CR7

- *Annuity – non-disclosure by insurer at point of sale of the extent of charges*

<u>Facts</u>

On reaching the age of 65 the complainant invested her pension savings in a linked life annuity policy. This was in February 2000 prior to the Policyholder Protection Rules. The insurer had made an error and had not deducted a 0,16% management fee during the first year. This fee was collected by selling units. According to the complainant she had also not received her policy contract, which provided for the management fee. Almost four years after inception, on noticing a reduction in her units, the complainant began enquiries as regards the composition and costs of her annuity. When she was finally furnished with details about the deductions it showed that more than one-third of her annuity was being deducted in the form of charges.

The insurer suggested that because of the small amount of the annuity, i.e. R166 per month, that the complainant should consider moving her money into a fixed interest annuity and that she could do so without paying "switching" costs. Before doing so, however, the complainant wanted the issue of what she regards as an unauthorised deduction of charges to be resolved. The broker does not fall within our jurisdiction, he did, however, advise the insurer that he had not disclosed the extent of his commission and other charges to the complainant since it was not a legal requirement to do so at the time. He indicated his willingness to have his commission reversed and transferred into the policy.

<u>Discussion</u>

This is another case where the failure to disclose the nature and extent of charges at point of sale results in a very dissatisfied policyholder. This kind of complaint will reduce as a result of the disclosure requirements previously in PPR and now in FAIS. However, this does not assist in the case of policyholders whose policies were issued prior to the introduction of such disclosure requirements. To our surprise the insurer advised us that the charges were not out of the ordinary but fell within the norm in the industry. This does highlight the fact that in the case of a small annuity the use of a linked contract is usually inappropriate, not only because of the risk which is attached to it but also because of the extent of the charges which are deducted from the annuity amount. We requested the insurer t+o consider reversing some of the expenses against the annuity on the basis that, as the intermediary conceded that the complainant had not been aware of the effect of the high costs on her annuity income when she consented to the agreement, she had not made an informed decision. The insurer agreed to reverse 50% of the costs. This amount would be added to the lump sum which would be transferred to purchase a fixed interest annuity.

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