before taking a final decision on what should be included.

We have noted the points made in the consultation paper about the publication of retention rates. While we do not think it necessary for consumers to be provided with this information as an aid to decision-making, in the longer term we would like further consideration to be given to publication, even if the rates were only broken down into ranges rather than specifics. We would also urge the ABI to continue discussions with the Money Advice Service and the FSA/FCA with a view to making greater use of MAS' ability to engage with consumers under an independent brand, as intuitively we feel that consumers may be unaware of the ABI's consumer-facing work and consequently be discouraged from looking at the organisation's website.

Q6: Do you have any other comments on the proposal?

We support the ABI's work to improve transparency in this area which could ultimately lead to more informed decision-making by consumers and their advisers. We strongly urge the ABI to undertake a programme of consumer testing before taking any final decision on data content and presentation and to ensure that it has success measures in place to help assess the effectiveness of its work in this important area. A pop-up survey linked to the site could help to keep track of consumer views of the information, and to track how the site is used and by whom.

Yours sincerely

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Financial Services Consumer Panel