



## **ABI response to CP18/17 Retirement Outcomes Review: Proposed changes to our rules and guidance**

6 September 2018

---

### **About the Association of British Insurers**

The Association of British Insurers is the voice of the UK's world leading insurance and long-term savings industry.

A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

### **Executive Summary**

The Pension Freedoms changes have created an environment where consumers are faced with more complex choices about what to do with their money in retirement than previous generations, and therefore it is crucial that consumers have the right information to support these decisions. The package of changes to communications pre-, and in, retirement suggested by the FCA in their Retirement Outcomes Review are broadly sensible. We welcome the opportunity to provide feedback on the FCA's proposals and we look forward to working with the FCA to ensure that they are designed and implemented in an effective manner.

Communications will have an important role to play in making sure that pension freedoms work effectively for consumers. One of the key indicators of effective markets is informed consumers, and the measures proposed in the consultation could go a long way to improve communications, reflecting recommendations made by the ABI.

The term 'wake up pack' is one that the ABI previously argued against. We agree with the intent behind sending out such information at this point in a saver's life, but the term itself implies that it is an acceptable norm for people not to be engaged with their pension until this point. We do, however, agree that sending out the information and sending it out earlier could help disengaged consumers start planning for their retirement.

Whilst risk warnings should play a key role in such communications, it is important that they are appropriately placed and communicated using plain English. We are concerned that if risk warnings are not used appropriately they could have the effect of disengaging consumers. Further consumer testing should be conducted on the efficacy of risk warnings when implemented at different points in the consumers journey.

In November 2016, the ABI published Making Retirement Choices Clear. This guide is focused on simplifying the language used to describe the many options available to consumers in retirement. The guide proposes that the option of an annuity is explained to consumers as a 'guaranteed income for life'. However, for the purposes of this response, and in line with the FCA terminology, we use the term 'annuity'.

Enhanced annuities are an important product that provides support to many consumers who are in ill health or have other conditions affecting their longevity, and we agree that customers should be aware of how they could benefit from them. Providers have already put solutions in place to ensure customers receive a comparison and a market-leading quote they can accept, and this has led to an increase in the proportion of annuities bought on the open market and enhanced on the basis of health and lifestyle. It is critical that the proposed rules reflect and do not undermine these solutions. The suggested measures, in principle, are an appropriate way of ensuring that all consumers who are eligible for such products are made aware of them. But the FCA must be clear on the customer journey so that it works for all customers and fits with good practice in the market.

We support the principle of cost transparency, but concerns remain about whether consumers will be able to interpret all the information that is proposed. Context is vital and ensuring that consumers are comparing the appropriate information in order to make the right decisions for them is an area that will require further work.

Finally, we note that insurers will have to dedicate significant resources to complete appropriate consumer testing and then to successfully implement the FCA's proposals. Given the current regulatory framework whereby firms are in the process of implementing and embedding various regulatory changes including the Insurance Distribution Directive and the Senior Managers and Certification Regime, the FCA should extend the proposed implementation date to at least 18 months from the publication of the final rules.

#### **Chapter 4 – Improving consumer engagement with retirement decisions: ‘Wake up’ packs, retirement risk warnings and reminders.**

##### **Q34. Do you agree with our proposals on ‘wake-up’ packs? If not, how should we change them?**

We are in agreement with the principle of providing “wake-up” packs earlier and more frequently. The level of detail and complexity of the content is key to the efficacy of these changes. Therefore, the FCA must ensure that providers have sufficient time to produce the most engaging pack they can for their consumers, and to allow for providers with products and legacy systems to implement changes for all customers in a consistent way. The FCA should set the implementation date for these proposals to at least 18 months from the publication of the final rules.

We support the FCA's proposal for a one-page summary based on its findings that the streamlining of key information increases the likelihood of consumers engaging with Pension Wise. However, while we are supportive of the one-page summary, the list of proposed items to include, as set out in draft handbook text paragraph 19.4.6C, may be too long to fit on a single page. Therefore, it would be helpful for the FCA to confirm whether it is imperative that all the items fit on one page, or whether they could be spread over to no more than 2 pages. This could be communicated to providers as part of a wider piece where the FCA sets out high-level principles to determine the detail that needs to be included. This would ensure there is consistency in the information given by providers but allow sufficient flexibility for providers to include product specific information and to develop communication in their company's writing style and format.

While we agree with the earlier starting point for the 'wake-up' pack, the current proposal for a five-year interval between the first and second 'wake-up' pack is likely to be too long an interval for optimal retirement outcomes. We propose that consumers receive a second 'wake-up' pack at age 54, a year before having access to their pension pots (rather than just before they turn 55). This is likely to encourage more considered thinking about one's options.

