

## Finalised Guidance

# FG 16/8 Fair treatment of long-standing customers in the life insurance sector

December 2016

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# 1 Executive Summary

## Introduction

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- 1.1 The treatment of existing customers is a priority for the FCA, as outlined in our 2016/17 Business Plan. We believe it is important that existing customers should enjoy the benefits of increased competition and innovation by firms in products and services by, amongst other things, firms paying due regard to the interests of their existing customers, including closed-book customers, and actively engaging with them to give them a good service and fair outcomes.
- 1.2 As set out in our recent Mission Statement, consumers' needs are becoming more diverse and complex reflecting the uncertainty of future developments, yet they are increasingly required to take more personal responsibility for their financial decisions. Thematic Review (TR) 16/2 looked at the way firms treated their customers post sale and identified many of the root causes leading to the difficulties faced by customers in today's world such as poor communications and inflexible and complex products with terms and conditions (T&Cs) written in another era. Meeting our consumer protection objective is not about ensuring a market where consumers never make poor choices, but about ensuring they have an appropriate degree of protection and in doing so we consider both their financial capability and their vulnerability. We said in our Mission Statement that some groups of consumers are likely to be vulnerable because of circumstances that we do not want to see firms take advantage of, such as those who are trapped unwillingly in long-term contracts.
- 1.3 The Finalised Guidance (hereafter referred to as 'the guidance') sets out the actions we believe life insurance firms should consider taking to treat their closed-book customers fairly. As we stated in TR 16/2, we want to ensure that 'closed book' customers who have life insurance products that are closed to new business, are treated fairly and do not receive less attention than customers who have recently taken out a new product. In this way customers should be better able to engage with their investments and feel better equipped to take well-informed financial decisions. This guidance forms part of a programme of work across the FCA that aims to address the risk of poor practice in this area as outlined in our Business Plan.

### *What do we want the guidance to achieve?*

- 1.4 We want firms to recognise that closed-book customers may have different characteristics and needs than other groups of customers and that they may face more challenges in making the right decisions due to the long-term nature of their investments.

- 1.5 This means firms should identify what ‘treating customers fairly’ means for them and identify the outcomes they believe are fair to deliver to their customers and, where poor outcomes are identified, take steps to address them. We expect:
- All customers to be kept well informed about the product they are invested in, being clear about the policy’s performance and the charges applied. In this vein the guidance sets out the information firms should consider communicating to customers both throughout the lifecycle of the product and at key policy events. Many of these customers are unengaged and do not know how their investments are performing which can often lead to them not taking action or making poor decisions.
  - Firms to be proactive in identifying the drivers of overall product performance and to ensure that customers are being treated fairly regarding investment performance, expense allocation and charges. Firms should take fairness between different groups of customers into account when assessing charges and charges should be considered over the lifetime of the contract.
  - Customers should not face unreasonable barriers to exit or unfair charges if they stop paying premiums into the policy.
- 1.6 This guidance is fundamental to achieving the above expectations. Consumers pay into investment-based policies in the expectation that at maturity there will be a return on the monies invested in line with the expectations set when the policies were taken out.
- 1.7 For example if a closed-book customer discovers, towards the end of a 30-year personal pension contract, that it is not going to provide a lump sum that will provide the level of expected income in retirement, it is then too late for that customer to do anything about it. Had the customer been informed during the course of the policy that it was unlikely to deliver against its original expectations, they would have had the opportunity and time to take appropriate action.
- 1.8 Firms are able to rely on contractual terms which complied with relevant requirements at the time. However, T&Cs are not the only consideration. We consider a reasonable interpretation of fairness should include a more holistic consideration of the overall outcome being delivered today rather than rely solely on something that was promised many years ago and which is embedded into a contract’s T&Cs. Neither firms nor customers can anticipate what will happen over many years that these contracts are held and therefore we believe firms should take other matters into consideration when assessing whether they are treating their customers fairly or not.
- 1.9 It is not our intention to expect firms to disregard or amend the original T&Cs of a policy or to apply current regulatory requirements retrospectively to closed-book products so that customers would always receive the best outcomes.

- 1.10 However firms should not rely just on T&Cs to defend outcomes that are unfair under our Principles for Businesses (the Principles), and our guidance describes additional actions that firms should consider to improve outcomes and/or satisfy legally enforceable customer expectations from communications made at the time the customer signed up to the policy. It is for firms to determine circumstances where the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&C in that specific circumstance. This guidance is not binding on firms and is used to illustrate ways (but not the only ways) in which firms can comply with relevant rules and Principles. FCA guidance in general does not set out the minimum standard of conduct needed to comply with a rule, nor is there any presumption that departing from guidance indicates a breach of a rule. While guidance is not binding on firms, it may be relevant to an enforcement case – for example, to help assess whether it could reasonably have been understood or predicted at the time that the conduct in question fell below the standard required by the Principles or rules.
- 1.11 This guidance applies to product providers. Where we refer to firms' communications with customers, we are referring to provision of information rather than advice. We do not intend there to be any implication in this guidance that product providers should provide advice to customers.

### Background

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- 1.12 On 3 March 2016, the Financial Conduct Authority (FCA) published a Thematic Report, TR16/2, setting out its findings from its thematic review of the fair treatment of long-standing customers in the life insurance sector.<sup>1</sup> The FCA found a mixed picture with most firms demonstrating good practice in one or more areas and poor practice in other areas.
- 1.13 To improve future behaviour in the sector, the report contained consultative non-Handbook guidance, which provided firms with extra detail on the actions they should be taking in order to treat their closed-book customers fairly. The guidance is provided in four high-level outcomes (with fourteen sub-outcomes):
- Outcome 1: The firm's strategy and governance framework results in the fair treatment of closed-book customers.
  - Outcome 2: The firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product life cycle to enable them to make informed decisions.
  - Outcome 3: The firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately.

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<sup>1</sup> [www.fca.org.uk/publications/thematic-reviews/tr16-2-fair-treatment-long-standing-customers-life-insurance-sector](http://www.fca.org.uk/publications/thematic-reviews/tr16-2-fair-treatment-long-standing-customers-life-insurance-sector).

- Outcome 4: The firm's closed-book customers are able to move from products that are no longer meeting their needs in a fair and reasonable manner.
- 1.14 The requirements on firms have not changed; they reflect the Principles and certain other rules. Some of the detailed expectations have also previously been set out in<sup>2</sup>:
- formal guidance in the form of Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD) Regulatory Guide
  - other communications such as a previous With-Profits Regime Review Report and various Treating Customers Fairly (TCF) communications as referred to in Chapter 2 of TR16/2; and
  - senior management speeches<sup>3</sup>
- 1.15 The products in scope of this guidance are individual personal pensions (including SIPPs and Retirement Annuity Contracts), whole-of-life (individual), endowments and investment bonds. These products can be provided either as with-profits investments or non-profit investments (particularly unit-linked). However, product providers and intermediaries should also consider the guidance in informing their practices and processes in respect of all products, including actively marketed products, in which long-standing customers are invested, as many of the same issues will arise.

### Responses to consultation

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- 1.16 The guidance consultation closed on 3 June 2016 and we received 27 responses from a range of stakeholders, including life insurers, consumer representatives, trade associations, and individual consumers. Views expressed at the industry roundtable meetings held in May and June 2016 to discuss the draft guidance have also been taken into consideration in the guidance.
- 1.17 This paper summarises the feedback we received to that consultation, together with our response to the feedback. The guidance should be read in conjunction with this Feedback Statement (FS).
- 1.18 Respondents were generally supportive of the guidance. Where there were requests to amend or provide clarity in the guidance, we have done so, where appropriate. Where comments received related to our thematic review findings, rather than to the draft guidance, we have not provided feedback unless the comments have a direct bearing on the guidance.

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<sup>2</sup> These are described in greater detail in TR 16/2, pp. 15–19, together with the Principles and other applicable rules.

<sup>3</sup> For example, speech by Clive Adamson, then FCA Director of Supervision to the CFA Society, April 2013; speech by John Griffith-Jones, FCA Chairman to the CityUK conference in June 2013; and speech by Clive Adamson to the Association of Professional Compliance Consultants in March 2014.

- 1.19 Some firms commented that they would incur additional costs in amending their systems and processes to meet our expectations with respect to customer communications. We acknowledged this in TR16/2 and remain of the view that, as we are not making any new rules, we do not need to account for costs incurred by firms not complying with our existing requirements. Therefore, the cost benefit analysis (CBA) is unchanged.

### **Who does the Finalised Guidance apply to?**

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- 1.20 The guidance applies to life insurers who have closed-books for the products that were subject to the thematic review as stated under paragraph 1.15, including products sold since 2000. However, product providers and intermediaries should also consider the guidance in informing their practices and processes in respect of all products, including actively marketed products, in which long standing customers are invested, as many of the same issues will arise.
- 1.21 The guidance will also be of interest to Outsourced Service Providers (OSPs), as it sets out the FCA's expectations of product providers for the fair treatment of closed-book customers in outsourced arrangements.
- 1.22 It will also be of interest to trade bodies, consumer groups, and consumers themselves, as it sets out our expectations on how consumers should be treated by companies with whom they hold relevant products.

### **What do we expect firms to do?**

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- 1.23 We are publishing this guidance, together with the summary of feedback received, to help firms better understand our expectations. We expect firms to review their business practices within three months of the date of publication, and, if they deem it necessary, make changes thereafter in light of the guidance. Firms are recommended to review the findings, as well as the good and poor practice tables in TR16/2, in conjunction with the guidance and the FS to inform this process.

## 2 Feedback Statement

### Feedback Summary

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- 2.1 There are questions and issues raised by respondents that are relevant to all outcomes that are summarised in this section.
- 2.2 Some respondents are of the view that parts of the guidance are too prescriptive and not sufficiently risk-based or flexible to take account of their business models and the types of products their closed-book customers hold with them – or some of the underlying complexities of these. We have also received comments that our detailed expectations in the draft guidance are an extension of existing regulatory expectations and were not previously clear, albeit the standards in the guidance can serve as a stable platform for insurers, the FCA and consumers going forward.
- *Our response:* The FCA does not seek to apply a ‘one size fits all’ approach to the guidance and agrees the guidance needs to recognise differing business models and types of product that insurers hold in closed-book. We have adjusted the guidance to reflect this.
  - We do not accept that we are extending regulatory expectations that were previously unclear. The guidance reflects the Principles and certain other rules, as referred to in paragraph 1.14. Some of the detailed expectations were also already contained in various materials referenced in paragraph 1.14.
- 2.3 Several respondents said that the concept of fairness in terms of customer outcomes is difficult to define. One respondent remarked that what is fair to one customer may be completely unfair to another. To create fairness for one customer may mean an unfair element of cross-subsidy from other customers.
- *Our response:* Treating customers fairly does not necessarily mean that all customers are treated in the same manner; nevertheless, we would expect all customers to receive fair outcomes. We expect firms to set out what they consider to be fair outcomes for their customers or different groups of customers and establish a clear approach to their delivery.



2.4 Several respondents queried whether 'long-standing customers' and 'closed-book customers' are the same, as the terms are used interchangeably in the draft guidance.

- *Our response:* Closed-book customers are intended to refer to those long-standing customers invested in products that are closed to new business. Firms may also have long-standing customers invested in products that are still open to new business. For the purpose of the guidance, our focus has been on closed-book customers, although we would like to draw attention to our comments on applicability of the guidance in paragraph 1.20. We have amended the 'closed-book customers' definition in the guidance glossary to clarify this point.

2.5 A number of respondents stated that the guidance did not take into account the role of advisers at the point of sale, nor did it allow for ongoing actions of advisers to ensure products continue to be appropriate, including the provision of information to customers.

- *Our response:* The review focused solely on the role of the product provider and did not analyse product sales or the advisers' role in the context of providing advice to closed-book customers. The provider has a responsibility to ensure customers receive clear, fair and not misleading information about the performance and status of the product.

2.6 One respondent has questioned the legality of our proposed guidance. They suggested the FCA is exceeding its powers, citing concerns that it is not lawful for a regulator to expect an insurer to disregard or change the original terms and conditions (T&Cs) to reflect changes in market standards and/or changes in customer expectations, as this could put the customer in a better position than was originally agreed.

- *Our response:* Firms are able to rely on contractual terms which complied with relevant requirements at the time. However, T&Cs are not the only consideration. Due to the long term nature of these contracts we consider a reasonable interpretation of fairness should include a more holistic consideration of the overall outcome being delivered today rather than rely solely on something that was promised many years ago and which is embedded into a contract's T&Cs. Neither firms nor customers can anticipate what will happen over a number of decades whilst these contracts are held and therefore we believe firms should take other matters into consideration when assessing whether they are treating their customers fairly or not.
- The guidance did not intend to say that firms need to amend their T&Cs in light of current regulatory requirements. We therefore consider that we are not exceeding our statutory powers, though we have amended the wording slightly to ensure that this is clear. It is not the FCA's intention to expect firms to dis-apply or amend T&Cs to reflect the changing expectations of customers. We do, however, expect T&Cs to be applied in a way that is fair to the customer.
- By that, we are not suggesting in the guidance that firms are required to amend their T&Cs, but rather there may be additional things that firms should be doing in order to comply with the Principles. For example (non-exhaustive):

- Communications about charges and other options available before charges are applied.
- Where the expectations of the customer (which are legally enforceable) are based on marketing or other materials at inception, as well as T&Cs, then our Principles would require firms to ensure that those expectations are met.
- Where the performance of a product is not good, taking other products into account, then firms should consider what to do about it (this would not necessarily involve changes to T&Cs). There could be a number of things consistent with the express T&Cs that firms could do to improve customer outcomes.
- In particular circumstances, where outcomes are particularly poor, firms could consider whether charges and other T&Cs are consistent with the legal and regulatory framework in place at the time T&Cs were agreed. This could include considering whether there are any implied terms in contracts.

