

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: TR16/7 Review of Annuity Sales Practices

Lead regulator: FCA

Date of assessment: 21 October 2016

Commencement date: 1 June 2015

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

In October 2016, the FCA published TR16/7 which set out our findings from the review of non-advised sales of annuities made by pension providers to their own customers between May 2008 and April 2015 (The “review period”). Specifically, we looked at the information provided regarding enhanced annuities (sometimes called impaired life annuities).

In undertaking this work, it was our intention to establish whether firms, during their non-advised sales communications with customers (both written and oral), provided their customers with sufficient information about enhanced annuities. Specifically, we wanted to understand whether firms made customers aware of their potential eligibility for enhanced annuities and explained that by shopping around for annuities they could get a higher income with another provider.

We asked firms to assess whether they had ensured that, throughout the chain of information provided to the customer, there was a clear, fair and not misleading explanation of enhanced annuities which would enable the customer to understand whether they were potentially eligible for one and make an informed decision about shopping around.

Which type of business will be affected? How many are estimated to be affected?

TR16/7 is relevant to firms engaged in the selling of annuities to their own vesting customers on a non-advised basis during the review period.

There were 33 firms that sold individual annuities of any description during the review period. Due to mergers and sales since our publication this number can be reduced to 28 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	2016	10	-£280,000	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

We concluded that, based on our review sample, there was no evidence that there was an industry-wide or systemic failure to provide customers with sufficient information about enhanced annuities through non-advised sales, which is resulting in actual loss to the customer.

However, because a small number of firms returned high failure rates that may have caused customer loss, we asked those firms to conduct a formal review of their past in-scope sales. Under the FCA's formal powers within FSMA, these firms have appointed Skilled Persons who will ensure that the past business review will be conducted rigorously and effectively. The FCA will also provide these firms with a mechanism through which redress can be calculated consistently. This is not captured in this Impact Assessment as this is classed as firm specific work.

However, firms within this market will be required to implement lessons learned from the review, as described in TR 16/7. Specifically, these firms will need to digest the information and consider whether it should drive any relevant changes to their processes or practices. The work involved in this is captured within this review.

As mentioned above, 28 firms will need to digest the information provided in TR 16/7; most of these firms would have a certain number of internally vesting pension customers who would fall within the scope of the Review. This number of firms might be an overestimate as it includes certain groups which might only be selling open market annuities, but can be used as a reasonable indicator of the size of the relevant market.

Firms are not expected to make wide-reaching or potentially expensive process changes or give staff special training to complete the review; as we were only requiring gap analysis against existing clearly understood standards it is expected that the necessary expertise for this already exists within firms as part of their ability and approval, under the threshold conditions, to operate within this regulated market and to comply with existing regulatory rules.

Summary of calculation of cost of completing each review of a firm's sales practices against the findings in TR16/7	All firms
Number of firms	28
Average cost for completing a sales practice review	£10,000
Estimated total cost for all firms of this type, completing a sales practice review	£280,000

Bases of cost estimates:

For the familiarisation cost, we have used a cost of £48 per hour of a compliance officer's time, at a reading rate of 100 words per minute. For the analysis of sales processes we estimate a firm would require c. 20 days @ £500/day for a middle payment level contractor.

This estimation¹ would allow sufficient time for firms to consider the findings within TR16/7 and, where appropriate, explore how their communications and/or sales processes may be strengthened to address the points made.

¹ Based on the FCA's knowledge of the industry and supported by the work carried out when conducting the thematic review.

These estimates are based the two sources:

Robert Half salary guide (2016)

Evaluating the cost savings to business from revised EA guidance – method paper, EFTEC (2013)

The £10,000 cost per firm is made up as follows:

Familiarisation cost:

The 35 page TR should take around 2 hours to read (assuming each page contains around 350 words), and therefore have a familiarisation cost per firm of £96, or under £3000 across the industry. Note that this figure reflects the pure familiarisation cost, without any associated gap analysis or remediation. Gap analysis is described below.

Gap analysis of written communications:

The gap analysis of the written communications associated with vesting pension policies would require identification of the relevant documents and subsequent analysis to ensure compliance with the existing COBS rules. From the findings of the Thematic Review we do not anticipate significant change being required to written communications and would anticipate completion of the analysis in c.10 man days at a cost of c£5,000 per firm.

Gap analysis of call handling processes:

In addition, firms would need to analyse the call handling processes, controls and training & competence requirements to ensure that call handlers are providing the appropriate information to their customers. This analysis would involve sampling a range of existing telephone calls, reviewing training and competency records and ensuring that controls and associated MI provide senior management with timely and relevant information to enable compliance with the existing COBS rules. Based on our knowledge of the work required we anticipate that this work would be completed in c. 10 man days at a cost of c£5,000 per firm.

Cost Area	Cost per firm
Familiarisation	£96
Gap analysis written comms	£5,000
Gap analysis call handling	£5,000
Total	£10,000

It should be noted that firm compliance functions have a responsibility to periodically review sales practices, and the effort noted above is part and parcel of such a review rather than supplementary work. The costs involved for each firm are incremental but not material.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

Link to Thematic Review document <https://www.fca.org.uk/publication/thematic-reviews/tr16-7.pdf>

Link to Robert Half salary centre: <https://www.roberthalf.co.uk/news-insights/salary-centre-2016>