In addition, pension communications for this age group will be affected by wider industry and government initiatives, and we encourage the FCA to engage closely with these to ensure that the proposals are complementary, and so that people in this pre-retirement phase have sufficient prompts to engage with the decisions they need to make:

- In our April 2018 paper on Interventions in the Retirement Market, the ABI made recommendations for tailored, phased communications that include a specific call to action. We said, as an example, that a customer aged between 45 - 54 may be signposted to the availability of guidance, which could encourage them to begin to consider their finances in later life. We are now seeking to develop principles for pension communications at different life stages and would welcome further FCA engagement in this work.
- It is also important that the FCA proposals tie in with any other industry or Government changes to regular communications about pensions, particularly the work being led by Ruston Smith on simplified annual statements and in relation to the proposed Mid-life Review that is currently in development.

We would welcome further discussion around the proposals to limit marketing activity and clarification of how the FCA defines 'marketing material', and whether the proposed ban includes a statement that a provider offers the options available, and signposts consumers to a third-party provider. Part of the purpose of the 'wake-up' pack is to alert consumers to the need for possible action and therefore it is important that providers are able to inform consumers of which options they offer and which they do not. The information provided should highlight the retirement options that are available to them in the market, even if the firm does not provide the option.

**Q35. Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?**

We agree that including risk warnings at an earlier stage could assist consumers in making the right decision for them. However, the fact remains that there are limited changes in consumer behaviours resulting from the existing risk warnings.

Therefore, further discussion, research and testing are needed before the FCA creates a further requirement. The number and prominence of the warnings relative to other key messages should be tested to avoid consumer confusion and misunderstanding.

We are also aware that, when faced with too many disclosures, consumers can become disengaged. It is therefore important that the risk warnings are not too lengthy, and that plain English and engaging language is used.

We would consider it to be more impactful for the risk warning, that accessing the pension may not be in the consumers best interest, to be communicated right up until the individual's selected retirement age. The risk warning needs to make it clear to the consumer that if they take the benefit before their chosen retirement date, even by months, they may forego guarantees, incur an exit charge or market value reduction (MVR).

**Q36. Do you have any further comments on our proposals for retirement risk warnings?**

We would welcome further consideration about whether an earlier communication of the risks would be appropriate, in addition to the current risk warning approach at the time of accessing the pension. This could reduce the risk of warning fatigue but could also ensure customer are more aware of these risks at this time due to them having been exposed to previous communications.

Annex B proposed amendments to COBS rule 19.4.8C which cover the risk factors relevant to customers, 19.4.8D which require an assessment to be made against the risk factors as to which retirement risk warnings should be disclosed, and 19.4.8G which require the disclosure of the assumptions used, and personal data relied upon when assessing which retirement risk warnings were relevant. In line with the existing COBS rule 19.7.12G for decumulation risk factors, firms are expected to ask customers questions to narrow down which the relevant risk factors are. However, whilst asking such detailed questions of customers, firms have effectively disclosed the reason for asking the question, and the decumulation risk factor associated with it to customers anyway. As all risk factors are effectively disclosed to customers regardless due to the questioning that needs to take place, and all the risk factors are important, we would argue that, as a standard, firms should disclose all the retirement risk warnings to customers in a standardised smarter communications format, to ensure customers are aware of all the risks involved.

We would welcome further discussion around developing a retirement risk warning template that indicates what needs to be included by the FCA and the Single Financial Guidance Body (SFGB) for industry use. There is a concern that many customers will have a number of pension pots with various providers – if each provider has a different approach with different ways of presenting information, this may result in consumers being confused by the different approaches taken.

**Q37. Do you have any comments on our proposals for the reminder?**

We note that if providers are required to give increased prominence to pension guidance in the reminder letter, there needs to be confirmation from government that the SFGB will be suitably resourced to deal with any increase in the take up of the service, as consumers will expect to have access to timely appointments. Consumers are unlikely to want to wait for several weeks for an available appointment if they have been told that appointments are available.

The proposals for a one-page summary and a one-page written risk warning are largely based on the assumption that providers' communication is by paper. However, this is becoming less and less the case. It is important that the rules work effectively for online processes as well as for paper.

We note that annex B, proposed amendments to COBS, rule 19.4.5(2) (c) (ii) requires that a firm provide a customer with an open market options statement every time they take a further sum of money from their pension to exercise open market options. Therefore, for each ad hoc uncrystallised fund pension

lump sum (UFPLS) payment or ad hoc drawdown amount, firms would be required to send the customer a further statement. The statement in these scenarios would include the single page summary document, a fact sheet, appropriate risk warnings, and any other information to enable the retail client to be able to make an informed decision about whether to exercise, or to decline to exercise, open market options. This is a considerable amount of information to send to consumers every time they make an ad hoc withdrawal from their pension. Whilst consumers should always be kept appropriately informed, there is a concern that consumers will disengage if they are overburdened with documentation.

## **Chapter 5 – Improving consumer engagement with retirement income decisions: Annuity information prompt**

### **Q38. Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?**

While we support the FCA's proposal to introduce enhanced annuity quotes for those consumers who are likely to be eligible for them, we note that in recent years providers have put solutions in place to ensure customers receive a comparison and a market-leading quote they can accept. It is important that the rules reflect and do not undermine these solutions.