It is also for firms to determine circumstances where the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&Cs in that specific circumstance.

The issues raised above are even more important in view of the long-term nature of the contracts.

2.7 Several respondents stated that the particular nature of with-profits business and/or the business model for mutuals affects the application of the guidance. In particular, comments were raised around the wider aspects of fairness for with-profits business and around additional costs that may be incurred by with-profits funds.

- *Our response:* We agree that the concept of fairness is multifaceted for with-profits business and that, when assessing fairness, firms need to consider different groups of customers within a fund as appropriate. That is, different generations of customers, different policy types, and different premium statuses, etc. We do not feel that changes to our guidance are required in respect of this.

A related fairness consideration arises where any additional costs relating to non-profit (including unit-linked) business may ultimately be borne by with-profits customers because they will be met by a with-profits fund. This will be the case in a mutual, and is also possible where such non-profit business is written in a with-profits fund of a proprietary company. Such additional costs may arise, for example, in upgrading systems or in exit charge reductions.

Our view is that there should not be different expectations for different types of firm or fund structure. For example, we would not expect a firm to compromise on meeting the information needs of a customer as a consequence of the firm being a mutual, or because that policy was written in a proprietary's with-profits fund. However, firms need to be mindful of the additional factors arising.

2.8 It was suggested by one respondent that an industry working party should be set up to determine what good outcomes and fair treatment look like. Similarly, we received comments that for some of the issues identified an industry-wide approach may be the best way forward.

- *Our response:* We welcome these recommendations and take the view that it is for firms and relevant trade associations, or other representative bodies, to take this forward should they wish.

2.9 Some respondents wanted us to consult on changes to our rules to address their concerns.

- *Our response:* Our existing rules and Handbook guidance, together with this guidance, are sufficient for firms to understand our requirements in this area and to make any changes necessary to comply with our expectations. The guidance simply adds an extra level of detail about our expectations to improve customer outcomes. These are not new expectations and are reasonably predictable from the Principles and relevant rules.

### **Outcome 1: The firm's strategy and governance framework results in the fair treatment of closed-book customers.**

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2.10 In this section, we outline the main changes made to the draft guidance included in TR16/2 with respect to sub-outcomes 1.1 to 1.4, and explain why we have made those changes. However, where respondents' comments relate to more than one of the sub-outcomes, we refer to these in the following summary of outcome 1.

#### *Flexibility of the guidance*

2.11 In general, respondents were supportive of the guidance on firms embedding fair outcomes into their strategies for closed-book customers in sub-outcome 1.1, and on the conduct of product reviews in sub-outcome 1.2. However, we received feedback that parts of the guidance were too prescriptive and not flexible enough to allow firms to adopt a risk-based, proportionate approach to applying the guidance.

- *Our response:* The feedback summary explains our commitment to firms using a risk-based, proportionate approach – based on their circumstances – to apply the guidance. This also extends to firms developing their culture, setting strategy and conducting product reviews in line with our expectations. We have made changes to the guidance in sub-outcomes 1.1 and 1.2 to reflect this.

2.12 One respondent thought that the example in the good practice table for sub-outcome 1.1 in TR16/2 – where a firm had separated its new and existing business lines to create a closed-book division – could imply that separate organisational structures for long-standing customers are a better arrangement and represent 'best practice'. The view was that the structure adopted should be a matter for each firm, with no type of structure being inherently better than any other. Another respondent thought that if the FCA

expected firms to have separate strategies for each customer segment, then this arrangement could quickly become unworkable.

- *Our response:* The good practices outlined in TR16/2 are illustrative of good practices, rather than 'best' practices, and are not the only way of demonstrating fair outcomes. The FCA does not mandate firms to have separate strategies for different customer groups, provided they can demonstrate that they are treating all groups of customers fairly.

### *Application of T&Cs*

2.13 There were concerns from some respondents that the guidance encourages firms to disregard or amend T&Cs when they consider how fair outcomes are achieved for customers in their strategies for closed-book customers in sub-outcome 1.1 and conduct product reviews in sub-outcome 1.2. Some respondents believed that there was a danger of applying current regulatory requirements retrospectively to closed-book products so that customers would always receive the best outcomes. Some respondents felt that this threatened the sustainability of closed-book business.

- *Our response:* In addition to our response in paragraph 2.6, it is not our intention to encourage firms to disregard T&Cs when they consider how firms will achieve fair outcomes for customers, or not use the T&Cs to inform product reviews. We have amended the guidance to clarify how we expect T&Cs to be taken into account.

### *Six-month timescale to take action*

2.14 We received feedback that the six-month timescale suggested for the resolution of issues identified in product reviews in sub-outcome 1.2 and the delivery of fair outcomes in sub-outcome 1.3 is too prescriptive and unrealistic.

- *Our response:* We agree, based on the responses received, that there may be compelling reasons why six months is not sufficient time to take action in some cases. We have made changes to the guidance in sub-outcomes 1.2 and 1.3 regarding what we expect can be achieved within six months.

### *Outsourcing guidance*

2.15 A respondent was concerned that the outsourcing guidance contained in SYSC was not referenced in the guidance on outsourcing arrangements in sub-outcomes 1.1 and 1.4. The respondent objected to the production of further guidance outside the Handbook, as they believe this will lead to confusion and therefore outsourcing guidance should remain within the Handbook.

- *Our response:* This non-Handbook guidance on outsourcing arrangements is in addition to, and not inconsistent with, the guidance in SYSC.

### ***Sub-outcome 1.1: The firm's overarching strategy, including any outsourcing arrangements, takes proper account of the fair treatment of customers.***

#### *Overview*

- 2.16 We received broad support for the guidance in sub-outcome 1.1. Several respondents were pleased that the FCA had recognised the differences in business models across firms and the existence of different characteristics across different customer groups in this sub-outcome. There were a number of queries or concerns about our expectations for reviewing the ongoing appropriateness of outsourcing arrangements and retained customer service arrangements.

#### *Evidencing fair outcomes from the strategy*

- 2.17 Respondents agreed with the guidance that firms should provide examples of where they have achieved fair outcomes to evidence that their strategy has been translated into appropriate actions. However, one respondent believes that the FCA is confusing the formulation of a strategy with its implementation and oversight, and would like to see this clarified in the guidance.
- *Our response:* The guidance has been amended to make clear that firms should record, as part of their monitoring of strategy implementation, examples of fair customer outcomes achieved during the delivery of the strategy.

#### *Implied terms*

- 2.18 One respondent stated that firms should comply not only with explicit T&Cs, but also with implied terms in the contracts and stated that the guidance should be asking firms to consider what implied terms are in their contracts. Such implied terms may in particular work to the customer's advantage.
- *Our response:* TR16/2 did not consider implied terms in the contracts written by the firms reviewed and we did not explore this issue with the firms we met, so it would be inappropriate for us to include it in our guidance. However as we say in paragraph 2.6 (which sets out a non-exhaustive list of sample actions that firms should be taking) we expect firms in some circumstances to consider whether outcomes are consistent with the legal framework in place at the time the T&Cs were agreed. This may need to include consideration of whether any additional obligations to customers would have been implied into the T&Cs at the time. However, where firms claim that terms are implied which operate against the interests of policyholders, it may be harder for firms to demonstrate that these also form part of (i.e. place restrictions on) a customer's legally enforceable reasonable expectations at inception.

#### *In-house/outsourcing customer services arrangements*

- 2.19 Several respondents commented that reviewing the continuing appropriateness of retaining customer functions in-house should be less frequent than the five years suggested for product reviews in sub-outcome 1.2.

- *Our response:* We have not made specific reference in the guidance to the frequency of reviewing the retention of customer service functions in-house or on an outsourced basis, as our review of firms' arrangements did not raise sufficient concern to make it necessary to do so. However, as a result of respondents' queries on frequency, we have decided to amend the guidance to refer to this. This allows firms to determine the appropriate frequency of reviews proportionate to their business model, as well as any material changes in the circumstances applying to the retained or outsourced arrangements.

2.20 One respondent stated that, although firms would always seek to exit an unsatisfactory outsourcing arrangement, the FCA should recognise that additional costs will be incurred, which may result in worse consumer outcomes than if the arrangement was allowed to continue. It requests that the guidance is adjusted to remove the expectation that all outsourcing arrangements should be automatically terminated if not in the best interests of customers. There was also concern that the guidance encouraged firms to engage OSPs for shorter periods of time, or made it easier for firms to exit arrangements for reasons other than breach of contract.

- *Our response:* We expect a firm to consider the overall fair outcomes for customers when it reviews whether it should retain the services of an OSP. It is not our intention to indicate a preference for the duration of OSP engagement, or that outsourcing arrangements should automatically be terminated. Decisions should be determined by OSPs' continuing ability to provide fair customer outcomes, and the guidance makes clear that a firm should take steps to address the situation appropriately. We do not intend, as a result, to make any changes to the guidance.

***Sub-outcome 1.2: The firm checks, through periodic product reviews, that closed-book products remain fit for purpose and continue to meet the general needs of the target audience for whom they were designed.***

*Overview*

2.21 In general, respondents were supportive of the product review guidance. Comments included requests for clarification on the intent of some of the guidance in sub-outcome 1.2. There were some objections to the suggestions about how information could be obtained to assist the review process or for assessing particular customer outcomes. Respondents also commented on the suggested frequency of product reviews.

*Specific comments*

2.22 One respondent thought that the heading of this sub-outcome in the draft guidance ('continue to provide the benefits they were originally designed to') is potentially confusing and, when taken with the wording in the penultimate paragraph of the draft guidance, could introduce new guarantees on products that were never intended. The respondent requests that the FCA clarifies what the guidance is seeking to achieve.

- *Our response:* The intention of the guidance is for firms to consider whether their products are still meeting the general needs of customers and continue to provide the benefits that they were originally intended to provide or that were subsequently communicated between the firm and customers. We do not think that this introduces new guarantees on products that were never intended.
- For the sake of consistency and clarity, the heading for sub-outcome 1.2 has been amended to refer to closed-book products continuing ‘to meet the general needs of the target customer group for whom they were designed’, which is in line with the RPPD Regulatory Guide.

### *Level of with-profits annual bonuses*

- 2.23 One respondent observed that, in relation to conventional with-profits policies, ‘many providers had dispensed with annual bonuses’, and that this may be contrary to policyholders’ expectations.
- *Our response:* In terms of the fairness of payouts on with-profits policies, we did not consider the split of maturity payouts between guaranteed benefits and terminal/final bonus as part of our review. The guidance under sub-outcome 4.2 (together with the Principles, our applicable rules, and previously set out detailed expectations as referenced in paragraph 1.14) sets out our expectations of firms with respect to with-profits payouts.

### *Fund performance and policy performance communication*

- 2.24 The same respondent also commented that conventional with-profits policyholders have reasonable expectations that there should be a correlation between fund performance and policy performance, suggesting there may be a mismatch.
- *Our response:* We have considered this matter in relation to outcome 2, which deals with customer communications. In many cases, a customer will only see the increase, if any, in guaranteed benefits payable at maturity and not the change in underlying asset share in their conventional with-profits bonus/annual statement. It is the change in the latter which more readily correlates with with-profits fund performance. In addition, the value of any with-profits guarantees may well not be evident to customers in these statements. Please refer to outcome 2 guidance on our expectations for the contents of customer communications – including periodic statements – relating to closed-book products.

### *General needs of the target audience*

- 2.25 One respondent asked if the expectation to check whether the product continues to meet the ‘general needs’ of the target audience refers to the original needs of customers or a different set of new needs.

- *Our response:* The guidance refers to the needs of the target audience at the point of sale or as set out in subsequent communications between the firm and customers. The guidance has been amended accordingly.

### *A framework approach to the conduct of product review*

2.26 In circumstances where firms have a large amount of older product lines and variants, one respondent suggested a framework approach could be appropriate, assessing product families rather than a 'line-by-line' review.

- *Our response:* A framework approach to product reviews for firms with large numbers of older products that are closely related may be practical, unless significant variances exist within the product families, which would make this approach ineffective. The guidance has been amended accordingly.

### *Frequency of product reviews*

2.27 The five-year frequency that we set as a minimum for the conduct of product reviews was considered too long by many respondents.

- *Our response:* We have amended the guidance to suggest firms conduct an annual check to determine whether or not the duration of their product review cycle is still appropriate.

