



The Actuarial Profession

making financial sense of the future

Consultation Response

Association of British Insurers

Consumers in the Retirement Income Market

February 2012

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Dear Yvonne

Consumers in the Retirement Income Market: An ABI Consultation Paper

On behalf of the Institute and Faculty of Actuaries (the Actuarial Profession), I welcome the proposal to introduce a Code of Conduct for retirement income and think this is a positive step towards improving consumer outcomes. Thank you for the opportunity to provide comment on the Code prior to implementation. I have set out the response from the Actuarial Profession in the attached document.

I hope our response will be of interest as you seek to finalise the Code of Conduct. If you have any questions about the content or if you wish to seek further views from us, please contact Sarah Mathieson, Policy Manager at the Actuarial Profession, on 0131 240 1301 or sarah.mathieson@actuaries.org.uk.

Yours sincerely,

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1. General Comments

In addition to the specific questions posed in the consultation document, the Actuarial Profession would like to make the following observations about the proposed Code of Conduct on Retirement Income:

1.1. Consumers who do not engage

While the Code has been written to encourage engagement of consumers as they approach retirement, we think there could be benefit in further consideration of the many customers who do not engage. The suggested templates may only be adequate if the consumer decides to read the communication material. The customer journey may be enhanced by additional thought on how providers could reach out to the customer segments that do not engage.

For example, one suggestion could be to enhance the proposed templates beyond the bold headline messages and show something more akin to a “health warning”, possibly in bold red text.

1.2. Trust-based business

Many of our members act as trustees and also advise trustees of Occupational schemes. We will encourage our members to be aware of the Code, once implemented.

We acknowledge that the ABI is working closely with the NAPF and the Pensions Regulator, who may reflect the principles in their own guidance to trustees. With regard to the content of the ABI Code, we think that outcomes for trust-based business may benefit from clearer guidance on how providers interact with trustees. For example, one principle could be that providers treat trustees in the same way as they treat members of contract-based schemes, with regard to provision of information.

The specific content in the customer journey and templates are examples of where clearer guidance on the treatment of trust-based business may be beneficial. .

1.3. Terminology

The term “lifestyle” is used in the Code frequently with regard to consumer eligibility of enhanced annuities. We would suggest that the ABI consider using a different term for the following reasons:

- The term “lifestyle” is already prevalent in the financial services industry to mean pension funds shifting from equities to bonds, as a customer approaches retirement.
- “Lifestyle” is also used in a similar context for changes in asset mixes for Child Trust Funds.
- The word “lifestyle” to the general public may also include aspects that are not relevant to the purchase of an annuity. For example, playing golf or holidaying abroad may be considered part of a “lifestyle” but perhaps not relevant to an annuity rate.

Overall, this term could potentially be confusing and possibly jargon, depending on the context.

1.4. Access to online information

Throughout the Code, we feel there is a bias towards customers accessing information online. Across all ages, there is still a small proportion of people who do not have ready access to the internet. We would suggest that this is a consideration when sign-posting sources of information and advice to customers.

Further to this, being able to find the required information on websites can sometimes be problematic for consumers. For referenced websites, the organisations could be encouraged to ensure there is clear sign-posting to the relevant information, from the links provided in the customer letters. This applies both to provider websites and also to organisations such as the Money Advice Service and the Pensions Advisory Service.

2. Response to Consultation Questions

Responses have been provided only to those questions where we hope the perspective of the Actuarial Profession can add value.

Question 2: Is the customer journey set out in the Code appropriate?

We would suggest that the layout of the customer journey presented in the draft code could be made clearer to the reader. The three stages are presented as a), b), c) and are then repeated in more detail as d), e) and f), which may not give the impression of a sequential customer journey. The labelling of the sections and presentation of the three stages could perhaps be re-considered.

The CEO compliance sign-off suggests that some form of market testing would be expected. However, this is less apparent in the body of the Code. We would suggest that the Code could include a more specific requirement for providers to test their communication material with consumers, particularly in respect of the use of clear language and without jargon.

As well as being clear and jargon free, we would suggest that the wake-up and follow-up packs should not be biased towards the consumer remaining with their current pension provider for their retirement income product. A requirement for non-bias in respect of the current provider could be an addition included under the third set of bullet points in section d).

If the customer chooses to delay, the investment position of their pension fund could have an impact on their final outcome and may be a consideration.

Question 3: Are the requirements for the sales process appropriate?

The list of questions could also include whether the customer is concerned about having a guaranteed term, as well as any inflation-proofing.

Where the questions are asked by a third party – for example, a financial adviser – it is not clear how a provider should ensure that these have been asked. We are not sure how this could be policed in practice and whether the CEO of a company that is heavily reliant on adviser business could really complete the compliance requirement with complete confidence.

We would suggest that the Code may benefit from clarification of the role of occupational scheme trustees in the sales process.

Where a customer's purchase has been delayed, we would suggest that customer detriment may be an addition to the last two bullet points of the Sales Process section.

Question 4: Are there any changes you would recommend to the template cover letter (Annex A)?

Under the headline message, "improve the income", rather than "increase the income", may be more appropriate as the most suitable arrangement might be a different shape - as opposed to just being higher than the "default".

