

## **MORGANASH RESPONSE CREATING A SECONDARY ANNUITY MARKET**

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We have pleasure in enclosing our response to the consultation paper “Creating a secondary annuity market”.

### **Overview**

We are medical underwriting experts, and may participate in providing medical underwriting services for this market. We are working with insurance providers on proposals for a Central annuity Bureau (CAB) and we enclose a specification for this service, as additional information. We believe that the provision of such a service can include sufficient controls to enable this market to function adequately.

### **Major concern**

We are greatly concerned that, with the proposed approach, a significant number of consumers will not benefit from this secondary market.

We know a large proportion of consumers were not offered, or did not take, an enhanced annuity, and a large proportion did not benefit from competitive prices or an OMO. Around 70% of consumers qualify for an enhanced annuity, and hence we can assume that in a secondary market, around 70% of consumers will receive a lesser amount for the annuity purchase, as the purchasing provider will assume a reduced life expectancy and hence reduced income levels.

We hence consider the purchase of the existing revenue stream will not lead to consumer benefit for the majority of existing annuity holders.

### **Answers to specific questions**

## MorganAsh response on Secondary Annuity consultation

We include our responses to the specific questions in the consultation document.

1. In what circumstances do you think it would be appropriate to assign one's rights to their annuity income?

We consider there should be no restrictions on letting consumers assign their rights.

2. Do you agree with the government's proposed approach of allowing a wide range of corporate entities to purchase annuity income in order to allow a wide market to develop, whilst restricting retail investment due to the complexity of the product? What entities should be permitted and not permitted to purchase annuity income and why?

Yes – a wide range of entities should be able to do this, as the major risk is with the buyer.

We propose one or several medical underwriting hubs/bureaus/portals are used to collect the data and include within this protections for the consumer. We also propose that there are restrictions on these hubs, i.e. FCA registered and policed by the FCA and that these entities will provide the protections for the consumers, hence allowing freedom for any entity to undertake the annuity purchase.

3. Do you agree that the government should not allow annuity holders to access the value of their annuity by agreeing to terminate their annuity contract with their existing annuity provider ('buy back')? If you think 'buy back' should be permitted, how should the risks set out in Chapter 2 be managed?

We consider that "buy back" should be allowed. This will potentially allow consumers to potentially "buy back" their annuity at the same value as their original health

With the alternative "Buy back" option – assuming the purchaser can access the value of the present annuity, then the embedded value of impaired health can be realised to the consumer, rather than the original annuity holder.

Clearly there is a degree of speculation within this, but without "buy back" there is little chance of this occurring.

### **Consumer protection**

It is a fair concern that consumers may consider they can only buy back from their existing provider. This can be avoided, by insisting the "buy back" must be through a brokered process, and indeed that any buy back by an existing provider can only be undertaken under a "blind bidding" process.

## MorganAsh response on Secondary Annuity consultation

From our consultation with providers, a blind bidding process will be fair for all concerned, and seems a good option.

In our discussions for a Central Annuity Bureau (CAB) – a key component is to provide this blind bidding process.

Hence, we do not think that consumer protection is a valid argument to stop “buy back”.

4. Do you agree that the solution to the death notification issue is best resolved by market participants? Is there more the government should be doing to help address this issue?

Yes – We think this can be easily managed by the markets. We have proposed it can be undertaken by the Central Annuity Bureau – although this could be provided by any other entity as well.

5. Do you agree with the proposed approach of the government working with the FCA regarding the fees and charges imposed by annuity providers?

Yes, the FCA is the logical organisation to oversee this. We proposed the CAB’s should be policed by and registered with the FCA.

6. Do you agree that the scope of this measure should be annuities in the name of the annuity holder and held outside an occupational pension scheme?

No- we consider it should be legal for Occupational Pension schemes to do this, although we expect the demand for this to be minimal.

7. Are there any other types of products to which it would it be appropriate for the government to extend these reforms?

Not considered

8. Do you agree that the design of the system outlined in Chapter 3 achieves parity between those who will be able to access their pension flexibly and those who will be able to access their annuity flexibly? Are there any other tax rules which the Government would need to apply to individuals who had assigned their annuity income?

Not considered – not our area of expertise

9. How should the government strike an appropriate balance between countering tax avoidance and allowing a market to develop?

We consider the compulsory use of a CAB to manage medical underwriting and pricing, as an independent body, will deter undisclosed tax avoidance measures. The CAB could for example have a duty to report all transactions to FCA and HMRC, or a terms of use could allow the data to be inspected by the HMRC.

10. What consumer safeguards are appropriate – is guidance sufficient or is a requirement to seek advice necessary? Should the safeguards vary depending on the value of the annuity?

We are proposing the CAB provides several layers of consumer protection. These include:-

1. Check ID
2. Check appropriate advice has been given (i.e. Risk Warnings or full advice)
3. Check dependants' consent
4. Check for those in poor mental health
5. Collect relevant medical information

We propose full advice is required for larger cases, while risk warnings may be sufficient for smaller amounts.

We propose the CAB checks the appropriate advice has been given. The CAB could give “risk warnings” type guidance, or recommend advisers for full advice as appropriate.