### *Sources of information to inform the product review process*

2.28 Several respondents commented on the expectation that firms take account of 'all relevant sources of information that may be available' to inform the product review process. It was viewed that the words 'may be available' required filtering vast quantities of information and alluded to the significant task of sourcing and amalgamating data held on various policy systems. Some respondents also requested that the reference to media articles in the guidance should be removed from the list of examples, as these could be inaccurate.

- *Our response:* We expect firms to take a considered and proportionate approach to sourcing relevant information, which is already stated in the guidance. Media articles can be useful to highlight issues within the industry leading to potentially poor customer outcomes that may warrant further investigation. As a result, the guidance has not been amended.

### *Assessing whether customers have received the investment return they could reasonably expect, or whether product charges consistently outweigh the performance being produced*

2.29 One respondent asked whether the assessment of investment returns is intended to be at product or individual fund level.



- *Our response:* Sub-outcome 1.2 guidance is specific to the performance of the product and assessing whether the customer has received the investment return they could reasonably expect from the product. Fund performance is covered in sub-outcome 3.1.

2.30 Another respondent thought this text should be removed completely as it is ambiguous and could be interpreted in a number of ways that may fail to take account of changes in anticipated investment returns over the last two decades. The respondent believes that there is sufficient detail within the guidance already to ensure fair outcomes are evidenced without the need for this to be included.

2.31 We also received a suggestion from a respondent to remove the reference to whether product charges consistently outweigh the performance being produced. This is on the grounds that, where a customer has made a back-end loaded policy paid-up early this situation might arise without causing an unfair outcome.

- *Our response:* We have not removed the guidance requested. It is reasonable that firms should consider whether investment returns match customers' reasonable expectations or whether product charges outweigh performance, even where the policy charges are back-end loaded. These are likely to be priorities for customers and each product needs to be considered on its own merits.

### *Assessment of overall charging structure*

2.32 A respondent was of the view that firms should consider what a reasonable overall charge is and whether the overall charging structure supports the benefits provided.

- *Our response:* We agree with the suggestion that firms should consider what a reasonable overall charge is and whether the overall charging structure supports the benefits provided to customers. The guidance on charges in outcome 3 supports such assessments and we refer firms to this.

### *Remedial action notifications*

2.33 We received a recommendation for the guidance on remedial action to reflect a de minimis value before notification is made to customers.

- *Our response:* The notification of remedial action to customers and distributors would be covered under 'fundamental issues' in the guidance. As such, we would expect these to be of sufficient importance to be drawn to customers' attention. Therefore, the guidance has not been amended in this respect.

### ***Sub-outcome 1.3: The firm has adequate governance arrangements for its closed-book business.***

#### *Voice of the customer*

- 2.34 The concept of having the 'voice of the customer' was widely supported by respondents. However, there were reservations about appointing an individual customer/consumer champion, which was viewed by respondents as the FCA's preferred approach.
- *Our response:* We have amended the guidance to make clear that we do not have a preferred approach and that there are different options through which firms could demonstrate the 'voice of the customer'.

### ***Sub-outcome 1.4: The firm's remuneration, reward and performance management arrangements are consistent with the fair treatment of customers.***

- 2.35 There was widespread support for the guidance that a firm's remuneration, reward and performance management arrangements should be reviewed to check whether they create an increased risk of poor outcomes for customers and that this risk is managed effectively. However, there were differing views from respondents regarding the customer retention guidance.

#### *Retention targets for OSPs*

- 2.36 One respondent said that the FCA's view that retention targets for OSPs may increase risk is based on a presumption that there is always a conflict between what is good for a customer and what is good for the insurer. The respondent considers this to be an over-simplification and requested that the example should be removed.
- *Our response:* Policy retention may be a fair outcome for many closed-book customers, but retention targets potentially pose a risk to unfair outcomes if not appropriately designed or controlled. We have, therefore, included retention targets as an example of risk in the guidance and set out our expectations for managing this risk.

#### *Customer retention guidance*

- 2.37 One respondent suggested strengthening the customer retention guidance to recommend that firms *must* be required to provide customers with alternative courses of action when the current product no longer meets the need for which it was originally sold.
- *Our response:* We would expect firms to make clients aware of such options, including the possibility of exiting the policy. The guidance has been amended accordingly.

### **Outcome 2: The firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product life cycle to enable them to make informed decisions.**

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2.38 The majority of respondents grouped their feedback across sub-outcomes 2.1 to 2.3 due to the common issues across all three sub-outcomes. For that reason, our feedback on sub-outcomes 2.1 to 2.3 has been grouped accordingly. Sub-outcome 2.4 feedback is provided separately below.

***Sub-outcome 2.1: Regular communications to customers provide them with sufficient information to make informed decisions.***

***Sub-outcome 2.2: Communications to customers at the time of key policy events are clear, accurate and enable them to make informed decisions.***

***Sub-outcome 2.3: Communications with customers make them aware of guarantees or options (whether time-critical or not).***

2.39 There was widespread support among respondents for the objectives of the guidance in respect of outcome 2. Where respondents expressed reservations, they tended to relate to the level of discretion afforded to firms, the costs involved, and the timescales for change.

2.40 A number of respondents have stated that we were too prescriptive with respect to the specific information that should be provided to customers (particularly in annual statements), and that the finalised guidance needed to be sufficiently flexible to allow firms to determine their customers' specific information needs.

- *Our response:* Guidance is not binding on firms. It is intended to illustrate ways (but not the only ways) in which a firm can comply with the relevant FCA Rules and Principles.

It is for firms to determine what information their customers need on a regular basis, and an ad hoc basis, so that they have a clear understanding of how their product is performing and of the benefits, risks and costs associated with their product. The guidance states that firms may wish to make a record of the information that they consider relevant or appropriate to include in the annual statement or other regular communications for their range of products. The guidance also makes clear that the list of items that should be included in the communication is not prescribed, but should be included where relevant or appropriate to customers' information needs. We have amended the guidance to make this clearer.

Furthermore, we expect firms to act swiftly to put in place a plan to make any changes to regular communications, having reviewed this guidance. We accept that completion of the actions will, in some cases, not be immediate and will need time to complete.

2.41 A number of respondents have expressed the view that flexibility is needed with respect to conventional with-profits policies. Their view is that given the pooled nature and features – such as smoothing, guarantees and estate distribution of with-profits – it may be difficult to produce an annual statement that builds up the closing policy value from the opening value, the premiums paid, the costs incurred, and the investment returns earned over the period.

- *Our response:* In the guidance, we provide examples of information that we might ordinarily expect to see in annual statements for a range of investment-linked life insurance products. For some types of products (including conventional with-profits products), not all the example information illustrated in our guidance would necessarily be relevant or appropriate. However, we would not wish with-profits customers to be provided with information that is less informative and helpful than that which is provided to other types of customer. We have amended the wording of the guidance to reflect that it may not always be possible to quantify exit and paid-up charges (including for with-profits policies) in monetary terms. Where this applies we expect firms to provide other information such as an average percentage reduction in payouts.

2.42 A number of respondents indicated that we should not necessarily expect firms to achieve improvements to communications immediately, as it takes time to make changes to systems and processes. In some instances, customer research may be required to identify what information to include and how best to present it. Firms would like the FCA to recognise this in the guidance, and indicate that we would take a pragmatic supervisory approach provided firms could demonstrate that they had a clear, comprehensive and risk-based plan to improve communications.

- *Our response:* We acknowledge that, in some instances, it takes time to make the required systems and process changes to improve customer communications. However, we expect firms already to have in place the requisite standard of communication which ensures that customer communications are clear, fair and not misleading. Where improvements to communications are required, we would not expect there to be undue delay in making them, but we would not object to firms adopting a risk-based approach to improving customer communications, provided such an approach had been given sufficient consideration through effective operational and governance procedures. We do expect firms to put plans in place to resolve communications shortcomings identified in accordance with guidance in respect of sub-outcomes 1.2 and 1.3. We have amended the guidance for sub-outcomes 1.2 and 1.3 to make this clear.

We expect firms to act swiftly to put in place a plan to make any changes to key event communications that they identify as necessary having reviewed this guidance. We accept that completion of the actions will, in some cases, not be immediate and will need time to complete.

2.43 A number of respondents expressed the view that meeting the expectations set out in our guidance will result in disproportionately high systems and process costs, and that marginal benefits derived by customers will be outweighed by the costs incurred. Some respondents felt that this problem will be particularly severe for with-profits funds in run-off, leading to higher costs per policy.

- *Our response:* We consider it important that all firms, irrespective of the nature of their business, give clear and balanced information to their customers to make properly informed decisions about their policies.

We do, however, accept that the cost of improvements to communications in order to meet the expectations set out in the finalised guidance may be disproportionately high for some very low-value products, compared to the customer benefits derived. We would not object to firms applying de minimis criteria towards specific products or product types in order to be flexible about how, and to what extent, information is given to these customers. This is on the basis that firms could demonstrate that such criteria had been given sufficient consideration through effective operational and governance procedures and do not lead to unfair customer outcomes.

For with-profits funds, firms should take no less care to meet the information needs of their customers than for other types of business.

2.44 Some respondents took the view that, in some cases, providing more information to customers is unlikely to influence their behaviour. These respondents felt that providing information in a succinct and uncluttered way would be more beneficial than providing more information. The respondents took the view that more consumer testing is necessary to determine the best approach to improving communications.

- *Our response:* We agree that it is important for firms to make sure that communications to customers are structured in a way that makes key information accessible and prominent. Our guidance encourages customer testing. We expect, however, that firms will omit information referred to in the guidance only where there are good grounds for doing so, and that customers will still have sufficient information to make informed decisions.

2.45 One respondent expressed the view that, wherever possible, digital communication is a better way to reach customers than paper communication.

- *Our response:* We agree that digital communication can be the most effective means of reaching many customers, and is also more cost-effective for the firm. Where a firm communicates information digitally, we expect them to consider the groups of customers whom this form of communication would benefit but also to ensure that this does not disadvantage other groups particularly those identified as being vulnerable customers who may not have access to digital information.

- 2.46 A number of respondents have expressed the view that, for mutuals, the costs of changing systems and processes to meet the expectations set out in our guidance would fall on policyholders (rather than potentially the shareholders in proprietary firms) – and that this should be a reason not to incur such costs.
- *Our response:* We consider it important that all firms, irrespective of their legal constitution, give clear and balanced information to their customers in accordance with our rules and Principles, so customers can make properly informed decisions about whether to retain or exit their policies.
- 2.47 One respondent has stated that the guidance with respect to customer communications was not aligned with the expectations set out in previous and current regulatory materials. In particular, the respondent felt that previous guidance did not set any specific expectations around the communication of total information on the ongoing impact of charges and fees (as set out in the draft guidance) for relevant products.
- *Our response:* While our guidance adds an extra level of detail about our expectations to improve customer outcomes, these are not new expectations and are reasonably predictable from the Principles and relevant rules, as stated in Chapter 2 of TR16/2.
- 2.48 Some respondents have commented that they felt there would be no necessity to issue annual statements for products, such as pure life insurance, where benefits are fixed at the beginning of the policy.
- *Our response:* Products that have no investment element were outside the scope of the review.
- 2.49 One respondent has commented that when providing information to customers, firms need to avoid inadvertently steering customers towards a particular decision or providing regulated advice.
- *Our response:* We agree with this respondent.<sup>4</sup> This guidance relates to provision of information rather than advice to customers. We have amended the draft guidance to make clear that key event communications should include both the costs and the benefits to the customer of different options.
- 2.50 One respondent referred to some categories of policy where a customer pays increased annual management charges (AMCs) if they hold the policy to maturity, or an exit charge if they surrender the policy early. The respondent stated that when a customer is considering early exit, firms should inform the customer of both the exit charge and the additional AMCs the customer would pay if they hold the policy to maturity.

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<sup>4</sup> Further analysis can be found in 'Occasional Paper 1: Applying behavioural economics at the Financial Conduct Authority' and 'Retirement Income Options behavioural experiment: Does the framing of retirement income options matter?' which both address the point about firms inadvertently steering customers towards particular decisions. [www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf](http://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf) and <https://www.fca.org.uk/publication/research/rims-framing-experiment.pdf>

- *Our response:* We agree with the respondent that, at the time of a key event – such as when deciding whether to surrender a policy or not – a firm should inform the customer of all of the costs of each applicable option.

2.51 One respondent has commented that the definition of the term ‘exit charge’ was unclear.

- *Our response:* We have amended the wording of the guidance: where previously we referred to charges incurred when exiting a policy as ‘surrender charges’, we now refer to them as ‘exit charges’. This clarifies that this includes charges incurred on the transfer of personal pension policies. In addition, following feedback, we have amended the guidance to clarify our expectation that all charges are disclosed, regardless of whether they constitute an additional charge on exit or the acceleration of an existing charge that would have been payable had the policy remained in force.

### ***Sub-outcome 2.4: The firm takes effective action to locate and make contact with ‘gone-away’ customers.***

2.52 There was consensus that firms should take steps to minimise the number of their ‘gone-away’ customers. Some respondents expressed the view that some of the reasons for high ‘gone-away’ rates are not necessarily the fault of firms. For example, respondents pointed to lack of customer engagement and reduction in the number of advisers as significant contributory factors.

