LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

"77% of IFAs surveyed support rebrokable / switchable annuities"

In December 2013 London & Colonial polled 2000 IFAs and asked them a number of questions including:

"With industry commentators calling for more product innovation within the annuity market, would you support the development of a reviewable lifetime annuity which could be rebroked / reviewed on an annual basis to ensure receipt of the best available rate, similar to car insurance?"

77% of respondents said "Yes"; 12% "No"; 11% don't know.

It is no surprise therefore that London & Colonial fully support the spirit and intentions behind Stephen Web's suggestions for switchable annuities. We agree that the annuity market needs to be overhauled. It is no surprise either that there have been negative industry reactions to Stephen Webs calls for change. Given the conventional annuity market has been virtually unchallenged and has barely changed at all over the last 80 years the insurers have probably been in a comfort zone and content to stick with the status quo – unlike, for example, insurers in the US who have been evolving more creative annuity products for many years.

Legislation already exists to allow clients to transfer from one annuity to another. It is the traditional annuity insurers themselves that have yet to come up with a creative response to market pressure. In recent press reports some actuaries have unsurprisingly been able to forecast doom and gloom that including a switch option could see annuity rates fall by up to 25%. It is relatively straightforward for actuaries to look at all the assumptions they make when pricing their annuity contract, change one or two of them to accommodate a "switchable" feature and then summarise that the impact of this feature will be that rates will fall further.

However, this approach does not really address the point – it isn't that assumptions underlying traditional annuities need to be changed. I think this "switchable" concept is being too narrowly thought of as simply being able to switch between one traditional annuity and another. We need to be able to provide clients' incomes using essentially differently structured annuities that will be a better answer to the demands of the consumers of the 21st century.

Over 10 years ago HMRC issued a paper on modernising annuities and apart from a small number of offices bringing out flexible annuities the mainstream market has remained unchanged. It is therefore it is no surprise to us that the Government has felt (at last) compelled to act.

Insurance companies have never got it – in that the public generally and to some extent advisers no longer have the confidence in insurers that they used to have in years gone by. The market has also become more suspicious of annuities – in particular because of the inevitable lack of understanding of how these products and their cross-subsidies work and the absence of policy specific charges.

If the government is now looking for more innovation in the interests of openness and flexibility then perhaps new products should include at least some or preferably all of the following features:

1. A lifetime income but without the lifetime lock in
2. A flexible structure that provides guaranteed returns
3. Reviews of the income each year in the light of general market rates at that time
4. If the client's health or personal situation changes and then qualifies for enhanced rates then the annuity can be reviewed/switched on this basis
5. On death the mortality profit (any actual or notional "left over2 funds on death) are used to benefit the client's dependants or heirs rather than being used in some indeterminable manner for the benefit of longer-lived annuitants or even the reserves or profits of the insurer itself.

Of course I can think of one particular annuity provider that already offers all of these features within their annuity contracts. However, our annuity will not have mass appeal until such time as the distribution arrangements are also overhauled and changed.

The government has already instructed the FCA to undertake a review into annuity transparency of charges and commissions as well as distribution. Until such time as the distribution of annuities is rationalised then a fully level playing field will not exist. All the time that "Independent" adviser networks choose panel annuity providers based on a bidding system via "marketing payments" then the individual adviser's hands will always be tied in providing a whole of market solution.

The government must attempt to create an annuity market with a level playing field so that consumers once again drive change and competition is encouraged as should be the case in any free market.

In summary, London & Colonial fully support an overhaul of the annuity market where it is compulsory for annuities to be reviewable/ switchable provided that it is also compulsory for advisers to provide a whole of market solution where "back hander" distribution deals are a thing of the past as was supposed to be the case under RDR. If the government provide a level playing field then innovation and competition can flourish with providers looking to develop client centric annuity solutions.

-ENDS-

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Notes to Editors

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