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A wake-up call on Omo

Helen Pow | 22-May-2008

Annuity providers have been given until December to improve consumer correspondence on the open market option after the FSA found that much of it fails to meet regulatory standards.

The regulator says 38 per cent of all material, from 55 firms surveyed, failed to give adequately clear information to enable a customer to make an informed decision about their retirement options.

In the FSA's report, leaked to Money Marketing last week, TCF director and insurance sector leader Sarah Wilson says she is "disappointed" with the findings, based on an FSA review of "wake-up material" sent around six months before retirement and reminder packs sent six weeks before retirement.

Wilson says very few firms mention the advantages of shopping around for customers with health problems, who are likely to get a better rate by buying an impaired life or enhanced annuity from one of the six providers in that market. Smokers, for example, can get a 15 per cent boost to their income by choosing one of these providers.

The regulator also uncovered a significant failure by many providers to flag up the value of advice.

Wilson says: "A significant number of firms did not make clear the value of seeking advice in making a decision. Sometimes the reference to seeking advice was weak and was not linked to exploring the Omo."

The FSA research found a gap of around 20 per cent between the top and bottom annuity rates, with just over half of providers' rates within 10 per cent of the cheapest rates available. This indicates the considerable potential for customers to achieve higher income by exercising the Omo.

But it found no clear link between good or bad Omo material and the annuity rate offered by the provider.

Twenty per cent of firms were found to be in breach of rules and/or principles in the quality of their literature. The FSA says 18 per cent should improve their Omo material while 44 per cent could improve their literature to meet good practice illustrated by other firms.

According to the research, only 18 per cent of firms have material which clearly sets out customers' retirement options, including the benefits of the Omo.

A significant number of firms stopped short of explaining that exercising the Omo could result in a higher pension. Some firms explained the Omo as where "you can get another firm to pay the pension" which the regulator says, in itself, does not suggest any advantage to the customer.

To comply with TCF rules, a firm's literature must make it clear that exercising the Omo might result in a higher pension and is therefore worth looking into. Wilson says the wording used by firms should also take into account the realistic possibility of whether their customer base is likely to be able to shop around.

The regulator warns that it has not ruled out the possibility of repeating the review later in the year and says it will consider taking enforcement action against firms that fail to address their shortcomings by the December TCF deadline.

The Association of British Insurers admits that its members need to improve Omo standards. Spokesman Jon French says: "ABI research shows that the annuity market does provide good value for money for most customers but the ABI is not complacent and we acknowledge freely that much more needs to be done to improve the customer experience. We expect to be in a position to announce improvements later this year including new templates to ensure members are meeting the FSA's requirements."

Advisers have expressed their anger over the poor life company standards exposed in this research.

Informed Choice director Martin Bamford says: "To see that when people are reaching retirement and about to make probably the most important decision of their lives, they are not being given the right information, is really disappointing.

"I think it is very difficult for people to make this decision without advice but if providers are giving them patchy or misleading information and not flagging up the fact that using the Omo could see them better off, it makes the decision even harder.

"I think the FSA has been aware of this for some time but it is good to see it has done this research. What is really important is what it does now to ensure that providers change their ways."

Highclere Financial Services partner Alan Lakey says: "If companies are sending out literature in gobbledegook, the FSA should sort it out. If this does not improve, it should beat them with a stick because this behaviour is not TCF. The amount of money being made by firms retaining funds and offering a poor annuity rate is massive.

"I have been in the industry for 30 years and I know what goes on. Companies will happily make commercial decisions to the detriment of consumers. Firms must provide information which cannot be misconstrued and preferably highlights the advantages of seeking independent advice."

Just Retirement estimates pensioners could be missing out on over £500m a year due to the ineffectiveness of the current regime.

Just Retirement marketing director David Cooper says: "This interim report is a real wake-up call for all those involved in the retirement industry. The use of the Omo is fundamental to the FSA's principles of TCF. Customers should be given simple, clear and unequivocal information about how they can shop around for the best annuity rate, in addition to having their health taken into consideration.

"Disappointingly, there is continued evidence that customers are not being made aware of this aspect in the information they are given by their pension provider."

CBK Colchester principal Peter Chadborn says: "Providers are very quick to wave the TCF flag when they are promoting products but this shows they cannot use it to their advantage, then not apply it when it does not suit them. It seems they have been putting a clear distinction between what is fair for the customer and what is in their commercial interest.

"It is good to see the FSA is treating the industry equally and not just using regulation as a stick to beat IFAs with."

Source: Money Marketing