2.53 Some respondents expressed support for the comments in the guidance that encourage proactive engagement by firms to reduce the risk of losing contact with customers. One respondent expressed the view that firms’ past overreliance on paper communications is a contributory factor to current high rates of ‘gone-aways’. Respondents suggested that improved customer engagement should be achieved both by making best use of digital propositions and by raising awareness among customers who do not engage digitally.

- *Our response:* We agree that proactive engagement by firms to ensure customers do not go away is preferable to trying to re-establish contact after they have gone away. That said, we want firms to have effective procedures to attempt to contact ‘gone-aways’. We agree that there is considerable scope to use digital means to maintain contact with existing customers. It is important that firms ensure that increased digital engagement does not disadvantage customers who do not engage digitally.

2.54 There was also a prevailing view that firms could only do so much and that simply repeating on a regular basis activities that are demonstrably ineffective is a waste of time and resources.

- *Our response:* We are not asking firms to repeat failed measures; we want firms to have a coherent strategy and procedures that have been carefully considered across their entire range of products, and which are documented and regularly reviewed to take into account market developments and new technologies. We have amended the guidance to make this clearer. The guidance does say that re-contact should be attempted 'unless the firm can demonstrate why this will not be effective'.

2.55 Some respondents have stated that carrying out all the activities set out in the draft guidance was unlikely to be cost-effective or practical, and the draft guidance was too prescriptive. Some respondents felt that costs may be excessive where customers have low-value policies. One respondent commented that excessive expenditure on tracing 'gone-aways' would be unfair to diligent customers who maintain contact with their product provider. One respondent also commented that the guidance would not keep pace with technology and other developments if it is too prescriptive.

- *Our response:* We do not expect all firms necessarily to utilise all the activities set out in the guidance, which gives examples of ways in which firms could try to re-establish contact. We have removed the reference to certain activities being carried out 'as a minimum' from the guidance to make this clearer.

We also expect firms to implement their 'gone-away' processes in a cost-effective way.

We also accept that for some customers, with very low-value policies, it may not be cost-effective to try to re-establish contact, particularly on a repeated and regular basis.

The guidance is not an exhaustive list and we would expect firms to consider a comprehensive range of methods by which they might be able to re-establish contact. We expect firms to review their processes periodically to keep pace with technological and other developments.

2.56 One respondent has mentioned that the activities of an OSP are referred to in the examples of poor practice which formed part of TR16/2. The respondent expressed the opinion that where an OSP is merely providing customer service functions, responsibility for regulatory compliance rests with the firm rather than the OSP.

- *Our response:* Our rules and guidance in respect of outsourcing are set out in SYSC 8 and elsewhere in the FCA Handbook. This guidance does not make any change to those rules and guidance.

2.57 One respondent has commented that use of the Department of Work and Pensions (DWP) letter forwarding service is only practical where the firm has the customer's National Insurance (NI) number. NI numbers are typically not collected for non-pension products. Another respondent stated that the bank letter forwarding service is unreliable.



- *Our response:* We have removed the reference to using the DWP letter forwarding service 'as a minimum' to make clear that it does not apply in all cases. We also accept that it is impractical to use bank letter forwarding services in some cases. The guidance refers to this as something that firms may wish to undertake rather than something that applies in all cases.

2.58 Some respondents have suggested that there should be an industry-wide solution to the problem of re-establishing contact with 'gone-away' customers. One suggestion was for a Central Register to hold details of all trusts that sit alongside life policies to be created by a third-party custodian. Respondents also suggested that the regulator should coordinate such a solution.

- *Our response:* We would welcome an industry-wide initiative to improve processes for re-establishing contact with 'gone-away' customers. However, the guidance does not suggest that the FCA should coordinate such action.

2.59 A number of respondents pointed out that having made contact with 'gone-away' customers, it was often difficult for firms to re-engage those customers. It was said that, in some cases, this was because those customers were concerned that they might be potential targets for organised 'scams'.

- *Our response:* We understand that having re-established contact with 'gone-away' customers, it can often be challenging for firms to re-engage with those customers. However, we would expect firms to have measures in place to attempt to re-engage, and for those measures to be periodically reviewed to ensure they reflect market developments and good industry practice.

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**Outcome 3: The firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately.**

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***Sub-outcome 3.1: The firm takes steps to deal with poor performance with closed and actively marketed products given equal attention.***

2.60 There was consensus among respondents that it is important to monitor and review all funds (for both open and closed-book customers), and to put in place mitigation processes when poorly performing funds are identified.

2.61 The aspects that attracted comments can be grouped as below:

- a) Prescriptiveness of guidance
- b) Potential for poor customer outcomes
- c) Other

### *a) Prescriptiveness of guidance*

#### *Prescriptiveness – 75<sup>th</sup> percentile*

2.62 There was some concern expressed that the guidance is too prescriptive and that the FCA will use that 'prescription' as a yardstick when measuring firms' compliance with its rules. For example, some respondents took the view that performance below the 75<sup>th</sup> percentile is not necessarily an indication of poor performance. Respondents point out that some sectors are varied and do not always provide a good basis for comparison. They also suggest that a review against a sector average may not be in line with what has been communicated to customers.

- *Our response:* It is not the intention of the guidance to be unnecessarily prescriptive. On the contrary, we believe it to be sufficiently flexible to allow firms to select measures they consider as being appropriate for measuring and monitoring the performance of funds invested in by closed-book customers. It is for firms to use measures that are meaningful for funds offered to customers, and that deliver good outcomes for them. We have amended the wording of the guidance to make this clearer.

#### *Prescriptiveness – review period*

2.63 One respondent commented that when considering underperformance, firms should focus on 'persistent' underperformance – i.e. over the longer term and not the short term. The respondent thought that a three-month period was an inappropriate time period to measure 'persistence'. Other respondents also commented that firms should be given flexibility to determine review periods in light of the circumstances of specific funds.

- *Our response:* It is not the intention of the guidance to be prescriptive about review periods. We refer to a number of different periods as examples that firms may wish to consider. We do not expect that firms will review all funds over all periods mentioned. It is the responsibility of the firm to determine the appropriate review periods, with reference to the circumstances of the specific fund.

#### *Prescriptiveness – level of governance*

2.64 One respondent has commented that governance should be commensurate with several factors:

- the firm's responsibility in relation to the operation of the fund (any mutual or insured fund manufactured by the firm should be subject to a higher level of governance than a third-party fund)
- the governance expectations set within the product through which the fund is available
- the method of distribution (e.g. direct or advised, contract or trustee); and
- the outcome the customer should reasonably expect

- *Our response:* We consider that firms have a responsibility to apply oversight to all types of fund (e.g. closed, open, direct and indirect). We accept that firms may be able to justify different levels of oversight in light of possible conduct issues arising and customer expectations. We also recognise that there may be differences in approach driven by the relationship between the firm and the fund, such as manufactured and third-party funds. We do not consider firms should have different levels of oversight depending on the method of distribution.

We have amended the guidance to make specific reference to expectations which have been set with customers and communicated to them.

### *Prescriptiveness – quarterly reviews*

2.65 One respondent considered monitoring through formal reviews of funds on a quarterly basis to be unrealistic if there were a large number of external funds linked to a product.

- *Our response:* Firms should ensure they receive sufficient and relevant management information (MI) from external fund managers to monitor fund performance and take appropriate mitigating action. We have not amended the guidance in this respect.

### *b) Potential for poor customer outcomes*

#### *Poor outcomes – excessive switching*

2.66 Some respondents have commented that the guidance may inadvertently drive poor customer outcomes by, for example, encouraging an excessive level of switching.

- *Our response:* We do not consider that the guidance is likely to encourage an inappropriately high level of switching. We expect firms to manage both their own actions and their communications with customers so as to reduce the risk of this happening.

#### *Poor outcomes – advice*

2.67 One respondent has expressed concern that the guidance may result in firms inadvertently giving regulated advice to customers.

- *Our response:* We do not consider that we have said anything in the guidance that is likely to result in firms inadvertently giving advice to customers.

### *c) Other*

#### *Other – governance at fund level*

2.68 One respondent has stated that multiple products often access the same fund. They stated that governance is at fund level, rather than product level, and requested clarification as to whether this is the FCA's understanding.

- *Our response:* We would normally expect that governance would take place at fund level. We would expect any product specific problems to be identified and resolved as part of product review processes referred to under sub-outcome 1.2.

*Other – adding value after impact of charges*

2.69 One respondent has expressed concern that the guidance does not make reference to firms reviewing whether fund performance has added value after the impact of charges.

- *Our response:* We consider that this point is adequately dealt with in guidance related to sub-outcome 1.2 and sub-outcome 3.3.

***Sub-outcome 3.2: Overall, expenses are allocated fairly to closed-book products.***

***Sub-outcome 3.3: The firm regularly reviews the overall fairness of cost allocations and actual customer outcomes, and applies a consistent basis for these reviews.***

***Sub-outcome 3.4: The firm proactively monitors the actual experience of its closed-books of business and consistently passes on the benefits and costs to customers, to the extent permitted by policy conditions.***

2.70 There was widespread support for the objectives set out in sub-outcomes 3.2 to 3.4, particularly in respect to resolving some of the more extreme examples of poor customer outcomes. Where concerns have been raised, they tended to reflect specific aspects of the guidance or its application to specific situations.

2.71 Many of the responses we received in respect of these three sub-outcomes cut across all three. For this reason, we have a combined section which deals with all three sub-outcomes.

2.72 The aspects that attracted the comments are listed below. The largest number of comments related to T&Cs and benchmarking.

- a) The FCA's expectations in respect of firms going beyond T&Cs
- b) Benchmarking
- c) Actions we expect firms to take in specific circumstances
- d) Methodology we expect firms to follow
- e) Matters not covered in the guidance
- f) Other comments

*a) Expectations in respect of firms going beyond T&Cs*

2.73 Some respondents have made the point that T&Cs (and the expectations they create) are important factors to consider, as they determine the understanding of both the firm and the customer at the time the contract was initially agreed. While respondents accept that reliance on T&Cs is not enough on its own, they believe that T&Cs cannot be disregarded either.

- *Our response:* Over a period of decades there will be changes to individual customer circumstances, economic conditions and society more broadly that were not anticipated by either firms or customers at the time of commencement of the contract. This potentially increases the impact of any unfair treatment on customers.

The guidance is not intended to suggest that firms should disregard or amend T&Cs. However as we say in paragraphs 2.6 and 2.77 this does not preclude firms from taking actions to improve customer outcomes in this context.

2.74 One respondent commented that the draft guidance would effectively suggest that firms should ignore T&Cs.

- *Our response:* We agree that T&Cs are important to consider and that, to an extent, they document part of the understanding of both provider and customer at the time the contract was initially agreed. We are not expecting firms to ignore T&Cs, but rather apply them in conjunction with the Principles so that they are used in a fair manner. It is also for firms to determine circumstances where the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&C in that specific circumstance. The guidance has been amended for sub-outcomes 3.2 and 3.4 to make this clearer. We set out more information on specific areas below.

### *Contracts with non-reviewable charges – ‘one way bet’*

2.75 Our draft guidance did not make any explicit reference to non-reviewable policies. Some respondents have commented that, for products with non-reviewable charges, our proposed guidance may create a ‘one way bet’ for customers. They feel that firms may be expected to pass on to customers any good experience in the form of reduced charges, but may be prohibited from increasing charges where actual costs are higher than expected.

- *Our response:* We do not think that charges for non-reviewable policies should always mirror actual experience. Charges that are different from actual experience are likely to be acceptable provided they can be justified as being fair in light of the reasonable expectations of the customer, as set out in the product terms and conditions and other information provided to the customer. The amendment to the wording of the guidance for sub-outcomes 3.2 and 3.4, which is referred to in 2.74 above, makes this clearer.

### *Contracts with non-reviewable charges – exceptional circumstances*

2.76 One respondent has commented that in exceptional circumstances, such as an unreasonably high minimum rate of automatic increase in charges, guaranteed charges could be reviewed.

- *Our response:* We support the respondent's view. We consider that, in many cases, making no change to non-reviewable charges will not in itself give rise to unfair customer outcomes. However, we also agree that there could be circumstances where even non-reviewable charges appear difficult to defend. As such, we welcome the view that it may be appropriate not to adhere to the non-reviewable charge in those situations. We also consider that it would be appropriate in these circumstances for firms to consider whether adhering to such charges would be consistent with the legal and regulatory framework in place at the time T&Cs were agreed.

### *Contracts with non-reviewable charges – policy conditions*

2.77 One respondent has commented that there is an apparent contradiction between the wording of the draft guidance for sub-outcome 3.4 – which refers to firms passing on benefits and costs to firms 'to the extent permitted by policy conditions' – and wording elsewhere, which they consider expects firms to go beyond T&Cs. The respondent expresses the view that the draft guidance is appropriate for policies with reviewable charges, but not for other policies.