From experience, many consumers have sleep walked into receiving a “standard” annuity with inadequate review of their health:- there are a few endemic factors that play their part here:-

1. Most consumers do not understand that worsening health means more money when taking out their annuity – this is counterintuitive to the way they have provided medical information for previous financial products.
2. The process of submitting forms to providers includes a poor learning loop, as providers will price on the information they are given, and they are reluctant to give negative feedback to their distribution channel. The result, as estimated by L&G, “that 60-70% of the medical questionnaires we receive are missing some information that potentially could be important”
3. The government initiative on OMO gave the impression that if many comparative prices were received then this would deliver the best price. This is not the case, if poor information is provided, then several prices will be received, all underestimating the health impacts.
4. Advisers believe that all they need to do is “fill in the form”. Clearly most advisers do not have the medical skills to understand the range of medical conditions that apply, or the medical skills to interpret what the consumer is saying and provide these in the correct format for the underwriter. (Around 1,800 conditions qualify for an enhanced annuity).

We hence propose that appropriate medical underwriting by people who have the appropriate skills is undertaken. Note, the level of underwriting will vary greatly with the value of the annuity. The higher the value, the greater the cost/benefit of collecting more detailed

information. (We consider the single process – CQRF form used in the annuity purchase market will play its part, but will not be used for all cases).

A key service for the CAB will be to manage consumers' expectations, and the implications of their health on their longevity and hence the price they are likely to or do receive.

11. What is the best way to implement these safeguards? Should the safeguards include expansion of the remit of Pension Wise?

We are proposing the introduction of Central Annuity Bureaus (CAB's) to manage the medical underwriting process. The central principle behind this proposal is the market has more chance of success if:-

- There is some structure to the medical underwriting and tendering process
- There is efficiency in collecting medical underwriting once and sharing amongst providers

Depending on the take up and size of the market, it is proposed that:-

- There are one or several Central Annuity Bureaus (CAB's) serving the market, that would undertake the medical underwriting and additional services.
- These CAB services will be independent from the purchasers and sellers
- There is minimal specification level for these CAB's to ensure an efficient and orderly market.

There are many tasks that, if undertaken by each purchasing provider, would involve duplication of work. These tasks include:

- Medical underwriting
- Identity checks and know my customer checks
- Money laundering checks
- Checks to ensure second life is adequately protected
- Checks to ensure appropriate advice is received
- Check the details of the existing annuity contract

A CAB would provide all these tasks once, and it is proposed that each CAB will adhere to provide a minimum scope of services:-

- Receive cases from Advisers
  - Ensure relevant advice has been given, and/or provide relevant risk warnings
- Check the existing annuity with existing annuity provider
- Check ID
- Check spouse consent
- Collect relevant medical information on the consumers
- Obtain prices for the annuity from a panel of providers
- Present the prices back to the adviser/consumer

- Instigate the purchase
  - a. Agree the purchase data and price
  - b. Inform the winning purchaser and annuitant provider
- Collect remuneration

We do not consider Pension Wise to have the skills or systems to implement Medical Underwriting. Pension Wise could partake as part of a governance body. The CAB would interact with Pension Wise with regard to their service to provide guidance.

A separate document gives more detail on these proposals.

12. Should the costs of any advice or guidance be borne by the annuity holder (mirroring the arrangements for conversion from a defined benefit scheme)? If not, what arrangements are appropriate?

Principally – yes – but as the proportion winning the business, may be low, it may be appropriate to charge for obtaining quotes.

13. Do you agree that the government should introduce a requirement on individuals to obtain a number of quotes? How else should the government best promote effective competition to ensure consumers obtain a competitive price?

Yes – we believe that a CAB will be required to obtain several quotes, ideally from all or most of the market.

14. Does the government's approach sufficiently protect the rights of dependants upon assignment? If not, what further steps should the government take?

- Should the government or FCA issue guidance to annuity providers about protection for dependants?

Yes – although they should be able to assign this obligation to the CAB.

- Are there particular classes of beneficiary which require special consideration, for example minors or following a divorce or dissolution of a civil partnership?

Yes – and we propose the CAB has processes in place to undertake extra checks for these.

- Are there specific equality impacts that should be considered in this context?

No

15. Should the government permit the principal annuity holder's income to be assigned while dependants retain their own income stream? Should the decision on whether to do so be left to the discretion of the parties to the transaction?

Not sure – this may be too complex to administer considering the costs. Certainly to start with it may be practical not to allow this.

16. How can the proposed consumer protections for the assignment of annuities ensure that any impact on means-tested entitlement is understood by those deciding whether to assign their annuity income?

This can be a process check of the CAB.

17. Should those on means-tested benefits be able to assign their annuity income?

No comment – not our area of expertise.

18. What are the likely impacts of the government's proposals on groups with protected characteristics? Please provide any examples, case studies, research or other types of evidence to support your views.

In general we do not consider this to be a major problem. It is matter of designing process to meet the needs of the consumer. We presently provide services to thousands of consumers of all characteristics, and see no reason why other companies cannot do the same. For this secondary annuity services we will need to take into account:

- Designing process suitable for the elderly with particular attention to dealing with the elderly, i.e. to explain over the phone, rather than provide just on-line capability.
- Designing process for the health issues of the elderly
- Retirees can be anxious about their income and health
- For those who have changed gender or have gender issues – (we already have processes to deal with such situations when assessing their health)
- There will need to be a specific process to manage dependants and to obtain dependants consent, and it is proposed that extra checks are included to manage this.
- For hard of hearing, communication may need to be via third parties, on paper, rather than over the phone.
- We presently provide non-English languages for some services, but don't expect there to be a great demand for non-English for this secondary market.
- Ability to work under Powers Of Attorney, and to work with lawyers and children of the elderly.
- Explaining to dependants, who may be less financially aware of the implications, and hence taking a proactive approach to explaining the implications.

