

Association of British Insurers: Consultation on Annuity Rate Transparency

Memorandum from the Financial Ombudsman Service

3 December 2012

The Financial Ombudsman Service welcomes the opportunity to respond to the Association of British Insurers (ABI) consultation on annuity rate transparency.

The Financial Ombudsman Service was established by law to resolve individual disputes between consumers and financial businesses - fairly, reasonably, quickly and informally. We can look at complaints about a wide range of financial matters - from insurance and mortgages to investments and credit.

If we decide that a business has treated a consumer fairly, we will explain why - but if we decide that the business has acted wrongly and the consumer has lost out - we can order matters to be put right. We are completely independent and impartial and decide each case by reference to what is fair and reasonable in all the circumstances.

We can look at a wide range of complaints about pensions – from personal pension plans and small self administered schemes (SSASs) to self-invested personal pensions (SIPPs) and annuities. Many of these complaints arise at a time where the consumer is about to retire and can also involve substantial amounts of money.

Low gilt yields mean that annuity rates have now hit an historic low. This can be significant for those on annuity based pensions – and we have continued to see cases where alternative (and sometimes less suitable) pension arrangements have been taken out instead, resulting in the consumer facing greater investment risk.

Our experience suggests that this is an area that can certainly be confusing for consumers, which in turn can lead to consumer detriment. However, in many of the cases that we see, this problem could have been avoided if the consumer had been given clearer information about the options available to them from the outset.

The rationale underpinning the current consultation appears to be to increase transparency within the annuity market so that rates are more easily understandable and accessible to consumers. Transparency and accessibility are important factors - and we welcome any initiative that aims to address this.

For this reason we are in broad agreement with the ABI proposals on annuity rate transparency and we welcome the ABI decision to focus on this area.

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