- *Our response:* We believe that we have provided a response to this comment with our changes to the guidance in respect of sub-outcomes 3.2 and 3.4, and in our clarification above in our response to paragraph 2.74. See also paragraph 2.6. We do not expect firms to make changes that are prohibited by the terms of the policy, but that does not preclude other actions being taken by firms which could improve outcomes and/or satisfy legally enforceable customer expectations from communications made at the time that the customer signed up to the policy. It is also for firms to determine circumstances where the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&C in that specific circumstance. We also accept that, in many cases, it will be appropriate for firms to make no changes to non-reviewable charges in light of favourable experience.

### *Contracts with reviewable charges*

2.78 A respondent has expressed the view that keeping particular charges (e.g. the AMC) fixed wherever possible is beneficial. The respondent suggested that the expenses covered by this charge are likely to vary during the term of the contract, and to vary the charge would be expensive to manage and create uncertainty for the customer. Another respondent has stated the opinion that fair treatment of long-standing customers does not require all benefits from favourable experience to be passed on.

- *Our response:* We accept that there are circumstances where firms may feel that it is not appropriate to pass on the benefits of favourable experience to customers, even for policies with reviewable charges. We expect firms to take this course of action only where they can justify it as fair to the customers impacted.

### *b) Benchmarking*

#### *Benchmarking – practicality*

- 2.79 Some respondents expressed the view that benchmarking is, under some circumstances, either impractical or not cost-effective. Such concerns were expressed in respect of benchmarking of both charges and payouts. For example, one respondent said that benchmarking against other firms with a different product mix and expense base or expense allocation policies – and the potential variety of expense arrangements – could make it very difficult to compare like with like.
- 2.80 Another respondent stated that the range of investment performance can be significant and that closed-books often have regulatory restrictions on the investment they can make. The view was also expressed that benchmarking with-profits funds is particularly difficult as such products may have features, such as guarantees and estate distribution, which are not necessarily comparable across different providers/funds.
- 2.81 Some respondents expressed concern that benchmarking may also be made difficult by lack of adequate historical information.
- 2.82 Some respondents expressed the view that the limitations involved in benchmarking may result in significant costs for no commensurate benefit.
- *Our response:* The draft guidance gives benchmarking as an example of a way that firms can satisfy themselves that charges are appropriate. It also suggests comparing payouts with what might have been achieved in alternative investment portfolios as one way of determining whether overall payouts (whether at maturity or on early exit) are fair. We accept that this may not always be an appropriate approach – in which case, firms should use other means to satisfy themselves that charges and payouts are fair.
  - Absence of regular external benchmarking is also referred to as an example of poor practice in TR16/2. We believe that in the circumstances of that example, the absence of benchmarking is a weakness. We do not believe that absence of benchmarking is poor practice in all circumstances.
  - In summary, benchmarking is one way that firms can meet our expectations. If benchmarking is not carried out, we expect firms to find another way to demonstrate that their charges and payouts are fair.

#### *Benchmarking – unintended consequences*

- 2.83 Another respondent stated that there could be unintended consequences in the event that firms with relatively low charges increase them to the level of the benchmark.
- *Our response:* We do not consider that charges being lower than the benchmark would, on its own, be sufficient reason to increase them. Firms should consider the fairness of their charges, and such an increase may not be justifiable as fair.

### *Benchmarking – action to take when there is little benchmarking information available*

- 2.84 Some respondents have asked what action we expect firms to take where there is little benchmarking information available.
- *Our response:* Where little useful benchmarking information exists, we would expect firms to ensure that both their charges and payouts to customers are fair by other means. Examples of other information that firms can use to help with this process include returns likely to be delivered by other investments and analysis of the reduction in yield.

### *Benchmarking – definition*

- 2.85 One respondent said they would welcome further guidance as to what the FCA means by a 'benchmark'.
- *Our response:* In respect of charges, the guidance specifies those of 'appropriately selected industry peers', but it is for firms to determine the precise nature of the benchmarks selected. In view of the variety of different sets of circumstances that may apply, we do not consider that it would be useful for us to specify what should be used as a benchmark.

### *Benchmarking – review of publicly available information*

- 2.86 One respondent has expressed the view that regular review of information from public disclosures can support benchmarking.
- *Our response:* We confirm that we are supportive of firms reviewing publicly available information where they consider that this can usefully support benchmarking.

## *c) Actions we expect firms to take in specific circumstances*

### *Action – poor customer payouts identified*

- 2.87 Some respondents have asked for clarification as to what action firms are expected to take in the event that a review of customer payouts identifies poor performance of a policy. Linked to this, some respondents have expressed the view that it would not normally be appropriate for firms to be expected to pay redress where poor payouts are identified.
- *Our response:* We have amended our guidance to clarify that firms may find it appropriate to review projected future payouts in order to identify any potentially unfair future customer outcomes. This would allow firms to consider rectification actions in advance. We have also added scope for firms to use representative specimen policies in such reviews. In line with guidance under sub-outcome 4.2, it may be prudent for firms to also review some actual payouts.



Where poor (actual or projected) policy performance is identified, we expect firms to take action aimed at bringing about an improved performance going forward. Where actual unfair outcomes are found, we also expect firms to consider the necessity to inform customers of both the unfair outcomes and the remediation action being taken. We accept that some funds produce better investment returns than others. We do not consider that delivering lower payouts than another fund necessarily indicates unfair treatment of customers.

This does not mean that redress may not be appropriate; however, the scope of the project did not include redress. The FCA's existing requirements and expectations in respect of redress are not altered by this guidance.

### *Action – investment climate is poor*

2.88 One respondent inferred from the guidance that the provider should adjust charges downwards when the investment climate is poor. The respondent considers that, for a mutual, this would only be achievable via cross-subsidy from other products, which would inevitably fail a test of fairness.

- *Our response:* The guidance is not intended to suggest that a poor investment climate necessitates a reduction in charges. We would only expect charges to be reduced when the existing level of charges cannot be justified as being fair.

Where reductions in charges are considered, we expect firms to consider fairness between different groups of customers. However, we do not agree that a reduction in charges for one group of customers in a mutual would 'inevitably fail a test of fairness'.

### *Action – small or short-term variances*

2.89 One respondent expressed the view that there should be reasonable tolerance either side of the initial assumptions within which no action is taken. Another respondent expressed the view that it would not be appropriate to make frequent changes to charges in response to short-term fluctuations.

- *Our response:* We accept that it may not be efficient or cost-effective to make changes to expense allocations or charges to reflect small variations from previous expectations. We accept that, in principle, it is acceptable for the firm to set tolerance limits for variances within which they would make no changes. We would expect that where a firm sets such tolerance limits, it would take action to ensure that such limits are fairly applied.

We also agree that firms should, where not prohibited by T&Cs, consider charges over a longer period and make changes to charges in response to trends.

### *d) Methodology we expect firms to follow*

#### *Methodology – interaction between outcome 3 tasks and product review*

2.90 One respondent has said that the tasks referred to in sub-outcomes 3.3 and 3.4 should be carried out as part of the product review process where they can be carried out alongside assessment of other key factors impacting on customer outcomes.

- *Our response:* We are happy for firms to carry out the tasks referred to for sub-outcomes 3.2, 3.3 and 3.4 – either as part of product review or as a separate exercise, depending on which approach firms consider to be more appropriate. Firms should, however, consider whether the frequency of a product review aligns with the appropriate frequency of the expense reviews.

#### *Methodology – review at grouped level*

2.91 Some respondents stated that a review of the fairness of charges or expense allocations should be carried out at a suitably grouped level, in order to reflect the pooling of risk and cross-subsidies that are inherent in many of the products within the scope of this review.

- *Our response:* We are happy for firms to carry out reviews of the fairness of charges or expense allocations at a grouped level. It is the firm's responsibility to determine the appropriate level of grouping depending on the specific circumstances. Firms should ensure that such grouping does not unfairly disadvantage individual customers or groups of customers. We do not consider that there is a need to change our guidance in this respect.

#### *Methodology – historical information*

2.92 One respondent expressed concern that monitoring experience over the lifetime of the product against original price assumptions may not be feasible where pricing information and historic analysis of experience is not available.

- *Our response:* We understand that there will be circumstances where full historic information is not available. Where this applies, we expect firms to use best endeavours in carrying out such analysis, subject to appropriate documentation of the methods used and governance oversight.

#### *Methodology – judgement and previous decisions*

2.93 One respondent stated that it is important to recognise that judgement will always be required in the allocation of expenses, and that the allocation of some items can depend on earlier decisions so as to achieve fairness over time. For example, a firm could have decided previously not to allocate a share of a particular overhead to a fund, but over time this practice could become unfair or unsustainable.

- *Our response:* We agree with this view and we do not believe the guidance suggests otherwise. There is a specific reference in the guidance under sub-outcome 3.2 to factoring into reviews that expense allocations that were appropriate last year are not necessarily so this year. This is intended to highlight the need to give adequate consideration to the appropriateness of allocations on an ongoing basis, as well as to allow for changes in practice that are necessary to ensure fairness.

### *Methodology – labelling and proportionality of charges*

- 2.94 One respondent has expressed the view that firms should not ‘mislabel’ fees and that, in the interests of transparency, any fee or charge that is attributed to a certain activity should be in proportion to the cost of that activity.

*Our response:* We consider that this approach would be appropriate and firms should label charges in a way that accurately reflects the purpose of the charge.

### *Methodology – definition of excessive charge*

- 2.95 One respondent requested clarification on the FCA’s definition of an excessive charge.

- *Our response:* In view of the variety of circumstances that may apply to policies within the scope of the review, we do not consider it would be either possible or helpful to try to develop a definition of excessive charges. We consider that the fairness, or otherwise, of charges should be considered in light of their effect on the fairness of customer outcomes.

### *Methodology – review of cost allocation*

- 2.96 One respondent has suggested that a specific committee should be in place to review cost allocations.

- *Our response:* We consider that it should be for each firm to determine the appropriate governance around cost allocations.

### *e) Matters not covered in the guidance*

#### *Not covered in guidance – allocation of tax*

- 2.97 One respondent raised concerns about potential unfairness in relation to with-profits payouts resulting from the allocation of tax.

- *Our response:* This issue is not referred to in the guidance as it was outside the scope of our work.

### *Not covered in guidance – statutory override*

2.98 One respondent has expressed the view that a statutory override would be useful to allow providers to change terms and conditions at portfolio level or transfer blocks of customers to an alternative proposition. This was put forward in the context of providing benefits in terms of value for money to consumers as a whole, where some detriment could result for some individuals in some circumstances.

- *Our response:* This suggestion is outside of the scope of the guidance.

### *f) Other comments*

#### *Interaction of guidance with existing rules*

2.99 One respondent has noted that draft guidance for this outcome makes no reference to existing COBS rules in respect of allocation of expenses to with-profits policies. The respondent said it was unclear whether the draft guidance is intended to impose additional requirements to existing Handbook rules.

- *Our response:* The guidance is not intended to create any new requirements but to remind firms of our expectations in relation to existing requirements contained in COBS rules and elsewhere.

#### *Assessment of fairness – different books of business*

2.100 One respondent disagreed with the FCA view that where firms have acquired books of business at different times, unfairness may result from variations in the charging structures. Another respondent commented that it is important to recognise that different groups of policyholders generate different costs.

- *Our response:* The guidance was not intended to imply that different charging structures in respect of different books of business automatically results in unfairness. Where a firm can demonstrate that different charging structures are fair to the applicable customers, we would not see any necessity to make changes. The draft guidance stated that firms should endeavour, where 'possible', to be consistent in their treatment of different groups of customers. This has been amended to refer to firms endeavouring, where 'appropriate', to be consistent in their treatment of different groups of customers. This is to reflect that action should be taken where such inconsistency does result in unfairness to customers.

#### *Adequate returns for shareholders*

2.101 One respondent expressed the view that it is important that firms are able to generate adequate returns for their shareholders. The respondent suggests that this will enable firms to attract investment and continue to provide products that offer value to customers.

- *Our response:* We do not disagree with the view expressed by this respondent and see no reason as to why the guidance should make it difficult for firms to attract investment or generate adequate returns for investors.

### **Outcome 4: The firm's closed-book customers are able to move from products which are no longer meeting their needs in a fair and reasonable manner.**

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#### **Sub-outcome 4.1: Exit and paid-up costs are not excessive and are not driving poor customer outcomes.**

##### *Overview*

- 2.102 There was widespread agreement with the objective of the sub-outcome. Most responses focused on the factors that need to be taken into account in determining whether an exit or paid-up charge is unfair. Many said that it could not be assumed that a charge is excessive or unfair purely because it represents a relatively high proportion of the policy value.
- 2.103 We have made some changes to our proposed guidance. Details are set out in the narrative below.
- 2.104 The aspects that attracted comments were as follows:
- Definition of exit charges
  - Identification of excessive and unfair exit charges
  - Set-up and other costs
  - Price regulation
  - Barriers to exit

##### *a) Definition of exit charges*

- 2.105 One respondent has expressed the opinion that the definition of an exit charge should be made clear.
- Our response:* Our expectations in respect of exit (and paid-up) charges are the same as for other types of charge. Firms should review all charges for fairness, communicate them clearly to customers, and ensure that they are fairly applied.
- Whether a firm considers a charge to be an exit charge or a different type of charge does not change the expectations set out in this guidance. Any charge(s) incurred on early exit or converting to paid-up should be made clear so that the customer can take it (them) into consideration in their decision-making.

