



Annuities mis-selling: the new PPI?

In this issue of FSS, we consider the Financial Conduct Authority's ("FCA") recently published report, 'Annuities sale practices – December 2014' into selling practices in the annuity market. This followed on from its 'Thematic Review of Annuities TR14/2' (the "February Review") in February 2014 which estimated consumers could have saved as much as £115m to £230m by shopping around.

What investigation is still on the cards for sales practices and conduct between 2008 and 2014? What is the FCA going to be interested in going forward?

The FCA studied the non-advised sales of pension providers offering annuities to their existing customers. The Report made key findings which are summarised below:

1. Some sales practices have contributed to consumers not shopping around
2. Consumers have potentially been purchasing the wrong annuity particularly if they were entitled to an enhanced annuity but were not aware
3. As a result, consumers have been missing out on higher levels of retirement income

Previous figures from the February Review have suggested that 60% of consumers do not change their providers when buying an annuity and that 80% of the non-switchers are capable of securing a better deal elsewhere on the open market. The proportion of those not getting the best deal rises to 91% when considering enhanced annuities according to the Report.

Looking back at 2008-2014...

As its next step, the FCA is now seeking additional information from a range of firms in the wake of the report. The intention seems to be to look in more detail at the period between 2008

and 2014 to see if the situation has changed or improved. 2008 was when the FCA's predecessor (the FSA) published its 'Open Market Options' findings (the "OMO Findings").

The FCA's statements in publishing this latest report are interesting. The additional information requested of firms will not be an entire review of every annuity sold since its OMO Findings were published. Instead the FCA is looking at indications of good and poor practices and outcomes.

In the Report, the FCA specifically states that its intention is not to establish a new set of standards and to apply them retrospectively against firms with poor standards of practice. Many will recall that the arguments over regulation/enforcement in this way caused a good deal of controversy in connection with PPI.

However, the FCA has not ruled out the possibility that findings of historically poor selling practices or non-compliance over the period 2008-2014 could pave the way for enforcement action:

"Once we have reviewed the additional evidence gathered by the affected firms, we will consider what further action, if any, to take."

As is always the case, firms who have been asked to provide information to the FCA should co-operate promptly in line with their own regulatory obligations. They should also ensure that:

- the scope of the FCA's request is clear,
- their response process is effectively organised and managed and
- accurate and comprehensive records are kept.

... and looking forward too

Although it makes clear that the FCA will take the necessary steps to follow up on historical poor practice (even if it is unable at this stage to say precisely what action might be taken), much of the Report is forward-looking in its focus, suggesting the standards it expects to see, and the improvements it feels need to be made to achieve these standards.

The four 'consumer outcomes' suggested by Report:

1. Customers should be encouraged to shop around to find the best deal
2. Details should be provided of the benefits to guaranteed annuity rates, and the risks of market valuation reduction
3. Details should be provided regarding the benefits of enhanced annuities, their availability on the open market, and the difference between the providers
4. Sufficient information should be provided about the various annuity options available

These consumer outcomes will sit at the centre of the FCA's approach to the regulation of those involved in advising on and selling annuities in the future. Firms in this sector are therefore on notice of the likely areas of focus for Supervision and Thematic Reviews. Processes and procedures should be set up with this in mind and systems and controls established or strengthened to achieve the outcome objectives and assist in demonstrating compliance with regulatory requirements. More comprehensive training for staff should be at the heart of this approach.

Contacts

Kari McCormick and Tim Pope advise clients on financial services disputes and regulatory matters.

For further information please contact them:



Kari McCormick, Partner

DDI: +44 (0)117 902 6620
Mobile: +44 (0)7917 284190
kari.mccormick@burges-salmon.com



Tim Pope, Legal Director

DDI: +44 (0)117 939 2230
Mobile: +44 (0)7968 225096
tim.pope@burges-salmon.com

Burges Salmon LLP, One Glass Wharf, Bristol BS2 0ZX Tel: +44 (0) 117 939 2000 Fax: +44 (0) 117 902 4400
6 New Street Square, London EC4A 3BF Tel: +44 (0) 20 7685 1200 Fax: +44 (0) 20 7980 4966

www.burges-salmon.com

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