The last sentence of the first paragraph under the introduction appears to require an additional word – for example, "...we have enclosed a leaflet talking you **through** how to do this..."

The second paragraph under the introduction may benefit from a reference to the role of a financial adviser, particularly if the customer is known to already have an adviser.

We would suggest that clarification of the role of any trustees in the context of the customer letter may enhance the application of the Code for trust-based business.

Where the customer has more than one pot with the same provider, could there perhaps be an aspiration to have all pensions shown on the same letter? For example, this could be considered best practice, while accepting that provider systems may be a barrier to making this happen in many cases.

Under [4]a), we would suggest that the final sentence may be enhanced with slightly clearer wording. For example: "Please let us know, on the form included, if you want to defer taking an income."

Where the customer may have a small pot, the customer journey may be improved by further clarification on what happens if they do not take the actions outlined under [4]b in the template.

Under [4]d)i), describing an annuity as a product providing a "guaranteed income" may require consideration for annuities that have an element of uncertainty in their income – for example, variable annuities.

The Code may benefit consumer outcomes with further guidance on what customers should do if they have several pots with more than one provider. For example, the letter could perhaps provide some practical information on what steps they could take.

Under [4]d)i), we believe the following sentence could be potentially open to misinterpretation: "There are many different types of annuity, each designed to suit your own personal circumstances." A suggested alternative could be: "There are many different types of annuity, some will be better suited to your personal circumstances than others."

Under the "Use of the template" section, it may be helpful to refer the reader specifically to the three questions under [3]d)i) in the template as there are other groups of customer questions elsewhere in the Code.

Question 5: Are there any changes you would recommend to the template shopping around guide (Annex B)?

“Using a dedicated shopping around service” may benefit from an explanation of the nature of these services or where the reader could find them (beyond just saying that there are websites). We are concerned that there is a risk that the consumer may think that such a service is more personalised than it actually is. The limitations of a service of this nature could be made clearer to the consumer.

With regard to “Questions about your pensions savings”:

- There may be benefit in sign-posting where the customer can find out about any guarantees. One suggestion would be to switch the paragraphs around: the customer is told about the pack they have been sent and then told that this pack will tell them the size of their pot and any guarantees etc.
- Customers may also need to think about any occupational DC and DB arrangements they have with employers, as well as pensions savings with other “providers”. While occupational schemes are not in scope for this Code, we would suggest that they are a consideration for the customer and could heavily influence the decision they make about how to take their retirement income.

Question 7: Do you have any evidence about the impact that illustrations have on customer engagement or behaviour?

The Actuarial Profession has nothing specific to comment on with regard to the actual illustrations. However, we would suggest that the Code may benefit from additional consideration of the consumer who takes no action (accepting that some consumers may do this consciously because they are choosing to stay with their existing provider).

Question 8: Are the requirements for each stage in the Code appropriate?

We would suggest that further clarity on what happens if the customer does nothing may support better consumer outcomes.

We feel that further information on the role of trustees through this process and how the provider is expected to interact with them at each stage may be beneficial to both trustees and members of trust-based schemes.

We would also suggest further clarity on the relationship between advisers and the provider at each stage may be a useful addition.

Question 9: Are there any other useful customer resources we should be signposting customers to and which are not mentioned in the Code?

The current resources appear to be heavily reliant on customers having access to the internet, which is not necessarily the case for a small proportion of people. We would suggest clear sign-posting for where customers can either seek information without the

internet or where they might want to gain access to the internet (for example, their local library).

The role of the Citizen's Advice Bureau and how it relates to the Money Advice Service could also perhaps be highlighted. Most consumers may be aware of the former but not necessarily the latter.

For additional impact with the consumer, one suggestion would be to introduce the customer resources with some explanation of what the different organisations do, highlighting how they may best serve the customer for their different needs. For example, the Money Advice Service may have its limitations for consumers with more complex pension arrangements and they may be better served by the Pensions Advisory Service or an IFA.

Question 10: Do you have any other comments on the Code of Conduct?

An additional suggestion is that the Code could be enhanced with a template that could be used between providers and trustees, to ensure that trustees are being given the required information. As mentioned under the general comments, we believe that providers could think of treating trustees as if they are the customer and that they receive sufficient information to pass on to their members.

Based on the work carried out by the Actuarial Profession's Consumer Information working party, we would endorse providers adopting an on-going relationship with their customers – not just from the point of the wake-up pack – to maximise customer engagement in the decisions they need to make along the whole customer journey.

Providers may also need to consider the impact of RDR on their ability to implement this Code – for example, providers may need to ensure that there is continuity for customers who may suddenly find themselves without an IFA as a result of RDR. An ongoing relationship with customers in the lead up to retirement would support this Code in meeting its objectives and potentially mitigate any disruption arising from IFAs choosing to leave the market over the coming year.

Where providers find that they do not have an up to date address for their customers, we would suggest that swift action by the provider may benefit these customers. One approach could be that the Code includes encouragement for providers to start tracing a customer as soon as a wake-up pack or follow-up pack is returned to the sender. This may help to mitigate the risk of these customers, for whom the provider does not have a current address, always being rolled into the default annuity, with no option to influence that outcome. Again, providers who seek to maintain an ongoing relationship with their customers through the whole lifecycle of a product could potentially minimise this risk.