##### *b) Identification of excessive and unfair exit charges*

##### *Excessive and unfair charges – factors to take into account*

- 2.106 Several respondents expressed the view that exit and paid-up charges are acceptable in principle provided that they can be justified. For example, respondents considered that an exit charge can be justified where it is recovering costs actually incurred by the firm. Some respondents commented that a customer who goes paid-up early in the term of a long-term policy is likely to incur apparently high levels of exit or paid-up charges. If, as a result of going paid-up early, the value of the policy is low, a charge with a small absolute value can be a significant proportion of the policy value.

- *Our response:* We do not consider that these responses contradict the guidance. We expect firms to be able to justify any exit or paid-up charges as delivering fair outcomes for customers.

### *Excessive and unfair charges – changes to customer needs*

- 2.107 One respondent has said it is possible to infer from the guidance that where the policy has performed in line with the expectations set with a customer, but the customer's needs have subsequently changed, then the new needs have to be met.
- *Our response:* We agree that, in this situation, where a customer's new needs are not being met, this would not in itself indicate unfairness – provided that the customer does not face unfair or unreasonable barriers to exiting or going paid-up, and the firm has communicated effectively with the customer so that they can make an informed decision.

### *Excessive and unfair charges – fairness between different groups of customers*

- 2.108 Some respondents commented that making changes to exit and paid-up charges can raise complex issues of fairness between different groups of customers, particularly for with-profits funds and mutuals. One of these respondents has also expressed the view that the draft guidance is too prescriptive.
- *Our response:* We confirm that we would expect firms to take fairness between different groups of customers into account in determining the appropriate course of action.

It is not our intention that the guidance should be prescriptive, but that firms should assess the fairness of exit and paid-up charges and any need for changes on the basis of the circumstances that apply to a particular group of customers.

### *Excessive and unfair charges – prospective lens*

- 2.109 Some respondents have expressed the view that taking only a prospective (forward-looking) view can result in unfairness between different groups of customers. They argued, for example, that some of the exit and paid-up charges paid by some groups of customers are equivalent to charges paid by other groups of customers through non-accrual periods at the start of the policy.
- 2.110 Some respondents have taken the view that reducing exit and paid-up charges today would be unfair to other customers who paid equivalent charges through non-accrual periods in the past.
- *Our response:* We agree that firms should take fairness between different groups of customers into account when assessing charges and that charges should be considered over the lifetime of the contract. We still expect firms to be able to demonstrate that charges are fair. We do not expect firms to justify unfair charges to current customers on the basis that past customers incurred similar charges.

### *Excessive and unfair charges – applicability of T&Cs*

- 2.111 One respondent has expressed concern that by asking firms to look at outcomes today, we are asking them to disregard any earlier T&Cs that place customers at a relative disadvantage.
- *Our response:* In considering this guidance, firms are not expected to disregard or change previously agreed T&Cs, but rather to assess whether exit and paid-up charges are driving unfair outcomes and to take action to ensure fair outcomes while taking T&Cs into account, as well as considering taking other actions that could assist with fairer outcomes. We have made changes to the wording of the guidance to make this clearer.

### *Excessive and unfair charges – use of word ‘excessive’*

- 2.112 One respondent has expressed the view that use of the word ‘excessive’ is emotive and subjective.
- *Our response:* We do not consider that the word ‘excessive’ is emotive.<sup>5</sup> We consider that avoiding exit and paid-up charges that are excessive and drive unfair outcomes is a legitimate regulatory objective. We accept that, in addressing this sub-outcome, firms will unavoidably have to exercise judgement in respect of what might be deemed excessive in any particular circumstance, taking into account fairness to customers.

### *c) Set-up and other costs*

#### *Set-up and other costs – indication of fairness*

- 2.113 Numerous respondents have informed us that exit and paid-up charges are often justified because they (broadly speaking) recover costs of adviser commission, other set-up costs and/or the administrative costs of the early exit. Respondents have asserted that they do not make a material profit from such charges.
- 2.114 One respondent commented that cost recovery calculations would have been made at a product level, rather than individual policy level. The respondent suggested that assessment for fairness should be carried out on the same basis.
- *Our response:* We agree that where a firm can demonstrate that the effect of a charge is to recover reasonable costs actually incurred while providing a particular service, this could be an indication that the charge is likely to be fair. We think it should be for firms to determine whether the assessment for fairness should be carried out at a product level, taking into account all applicable circumstances.

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<sup>5</sup> The term ‘excessive’ is used in the Competition Act 1998, Chapter 2/Article 102.

### *Set-up and other costs – availability of historic information*

2.115 The draft guidance states: 'If the justification for (a charge) being fair is that it is to recover set-up costs not yet recouped, rather than assume that this is the case, we expect firms to be able to satisfy themselves that this is a supportable position and be able to demonstrate this is the case on an ongoing basis.'

2.116 Two respondents have expressed concern that it may not be possible in some cases to make the necessary calculations to meet this expectation, due to lack of availability of historic information. They stated that an expectation that firms should have this information is effectively a retrospective extension of record-keeping requirements.

- *Our response:* Where a firm considers a charge to be fair, on the assumption that the charge is recovering set-up costs not yet recouped, we expect the firm to satisfy itself that it has sufficient evidence to substantiate that assumption. We do not expect firms to assess charges as fair on the basis of an assumption that they are unable to justify.

### *d) Price regulation*

2.117 One respondent has expressed concern that the FCA is operating as a charge regulator, if not a price regulator.

- *Our response:* It is not the intention of the guidance to specify the level of firms' charges, provided that such charges are fairly applied and clearly communicated to customers.

### *e) Barriers to exit*

2.118 Two respondents suggested that, since an exit charge may simply be the crystallisation of an ongoing charge that would apply should the customer remain in the product, it should not be deemed to influence the behaviour of the customer or be considered to be a barrier to changing product or switching provider. For this reason, the respondents state that they do not see value in monitoring the impact of these charges.

- *Our response:* In view of the shortcomings we have identified in relation to communications, customers will not necessarily understand the precise nature of charges, and exit charges which work as described above could still act as a barrier. Even where the relationship between charges has been made clear to the customer, they may prefer to avoid paying the full amount immediately on exit. While a firm should take these factors into account when monitoring charges, this does not mean that the monitoring should not take place.

Additionally, not all exit charges are equivalent to an ongoing charge that would be payable in any case.

As such, we have not changed our guidance in this regard.



### **Sub-outcome 4.2: Target ranges for with-profits payouts appear reasonable and firms meet these target ranges without the variation of payouts being too wide.**

#### *Overview*

- 2.119 The largest number of comments we received for outcome 4 expressed concern about the proposal in the initial guidance that a target range of 80% to 120% or narrower should be achievable for most funds and that we expect target ranges to narrow over time. We have changed the guidance to remove these expectations.
- 2.120 We are now placing emphasis on funds setting target ranges that are appropriate to deliver fair outcomes while taking into account the specific characteristics of the fund (e.g. smoothing and the investment strategy). Together with the rest of the guidance under this sub-outcome, this sets out our expectations with respect to ensuring the fairness of individual with-profits payouts. Responses received indicate widespread support for this approach.
- 2.121 Responses indicated widespread support for our other proposals, such as ensuring that sufficient attention is paid to achieving fair payouts to customers exiting early, outliers, and policy types which fall outside target range monitoring.
- 2.122 We have also made changes to the wording of the guidance to set out more clearly our expectations in respect of bonus and surrender value methodologies for whole-of-life policies and timing of checks on claims.
- 2.123 The aspects that attracted comments were as follows:
- a) Specifics around target ranges themselves, particularly in respect to narrower ranges
  - b) Bonus and surrender value methodologies for whole-of-life policies
  - c) Constraints on with-profits funds
  - d) Outliers
  - e) Timing of checking of claims
  - f) Methodologies other than using asset shares

#### *a) Target ranges*

##### *Target ranges – narrower target ranges*

- 2.124 The draft guidance suggested that, unless there are particular fund-specific circumstances that prevent it, a target range of 80% to 120% is achievable for all funds, and that a narrower range may be appropriate for some funds.
- 2.125 The draft guidance also stated that we expect the width of the target range to narrow over time.
- 2.126 Numerous respondents have objected to the expectation that target ranges should narrow over time. They argued that narrower ranges would reduce the scope for smoothing and make returns on with-profits policies more volatile in monetary terms.

- 2.127 Respondents took the view that smoothing, and the relative stability of returns which it generates, is an important feature of with-profits funds. They felt that reducing the scope for smoothing would make with-profits policies more similar to unit-linked and that this would be a significant change to the expectations that were set at the beginning of the contract.
- 2.128 There was widespread agreement that firms should regularly monitor with-profits payouts to make sure that they are fair and in line with the expectations of customers, as set out in the Principles and Practices of Financial Management (PPFM) and other communications.
- 2.129 Respondents also expressed concern that narrower target ranges may have the unintended consequence of leading firms to make returns more stable by investing in less volatile assets. This may adversely affect returns.
- 2.130 Another potential unintended consequence put forward was that firms may move away from using actual claims in their target range monitoring and instead use sample policies to assess compliance. It was felt the latter would allow compliance with a narrower target range to be more easily achieved.
- 2.131 The guidance regarding an appropriate range being one which can be met in benign-to-moderate conditions generated few comments, although two respondents highlighted that benign could be taken to mean extremely favourable investment conditions.
- 2.132 One respondent has also expressed concern that narrower target ranges might require heavy investment by smaller firms.

- *Our response:* Following receipt of the feedback, we have reconsidered and amended the guidance. We have removed the reference to target ranges narrowing over time. We have also removed the reference to a target range of 80% to 120%.

We are now placing emphasis on funds setting target ranges that are appropriate to deliver fair outcomes in light of fund specific factors, such as their smoothing and investment strategies, and reviewing the appropriateness of the range from time to time. We anticipate that, where wider target ranges are used, a firm may apply a greater level of scrutiny in agreeing that the range is appropriate.

We have also made reference to an expectation that firms will explain why their target ranges are appropriate in the PPFM Compliance Report.

We have not amended the expectation that appropriate ranges are those that can be met in more moderate conditions, since this aligns with our aim that firms set target ranges that are consistent with the fair treatment of customers. However, we have modified the guidance to refer to 'moderate' rather than 'benign to moderate' so that it is clearer that we consider strongly favourable investment conditions to be 'extreme'.

### *Target ranges – including 100% of unsmoothed asset share*

2.133 One respondent has pointed out that COBS 20.2.5 (1) (b) (ii) requires target ranges to include 100% of unsmoothed asset share. The respondent expressed the view that this may not be appropriate where firms are distributing estates by enhancing payouts. This can result in average payouts being significantly higher than 100%. The respondent asked whether the FCA would consider amending this rule to achieve greater flexibility.

- *Our response:* In our view, it is not necessary for this rule to be amended to allow for firms that are distributing estates. COBS 20.2.5 (3) (b) requires the inclusion in unsmoothed asset share of any amounts that have been added to the policy as the result of a distribution from an inherited estate. While a strict reading of this might exclude such enhancements to payouts made at the point of exit, our rules should be interpreted in light of their purpose.

Taking into account the purpose of the rule, we consider it possible for firms to interpret it such that the appropriate uplift could be included in the unsmoothed asset-share at the point of exit. This would allow the asset share and the payout to be compared on a consistent basis, while complying with this rule.

### *Target ranges – surrender values*

2.134 One respondent has commented that FCA rule COBS 20.2 does not mandate target ranges for surrender values, although it does contain other rules on setting surrender values including that they should generally be asset share-based. The respondent has suggested that the draft guidance refers to surrender values as though rules or guidance on ranges for them already existed.

- *Our response:* We acknowledge that COBS 20.2 does not explicitly require firms to use target ranges for surrender values. However, COBS 20.2.11G does contain an expectation that a firm should have good reason to believe that its (surrender payments) methodology produces a result which, in aggregate across all similar policies, is not less than the result of a prescribed asset share methodology. The majority of firms we reviewed did use an asset share methodology for calculation of surrender values and did use target ranges for surrender payouts.

We do not believe that our guidance suggests that our rules explicitly require firms to use target ranges for surrender values.

### *Target ranges – geometric symmetry*

2.135 One respondent has expressed the view that target ranges should be geometrically rather than arithmetically symmetrical (e.g. 80% to 125% rather than 80% to 120%).

- *Our response:* We have amended the guidance to remove any reference to specific target ranges. We are happy for firms to determine the applicable target ranges, provided that they can demonstrate that they are appropriate to deliver fair customer outcomes.

### *b) Bonus and surrender value methodologies for whole-of-life policies*

- 2.136 Our draft guidance suggested that firms should consider specifically appropriate bonus and surrender value methodologies for whole-of-life policies where they are currently extrapolated from those used for endowments.
- 2.137 One respondent has commented that they do not believe that it is intrinsically unfair to continue to base surrender values for whole-of-life policies on those of the equivalent actual or model endowment policy.
- *Our response:* We expect firms to consider whether specifically appropriate bonus and surrender methodologies for whole-of-life policies are necessary for the fair treatment of customers. If firms can demonstrate that a methodology that bases bonus and surrender payments for whole-of-life customers on equivalent endowment policies does deliver fair customer outcomes, we have no objection to this approach. We have amended the wording of the guidance to make this clear.

