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Dear Alex,

Financial Conduct Authority consultation paper on Implementing Information Prompts in the Annuity Market

Which? welcomes the opportunity to respond to the Financial Conduct Authority's consultation paper on implementing information prompts in the annuity market. The FCA's thematic review of annuity sales found that there are significant barriers for consumers shopping around in this market, and firms' existing prompts and reminders to encourage customers to shop around do not have a substantial impact. We therefore strongly support the requirement on firms to inform consumers how much they could gain from shopping around and switching provider before buying an annuity. We support the FCA's proposed implementation date of 1 September 2017, and would welcome firms making the necessary changes sooner than this date.

The information prompt, in the form of an annuity comparison showing consumers how the quote they have been offered compares with those available on the open market, should increase the proportion of consumers who get a good deal from a standard annuity.

We are pleased that the FCA commissioned behavioural consumer research to compare different ways of implementing this information prompt, and that this consumer testing has informed the FCA's proposals. The research showed that an information prompt comparing available quotes should significantly increase shopping around, and that a personalised annual comparison resulted in the largest increase in shopping around. We therefore agree with the FCA's proposal to require firms to deliver the information prompt in this form. The content proposed, in a prescribed format, also seems sensible¹. However, the FCA should continue to evaluate the impact of the remedy once implemented, including assessing any unintended impacts on competition.

We also agree with the FCA's approach that acknowledges the potential unintended consequences for consumers who are entitled to a Pension Commencement Lump Sum, and those who have a Guaranteed Annuity Rate. Requiring firms to give additional, clear and prominent risk warnings should help consumers make an informed decision and mitigate against consumers getting a worse deal from shopping around and switching. The FCA

¹ We welcome the intention to signpost consumers to an annuity comparison tool, but the information on how to shop around should not be prescriptively restricted to only signposting to the URL of the Money Advice Service, given the Government's parallel consultation on a single public financial guidance body.



should closely monitor the implementation of these risk warnings to check that they result in the intended outcome.

The timing of the information prompt is important. It is reasonable to require firms to provide the comparative quotes when they communicate their own annuity quotation to the consumer as part of pre-sale disclosure, and so before the consumer makes a decision whether to proceed with buying that annuity. However, the FCA should conduct consumer testing to identify the point at which the information prompt has the greatest impact, and ensure that the comparison is not provided too late in the consumer's decision making process to have an impact.

The FCA proposes that firms should use the same underwriting information used to produce their own quote when producing comparative quotes from others available on the open market. The information provided should be clear that the 'best value annuity' that has been found is based on the information the consumer has provided, and that other providers might ask for more or different details, which could mean an even better deal. This would help consumers understand why further shopping around could be valuable.

It should be noted that this information prompt, requiring comparisons to be done on a like-for-like basis, will also not address some of the other problems identified in the FCA's thematic review of annuities and its Retirement Income Market Study. For example, it assumes that consumers will already understand whether they are eligible for an enhanced annuity, and have made an informed product choice between annuity or drawdown, or annuities with particular features. Consumers who qualify for an enhanced annuity, but instead purchase a standard annuity, will not be helped by this remedy regardless of whether they shop around or not. It is important therefore that the FCA continues to ensure its other work, such as potential changes to 'wake up' packs, to help ensure consumers choose the right type of product for their needs.

The FCA also acknowledges the risk that comparisons on the basis of existing underwriting information could lead firms to reduce the level of underwriting they provide to their consumers, and that such an approach would reduce the differential between internal and open market quotes. As part of its monitoring and evaluation, the FCA should look at whether variations in underwriting practices between annuity providers are limiting the impact of the information prompt for some consumers.

Finally, we agree that the requirement to provide an annuity comparison should apply to non-written and online communications. If a firm conveys a guaranteed quote verbally before reiterating it in writing, the firm should be required to include the same information prompt verbally in the same way as in its subsequent written pre-sale disclosure.

Yours sincerely,



Caroline Normand
Director of Policy