19 January 2016

Re: Consumer Protection Code (the “Code”) – Annuity Sales Process Themed Inspection

Dear

The Central Bank of Ireland (the “Central Bank”) recently concluded a themed inspection of a number of insurance firms to assess their compliance arrangements in relation to the sale of pension annuities.¹

The Central Bank has identified the sale of long term products as a priority theme for 2015-2018. Within that overall priority theme, pension annuities were identified as an initial area for examination in 2015. In selecting annuity sales, we are recognising, among other things, that the purchase of pension benefits represents a significant and complex transaction for most consumers. However, some of the observations below may be equally useful with regard to the sale of other post-retirement pension solutions, including ARFs, AMRFs etc.

The inspection was conducted in two parts:

- a desk-based review, which included an analysis of annuity sales documentation (brochures etc.) and a review of the process for notifying customers of their post-retirement options in advance of their specified normal retirement age;
- on-site inspections of a selection of firms to
  - review the annuity sales process (from application to policy inception);
  - assess how firms ensure consumers are made aware of the open market option; and
  - review files of consumers who purchased annuities between 1 June 2014 and 1 June 2015 to assess compliance with relevant consumer protection requirements².

¹ The scope of the inspection excluded sales through broker channels, annuities purchased by occupational pension schemes and ARF and AMRF sales.
² Code requirements including, Provision of Information, Knowing the Consumer and Suitability were examined in particular.
The Central Bank’s findings from the themed inspection, where we consider improvements are needed, are set out below:

- **Assessing Suitability**
  The Code requires that where a firm offers a selection of pension options to a consumer, the options must be the most suitable from the range of options available from that firm. Furthermore, where a firm recommends a specific pension product to the consumer, the recommended product must be the most suitable product for that consumer.

  The Central Bank found a number of instances where there was insufficient evidence that all of the individual consumer’s post-retirement options were fully explored. We are engaging with the industry on a firm-specific basis where shortcomings were identified.

  We also found that financial advisers had not always discussed all guarantee options nor had they always provided comprehensive information including the benefits of each option and the difference, in pension income, between the 5 and 10 year guarantee periods.

- **Open Market Option**
  Although firms’ product literature referred to the open market option, as required, the literature did not always clearly explain what this option is. Not all of the literature clearly explained that customers could seek quotes from a number of firms for comparison. We consider this to be important information for consumers as the annuity rates and consequently the level of pension income achievable varies from firm to firm.

  In order for consumers to be in a position to make fully informed decisions, all firms must be satisfied that information on the open market option is provided in a way that seeks to inform the consumer, as required by the Code.
• **Enhanced Annuities**

As part of the inspection scope, the Central Bank assessed the manner in which firms inform consumers of the existence of enhanced annuity options. The inspection found that more could be done by the insurance sector to promote awareness of enhanced annuities, when advising consumers.

For consumers with a history of ill health or qualifying lifestyle characteristics, financial advisers should make customers aware that enhanced annuity options are available in the market, that such products may result in a higher annuity rate being available and consequently a higher pension income may be achievable.

• **Customer Communications**

Although firms provide information in brochures and “wake up packs”, there was a marked difference between firms in the level and adequacy of detail to facilitate the customer in making an informed decision. For example, the benefits of shopping around or considering other providers’ pension solutions were not always made clear.

The inspection also identified a number of effective practices, which all firms should consider when implementing and embedding their consumer protection risk frameworks, and in particular in reviewing and enhancing their sales processes for long-term investment products.

• **Suitability**

  ➢ For customers over 60 years of age, a ‘vulnerable customer’s checklist’ is completed by the financial adviser in order to assess whether any additional advice or assistance, in completing the application, is required.

  ➢ Customers are provided with a list of the advantages/disadvantages of annuities versus ARFs.

  ➢ A checklist review is carried out from a quality assurance point of view, which ensures that each file is compliant with the relevant provisions of the Code.
• “Wake up Communications”
  ➢ Firms giving customers notice of their post-retirement options, at least 3 months in advance of the customers’ NRDs, allowing them time to obtain and compare firms’ offerings.
  ➢ A follow up reminder/ “call to action” is issued to customers closer to their NRD.

• Quotation Comparisons/ Open Market Option
  ➢ Annuity sales documentation and “wake up packs” highlighting clearly to customers that they can use the quotations provided to them to compare retirement income when shopping around on the open market.
  ➢ Additional leaflets adding value to consumer documentation, for example, a separate guide highlighting prominently the advantages of shopping around.
  ➢ Using highlighted text and boxes to draw customers’ attention to the shopping around message and separate ‘key contacts’ pages containing numerous sources of useful advice for customers when it comes to shopping around and advice on post-retirement options.

We have previously drawn the industry’s attention to the importance of strong product oversight and governance, including through our 2015 Consumer Protection Outlook Report. Our expectation is that firms will go beyond tick-box compliance to ensure that products are fully understood by customers and are suitable for their individual needs. Robust governance arrangements around product design and suitability remain a key priority for the Central Bank. In this context, you should also be aware that the European Insurance and Occupational Pensions Authority has recently publicly consulted on preparatory Guidelines on product oversight and government arrangements. The preparatory Guidelines specify, among other things, the procedures for designing insurance products, strengthening control before the launch of products and monitoring their performance post-launch. Insurance firms should consider these preparatory Guidelines when reviewing and enhancing product oversight and governance processes.
By highlighting the issues and effective practices identified during the themed inspection, the Central Bank is seeking to assist your firm in enhancing its compliance practices, to deliver good customer outcomes. I trust that you will find the information useful in that regard.

If you have any queries on the contents of this letter, please contact Joe Morley at joe.morley@centralbank.ie

Yours sincerely

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