### *c) Constraints on with-profits funds*

- 2.138 One respondent has commented that the operation of many with-profits funds is constrained by, for example, the need to adhere to a scheme of demutualisation.
- *Our response:* We acknowledge that there are legal or other constraints for many with-profits funds. We accept that firms will have to take such constraints into account in determining their response to the guidance.

### *d) Outliers*

- 2.139 One respondent has commented that there are circumstances when the existence of outliers can be justified. The respondent considered that this should be acceptable, provided that firms can demonstrate their reasoning for the existence of outliers.
- *Our response:* The guidance is not intended to suggest that there are no circumstances where the existence of outliers can be justified. Our expectation is that analysis of outliers should be carried out. The reasons for customers being outliers should also be documented, along with the decision as to whether to take action or not. Firms should be able to demonstrate that no unfairness results.

### *e) Timing of checking of claims*

- 2.140 One respondent has commented that, while they agreed that claims should be checked periodically, they did not consider that there should necessarily be a quarterly cycle.
- *Our response:* We are happy for firms to determine their own timescale for checking of claims, provided that they can demonstrate that the timescale is adequate to ensure that any actual or potential unfair customer outcomes are promptly identified and put right.

We have amended the wording of the draft guidance to make this clear.

### *f) Methodologies other than using asset shares*

2.141 One respondent commented that some firms use means other than asset share to calculate payouts for some, or all, with-profits policies.

- *Our response:* We are happy for firms to use means other than asset shares to calculate payouts in relation to with-profits policies, provided that they are satisfied that the approach is fair to those customers and to any other customers that may be impacted. The firm's approach must comply with applicable COBS rules.

## 3 Finalised Guidance

**Outcome 1: The firm's strategy and governance framework results in the fair treatment of closed-book customers.**

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**Sub-outcome 1.1: The firm's overarching strategy, including any outsourced arrangements, takes proper account of the fair treatment of customers.**

### **Finalised Guidance: our expectations**

When establishing a strategic approach for closed-book customers, firms should recognise the different characteristics across different types of customers (for example, new and historic customers), and that different customer groups may have different needs. Treating customers fairly does not necessarily amount to treating all customers the same; where firms take a one-size-fits-all approach to fairness, they increase the risk of poor outcomes for some customers.

A firm's strategy for closed-book customers should be clearly articulated and include how the firm intends to achieve fair outcomes for those customers. As part of its periodic review of the strategy, a firm should also record examples of where fair outcomes have been achieved and instances where fair outcomes have been considered and discussed, even if changes have not been made.

We expect a firm to take proper account of fair customer outcomes and apply T&Cs in conjunction with the Principles. Firms should not, therefore, just rely on T&Cs to defend outcomes which are unfair under Principle 6. T&Cs are not the only consideration – there are additional things that firms may be able to do to improve outcomes and/or satisfy legally enforceable customer expectations from communications made at the time the customer signed up to the policy. In addition, it is for firms to determine circumstances where the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&C in that specific circumstance. Furthermore, firms should not rely on generic statements, such as 'we treat all our customers fairly' to demonstrate a culture of fairness.

When considering outsourcing customer service functions (e.g. call centre operations or administration of policies), firms should be clear on the impact of this decision on closed-book customers. This should apply equally if a firm considers that retaining customer functions in-house is the right solution. Firms should have processes to conduct ongoing reviews to consider if the arrangements – whether retained or outsourced – remain appropriate in the light of their obligations to customers. Firms should determine the frequency of reviews proportionate to the precise nature and scale of their business models and in response to circumstances which may have a material impact on the arrangements: for example, significant reduction of in-house policy administration headcount or outsourcing additional customer service functions to an existing OSP.

Where a firm identifies that their arrangements (whether retained or outsourced) are no longer in the best interests of customers, it should take steps to address the situation. Firms should be able to exit outsourcing contracts where remaining in them would result in detriment to customers.

**Sub-outcome 1.2: The firm checks, through periodic product reviews, that closed-book products remain fit for purpose and continue to meet the general needs of the target audience for whom they were designed.**

### **Finalised Guidance: Our expectations**

As stated in the RPPD, and in line with Principle 6, we expect firms to review a product periodically to check whether it continues to meet the general needs of the target audience for whom it was designed at the point of sale or after any subsequent changes are communicated between the firm and customers. To do this, firms that have closed-book customers should have well-defined and effective processes to ensure that products continue to meet customers' reasonable expectations. Firms should also have in place adequate risk management systems to ensure that they can identify where poor outcomes may be occurring, and take appropriate action. It is up to firms to adopt a proportionate approach to the scope of the review. Where firms have a large number of older product lines and variants, they may, as appropriate, find it more practical to adopt a framework approach to assess product families that are closely related rather than individual policies 'line by line'. This approach may not be suitable where variances exist within the product families.

We expect firms to ensure that they periodically review closed-book products in a structured and consistent manner. Firms should ensure that the frequency of product reviews is appropriate. We expect that, apart from in exceptional circumstances, products are reviewed at least every five years with due regard paid to higher-risk products, which may require a more frequent review. We feel it would be highly unlikely that a five-yearly review will be sufficient for all products on a firm's book. There are also likely to be events that occur that give good reason for carrying out an ad hoc review: for example, a firm may highlight that its range of pensions require review due to recent legislative changes promoting increased freedoms to ensure that these products will continue to provide fair outcomes for customers in light of the changes made. If not, firms should take action to address this. Firms should consider checking their review cycle for each product on an annual basis to ensure that the cycle remains appropriate.

Firms should consider proactive and reactive indicators to inform their product review process. In doing so, firms may wish to take account of relevant sources of information that may be available to them. These sources might include, but not be limited to, regulatory publications, management information on how they treat their customers fairly, customer complaints data, and media articles that highlight a potentially poor customer outcome. Firms should not rely entirely on complaints data to identify issues with products or the processes that support them.

Firms should ensure that closed-book products are delivering fair outcomes for customers. Although we recognise that T&Cs should be taken into account when reviewing a product, this should not detract from the need to focus on achieving fair outcomes for customers. Firms will be aware that some products were manufactured and sold in a different era – where, for example, economic conditions may have been fundamentally different. The risk that the passage of time could adversely impact on the outcome the customer receives is something that firms should be aware of, and their processes should take this into consideration. This does not mean that firms will need to amend their original T&Cs to address this concern, as there are various things not inconsistent with original T&Cs that firms should or can consider to improve outcomes. In some circumstances, firms may determine that the rigid application of a T&C may result in an unfair outcome to a customer or group of customers, and firms may wish to consider whether it is appropriate to disapply the T&C in that specific circumstance.

We expect firms to consider whether a product continues to provide a fair outcome to the customer. This may include assessing whether customers have received the investment return that they could reasonably expect, or whether product charges consistently outweigh the performance being produced.

When considering outcomes that closed-book customers may be experiencing, the firm should take into consideration all the relevant factors that could affect the product's performance. For example, value for money, and product performance (including the impact of charges, contractual obligations, communications to customers and complaints data) are all likely to be relevant factors to assess. However, this is by no means an exhaustive or definitive list. Firms should be able to articulate clearly the criteria that they assess products against and be able to explain what a fair outcome should be for each product (or group of products). This should take into account what a reasonable customer expectation should be, based on what the customer is likely to have understood by the information given to them at point of sale.

Where firms identify issues, they should take appropriate and timely action to address them in line with the fair treatment of affected customers. We would normally expect firms, within six months of identification, to clearly highlight and define the issue, escalate appropriately, create a plan to resolve as soon as possible, and have obtained sign-off by the relevant board/committee.

Where fundamental issues with a product are identified, the firm should ensure that the proposed changes or modifications do not create further poor outcomes. In addition, and where possible, firms should promptly contact consumers and distributors to notify them of any remedial action, including details of any changes or modifications to the product.

Firms should ensure that their rectification processes are aligned with the fair treatment of closed-book customers. We also expect that firms will consider if other customers may be affected by an identified issue; where their findings may have a wider impact on other parts of the business, they should share information accordingly. As set out in our guidance for sub-outcome 2.1, firms should also take both the quality and contents of regular communications into consideration in the course of product reviews.

### **Sub-outcome 1.3: The firm has adequate governance arrangements for its closed-book business.**

#### **Finalised Guidance: Our expectations**

Firms' governance processes should properly take into account customer outcomes, as well as ensure compliance with specific contractual and detailed regulatory requirements. This involves firms defining the customer outcomes that they are aiming to deliver and that customers have been led to expect, and demonstrating whether they are achieving them. Where the intended outcomes are not being delivered, we expect firms to be able to explain the mitigation actions that they are taking. This action should be taken within a timescale consistent with the delivery of fair outcomes to customers. Within six months of identification, we would normally expect firms to clearly highlight and define the issue, escalate appropriately, create a plan to resolve as soon as possible, and have obtained sign-off by the relevant board/committee.

We expect firms to be able to demonstrate and clearly record that they have properly and adequately considered the Principles and other rules and customer outcomes, in relevant decisions taken by their boards and other key committees. This may, in some cases, mean that minutes should record where the papers themselves do not adequately demonstrate that these issues have been covered and properly taken into account and addressed.

This will involve making sure that the 'voice of the customer' is heard on key committees. There are various ways in which a firm could do this. For example, one of a range of options firms may wish to consider is to appoint a dedicated customer champion and/or a committee or team to lead on and promote customer issues, provided that the appointee/committee has sufficient seniority and is able to communicate effectively with the board.



We expect firms to be clear about how and where consumer outcomes for closed-book customers are considered and how and when issues are escalated. This should involve appropriate oversight by someone who is at least either a Senior Insurance Manager or holds an FCA Significant Influence Function.

### **Sub-outcome 1.4: The firm's remuneration, reward and performance management arrangements are consistent with the fair treatment of customers.**

#### **Finalised Guidance: Our expectations**

Firms should identify whether their approach to retentions could create an increased risk of leading to poor customer outcomes and manage this risk effectively.

In line with the January 2013 FSA guidance<sup>6</sup>, we expect firms to:

- consider properly if their incentive schemes and performance management increase risks to customers
- review whether the governance and controls are adequate, and
- take action to address any inadequacies

Examples of increased risk include retention targets for OSPs (particularly where there are financial penalties for failure to achieve such targets), retention targets for call handlers, and referring to customer client-facing teams as 'retention' teams. Where these or other features likely to increase risk exist, we expect firms to ensure their controls and governance are adequate to manage these risks. This should involve firms having oversight of remuneration, reward and performance management structures at OSPs, particularly in respect of customer-facing staff.

We also expect firms to make sure that call scripts and other materials supplied to customer-facing staff are balanced and do not encourage staff to influence closed-books customers unduly to stay with their current provider. Where the product is not meeting the general needs of customers or continuing to provide the benefits that it was originally intended to provide, we would expect customer-facing staff to make customers aware of this and the options available to them to ensure that they receive a fair outcome.

Firms should take into account the guidance published in July 2015<sup>7</sup> when considering how to manage the risks to customers from performance management measures.

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<sup>6</sup> FSA Final Guidance FG13/1 – *Risks to customers from financial incentives* (January 2013).

<sup>7</sup> [www.fca.org.uk/your-fca/documents/finalised-guidance/fg15-10](http://www.fca.org.uk/your-fca/documents/finalised-guidance/fg15-10).

**Outcome 2: The firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product life cycle that enable them to make informed decisions.**

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***Sub-outcome 2.1: Regular communications to customers provide them with sufficient information to make informed decisions.***

### **Finalised Guidance: Our expectations**

We expect firms to ensure that they meet the information needs of all their customers, including closed-book customers, on an ongoing basis.

Principle 7 of our Principles for Businesses requires firms to have due regard to the information needs of their customers. As such, firms should have appropriate mechanisms in place to assess these information needs and ensure their communications meet these needs. To do this, firms should provide their closed-book customers with regular communications regarding their policies. We would expect this communication to be issued at least annually, unless the firm is able to justify how it is otherwise meeting the information needs of its customers.

In line with Principle 7, firms should also ensure the content of these regular communications is consistent with their customers' information needs. In their communications, firms should include, for example, sufficient and clearly explained details regarding the performance of the product, its value, and the impact of fees and charges.

Principle 7 also requires communications to be fair, clear and not misleading.

Therefore, reflecting the nature of the policy sold, firms should consider including the following in the communication (as relevant or appropriate to customers' information needs):

- The current value of the policy. The policy value may be different, due to charges or policy conditions, from the transfer or surrender value. Where this is the case, firms should provide both the current and the surrender value of the policy. For whole-of-life policies with cash-in-value, we expect this to be included as the current value. For conventional with-profits policies, the current value may be challenging to calculate; in such cases, firms should explain the impact of any likely terminal bonus on the current value and any reductions in asset share that will reduce the current value on surrender.
- The value at the previous communication date and the value of any premiums paid in over that period. This facilitates a broad comparison of the performance of the policy with reference to the current year's value.
- For unit-linked (non-profit) policies, charges incurred over the period in monetary figures. This includes setting out, in addition to the aggregate charge, a breakdown of the major components and the charge to the customer for benefits such as life cover and guarantees.
- For unitised and conventional with-profit policies, an explanation of the charges being deducted – for example, the guarantees that incur a charge and policy fees – and an indicative level of charge (in monetary terms) applicable to the policy.
- Where customers have specific options and benefits associated with a policy – for example, life cover or a guaranteed minimum death benefit – a reminder of this should be in regular communications.