Many providers that only offer standard annuities already ask a set of triage questions for guaranteed income customers, this is usually in the form of health and lifestyle-based questions which help assess consumers' eligibility for an enhanced guaranteed income. A standard annuity quote is issued alongside a mandatory referral to the preferred partner for comparison of enhanced annuities. It should be noted that products with a GAR may be excluded from this process. Enhanced annuity providers will then carry out the appropriate assessment in order to provide a fully enhanced quote.

For providers that follow a process like this (that is, carry out a standard comparison and then refer to a shopping around service for an enhanced comparison), the proposed added text to be included in COBS (19.9.3) as written would not allow them to issue a standard quote. The proposal is particularly problematic for customers with GARs, to whom providers will write to tell them about the guaranteed rate. Providers that have a process for a standard comparison should be allowed to issue a standard comparison with the condition that a fully enhanced comparison is also issued before a standard annuity can be purchased, with particular consideration given to customers with GARs.

The comparison offered by the Money Advice Service (MAS) and by shopping around services are quite different. As MAS develops its annuity tables it should consider with the FCA how these could best fit with the rules. At present, the MAS comparison may underplay a true comparison compared to a shopping around service based on the Retirement Health Form which is far more in depth.

It would be helpful if the FCA confirmed that providers who do not offer an in-house annuity option should be able to point consumers to the open market or a third-party service to cover this requirement.

### **Q39: Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?**

The FCA's proposed 19.9.3A R (2) states that "If the retail client is eligible for an enhanced annuity the firm must generate a guaranteed quote for an enhanced annuity and a market-leading quote for an enhanced annuity." We note that for providers who do not underwrite and offer a comparison based on, for example, the questions in the MAS comparison table, it is not possible for a firm to generate a guaranteed quote. It would be helpful if the FCA confirmed that this wording does not reflect its intention. We would propose that further consideration is given to how the rules work in practice in this circumstance. For example, the paragraph 19.9.3A R could be amended to read as "If the retail client is eligible for an enhanced annuity the firm must generate a guaranteed and a market-leading quote for an enhanced annuity".

If the FCA's current text is intended, the FCA should amend the definition of a 'guaranteed quote' in its Handbook and should ensure this does not preclude a standard comparison; i.e. if the wording above is accepted as the intention, the customer would receive 2 comparisons assuming they do not refuse to answer health and lifestyle questions (a scenario that is already acknowledged).

**Q40: Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objective?**

We agree with the FCA's proposals.

## **Chapter 6 – Promoting competition by making the cost of drawdown products clearer and comparisons easier**

**Q.41 Do you agree that key information should be summarised on the front page of KFIs?**

We are broadly in agreement with the FCA's proposal for key information to be summarised on the front page of KFIs. However, it is likely that many consumers will still struggle to understand real projections. This is particularly the case where cash or low risk investments are the main assets, leading to a near-zero or negative real return. Therefore, any changes of this nature should be thoroughly tested with customers before any changes are made, as confusing them on the first page runs the risk of disengaging them with all messages that come thereafter.

It is unclear why a KFI would be required when a consumer is accessing drawdown to empty the pot in a single withdrawal and therefore it would be helpful if the FCA clarify in its final rules that a KFI is not needed when a consumer takes the entirety of their pot in a single withdrawal.

**Q42. Do you agree that the summary information should show a one-year single charge figure expressed as a cash amount?**

We agree that more needs to be done to help consumers understand charges and their effect. However, an unintended consequence may be that the consumer will inevitably focus on this single element, and less on other elements such as fund suitability and performance. Thus, the explanation given in the summary information will be key to ensuring that consumers understands the figure provided.

Furthermore, it is important that consumers view this information in the context of the total charges over the duration of their intended investment e.g. 5 or 15 years. This is important to avoid scenarios whereby low annual costs are used to entice consumers initially, but this is then coupled with higher additional fees.

**Q43. Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?**

It should be noted that all previous projections that the consumer will have received will have been in real terms. The proposal would introduce consistency. However, as noted in our response to question 41, there is a concern that consumers will struggle to understand the information that is being presented to them. Careful consideration needs to be given to this proposal to ensure that it does not lead to consumer confusion.

**Q44. Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?**

Whilst we agree with the intent behind this proposal, there are some situations where we believe that it would not be appropriate. Imposing such a requirement when customers are taking an UFPLS withdrawal from an existing accumulation product could be onerous and could lead to some providers ceasing to offer the service. Due to the relatively low usage of such facilities, and the scale of IT changes that would be necessary to implement the reform, we believe it would be better to exclude it. This should also be the case when an UFPLS is used for full withdrawal.

**Q45. Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?**

We agree with the FCA's proposal. Consumers should remain aware of the performance of their investments even if they do not plan on using them in the near future.

**Q46. Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?**

In line with our submission to the FCA's proposals for discussion on investment pathways, we agree that consumers should be regularly reminded to review their decisions, in particular whether there have been changes to their objectives that might trigger a switch to alternative pathways or products. As the size of pots moving into drawdown has decreased, the validity of the idea that advice will always be the best option has become less clear. These communications should however still include information regarding the benefits of using free independent and impartial guidance and regulated advice services that are available for consumers. The availability of these services should be highlighted to the consumers within the regular communications.