It would be prudent for firms to consider making a record of the information that they consider relevant or appropriate to include in customers' annual statements, or other regular communications, for each product type or range. This could include the rationale for why particular elements have (or have not) been included, and would demonstrate that this has been fully considered by the firm.

In line with our Smarter Consumer Communications<sup>8</sup> initiative, firms' communications are fundamental to helping consumers make informed decisions about the policies they hold. Consumers need better practices and a more flexible approach around communications; simple, clear information and explanations; and to be able to trust firms. Moreover, consumers need communications that are suitable for today's digitalised context. Consumer engagement can be best achieved through rethinking not just what is communicated, but also how firms communicate. Firms should carefully consider the layout and structure of regular communications to ensure that information is easily accessible and key information is sufficiently prominent. Consumer testing is one approach to assessing the quality of communications. Proactively engaging with consumers – both during the initial development of communications and afterwards – will help ensure all communications remain fit for purpose. Firms should also take both the quality and contents of regular communications into consideration when doing product reviews.

**Sub-outcomes 2.2 and 2.3: Communications to customers at the time of key policy events are clear, accurate and enable them to make informed decisions; and communications with customers make them aware of guarantees or options (whether time-critical or not).**

### **Finalised Guidance: Our expectations**

Principle 7 of our Principles for Businesses requires firms to have due regard to the information needs of their customers and communicate in a way which is clear, fair and not misleading.

In line with this, we expect firms to ensure that closed-book customers are fully informed of the various options, features and guarantees that form part of their policies – both on an ongoing basis and in the lead up to policy events. Firms should undertake an assessment of the products' benefits and determine how to ensure customers are kept informed.

In line with our requirement that firms' communications should be clear, fair and not misleading, we expect firms to be specific when setting out guarantees or benefits that are available to closed-book customers and avoid language that is ambiguous. For example, it would not be appropriate simply to provide statements such as 'you may have life cover as part of your policy'. Instead, firms should state the level of cover provided as a monetary amount. Furthermore, firms should also not 'cherry pick' which benefits are to be disclosed. The needs of customers vary, and benefits that are not of significance to one customer may be valuable to others.

In communications with customers regarding a policy event, firms should highlight the benefits (plus any associated costs) that are likely to be impacted by the event in a sufficiently prominent and specific manner.

<sup>8</sup> See DP15/05: [www.fca.org.uk/news/dp15-05-smarter-consumer-communications-and-subsequent-communications](http://www.fca.org.uk/news/dp15-05-smarter-consumer-communications-and-subsequent-communications).

Additionally, to be clear, fair and not misleading, we expect any communication surrounding a key event to:

- set out clearly all options available to the customer in a balanced manner including the risks, costs and potential benefits of each option
- set out clearly any charges that may apply (exit and/or paid-up charges should, where possible, be presented as monetary figures so that the impact is clear)
- provide sufficient notice to customers and provide clear time lines for when a decision is needed
- highlight where there may be a need for the customer to seek advice; and
- provide alternative options to incurring a paid-up/exit charge (for example, indicate if a customer could delay surrendering a policy so that a charge would not apply or would not apply at that time)

Charges we expect to be disclosed at the time the customer makes the decision to exit or go paid-up include any charges or fees, however described, which the customer has to pay or which are deducted from the value of the policy at the time of or as a result of the customer exiting the policy, going paid-up, or going partially paid-up. For with-profits policies, this would include a possible reduction to a policy value due to the surrender/transfer value basis targeting something less than would be targeted on maturity (for example, due to a deduction of the type envisaged under COBS 20.2.13R).

Firms should carefully consider the layout and structure of event-driven communications to ensure that information is easily accessible and key information is sufficiently prominent. Consumer testing is one approach to assessing the quality of communications; proactively engaging with consumers both during the initial development of communications and afterwards will help ensure all communications remain fit for purpose. Firms should also take both the quality and contents of event-driven communications into consideration in the course of product reviews.

Firms should also be mindful of the requirement under COBS 16.5.1R: this sets out that if a customer wishes to surrender a life policy that may be traded on an existing secondary market, the firm must (before accepting a surrender) make the customer aware that they may be able to sell the policy instead. The firm should also explain how to do so, and that there may be financial benefits in doing so.

### **Sub-outcome 2.4: The firm takes effective action to locate and make contact with 'gone-away' customers.**

#### **Finalised Guidance: Our expectations**

In line with Principle 6, it is important that firms demonstrate their commitment to maintain effective dialogue with their closed-book customers by having a coherent and documented strategy across their range of products for re-establishing contact with 'gone-away' customers, and by establishing systems and controls to minimise proactively the number of new 'gone-away' customers.

Firms should have a clear definition of what constitutes a 'gone-away' customer and a clearly defined process for dealing with products where customers could not be traced. We expect firms to consider and use appropriate activities to contact closed-book customers. It is important that firms attempt to re-establish contact with customers who have 'gone away'. Examples of the types of actions that firms may take include:

- adopting a consistent 'one firm' approach
- assessing the effectiveness of 'gone-away' activities and understanding the key drivers of success
- attempting recontact at point of 'gone-away' and, if unsuccessful, within 18 months of the first attempt and, if again unsuccessful, at least every three years after that (unless the firm can demonstrate why this will not be effective)
- undertaking electoral register and mortality checks, or using third-party credit reference agencies who can undertake this, in addition to leveraging their substantial databases, on the firm's behalf; and
- using the DWP letter-forwarding service

Firms may also wish to undertake the following 'gone-away' activities depending on the profile of their customers:

- BT directory enquiries, 192.com database search
- insolvency data
- internet research e.g. social networks
- bank letter-forwarding service, and/or
- beneficiary tracing services (e.g. heir hunters, probate researchers, professional genealogists)

Firms should correspond with their customers regularly, and proactively seek and hold full (phone/email/address) contact details. When firms have multiple customer contact points and/or records (e.g. through different OSPs), it is important that a single customer profile and/or multiple customer profiles for the same customer are maintained with consistent, up-to-date customer information.

**Outcome 3: The firm gives adequate consideration to and takes proper account of fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately.**

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**Sub-outcome 3.1: The firm takes steps to deal with poor performance with closed and actively marketed products given equal attention.**

### Finalised Guidance: Our expectations

We expect firms:

- to give due and appropriate oversight to each type of fund (e.g. closed, open, direct and indirect)
- not to give less oversight to a particular fund solely because of its type; and
- to start from the presumption that each type of fund requires equal oversight and to be able to demonstrate that any difference in approach between funds is fully justifiable by reference to relevant regulatory requirements and guidance, possible conduct issues arising, and expectations which have been set with customers and communicated to them

We expect firms to have clearly described and effective processes for the following:

- Identifying poorly performing funds, including:

**Appropriately frequent reviews.** Reviewing funds that closed-book customers have access to less than quarterly gives rise to doubts as to whether firms have effective processes in place.

**Using appropriate and relevant benchmarks against** which to assess performance, in line with what has been communicated to closed-book customers.

**Using appropriate triggers for signalling potential underperformance.** In the absence of evidence to the contrary being below at least 75<sup>th</sup> percentile over a prolonged period is likely to be a reasonable signal of potential underperformance.

**A clear reporting framework** setting out what metrics are expected from fund managers and on what frequency.

- Where poor performance is identified, taking appropriate and effective action, including:

**Having a defined mitigation process that continues through to resolution.** Making fund managers aware of the identification/mitigation framework in which they are expected to perform is more likely to show an effective process.

**Measuring the effectiveness or otherwise of mitigation actions** and making changes as appropriate.

**Appropriate oversight of each fund individually** – of the actions being taken or otherwise.

**Setting appropriate timelines**, including identifying the stage in the mitigation action the fund is at, as well as expected resolution dates.

We expect firms to set appropriate and relevant benchmarks in line with what may have been communicated to their closed-book customers about performance, and to have considered sufficient relevant and appropriate metrics available to them. Firms should use a mix of long- and short-term metrics to ensure they have appropriate measures for the particular funds in question, having regard to any relevant customer expectations. We have noted, in particular, the following metrics open to firms when assessing fund performance:

- **Performance.** By measuring fund value performance both over the longer term and the short term, firms will have a more rounded picture and be able to make more informed decisions. For example, quarterly, half-, five-, ten- or fifteen-yearly benchmarks can bring an element of consistency to the review of fund performance.
- **Volatility.** By measuring volatility over the long and short term, firms should avoid over-reacting to short-term fluctuations and unnecessarily turning over fund managers or putting undue pressure on fund managers to turn over the portfolios held within funds.
- **Sharpe ratios** are a way of examining the performance of a fund by adjusting for its volatility risk. By measuring funds' Sharpe ratios over the long and short term, firms are able to assess a large number of liquid funds quickly. This serves as a useful metric in this respect.

### Sub-outcome 3.2: Overall expenses are allocated fairly to closed-book products.

#### Finalised Guidance: Our expectations

When considering expense allocations and the setting and reviewing of charges, we expect firms to:

- be proactive in ensuring the ongoing fair treatment of closed-book customers
- appropriately factor into their review processes that expense allocations and/or levels of charges that were appropriate last year are not necessarily so this year; and
- devote sufficient resources to appropriate ongoing assessments in this area

This should include, as appropriate, a clear assessment of whether the benefits arising from any costs incurred accrue fairly to those customers who are funding the costs through the charges they are paying. Also, given the impact on the costs incurred by closed-book customers of any effective margin (where allowed) earned by an 'in-house' service company, we would expect the relevant governance structures in firms to provide appropriate scrutiny and challenge in this area.

Firms should not assert that contract T&Cs prevent them from taking FCA principles into consideration to ensure the fair treatment of customers (taking into account the impact on other customer groups).

Firms are able to rely on contractual terms in relation to guaranteed, non-reviewable charges and other contract terms which complied with relevant requirements at the time. However, T&Cs are not the only consideration. Customer expectation is an important consideration in determining fairness; legally enforceable expectations, in addition to T&Cs, may arise from communications made at the time of the contract, such as marketing material and other communications. In such cases, we would expect firms to satisfy those expectations and not see the T&Cs as a constraint from doing this. More generally, products that perform as firms have led customers to expect them to perform are likely to meet the requirement to treat customers fairly.

In considering fairness to customers, we expect firms to look further than at the level of a with-profits or non-profit fund. In particular, firms should consider fairness to different groups of customers within a fund as appropriate: for example, different generations of customers, different policy types, and different premium statuses.

To show they have effective and reasonable controls, we also expect firms to have clearly documented approaches to the management of all books of business on expense allocations and the review and setting of charges. Firms should consider both their approach to the individual expense allocations and charges of various types, as well as their approach to factoring in the aggregate impact on individual customers of all the expense allocations and charges incurred by them.

Finally, while acknowledging that firms have acquired different books of business at different points in time and on different terms, we nevertheless expect firms to identify areas where groups of customers are treated differently from each other in respect of expense allocation and to endeavour, where appropriate, to be consistent in their treatment of different groups of customers. Where a firm is making changes in order to move towards consistent treatment of different groups of customers, we expect it to do so in a way that does not treat any group of customers unfairly by, for example, moving them to a higher set of charges.

### **Sub-outcome 3.3: The firm regularly reviews the overall fairness of cost allocations and actual customer outcomes and applies a consistent basis for these reviews.**

#### **Finalised Guidance: Our expectations**

The FCA expects that firms should review the different types of expense allocations and charges on both with-profits and unit-linked products according to an appropriately regular, formally documented and governed cycle. Firms should consider how they can satisfy themselves that the resulting charges are appropriate: for example, by external benchmarking with appropriately selected industry peers, where possible. In doing this, firms should satisfy themselves that closed-book customers are being treated fairly in the expense allocations and charges (both of different types and in aggregate) that they are incurring. This assessment of fairness should be broader than just compliance with contractual T&Cs, and should factor in a consideration of whether the current and likely level of future expense allocations and charges is commensurate with customers achieving a fair outcome.

Firms should also have a regular cycle for reviewing customer payouts (covering maturities and surrenders/transfers) on all policy types (in keeping with RPPD 1.21(2)G and 1.21(4)G). Such reviews may involve analysing customer payouts or projected future payouts using actual policies or representative specimen policies. It is important that firms have a documented and consistent approach in this regard. Firms should assess payouts relative to what a well-informed customer might reasonably expect from their investment over its full lifetime. For example, firms might consider whether payouts are providing positive real returns to customers and also how payouts compare to what might have been achieved in alternative investment portfolios (such as managed or other unit-linked funds) with comparable mixes of assets.



### **Sub-outcome 3.4: The firm proactively monitors the actual experience of its closed-books of business and consistently passes on benefits and costs to customers, to the extent permitted by policy conditions.**

#### **Finalised Guidance: Our expectations**

We expect firms to monitor all types of expense allocations and charges incurred by closed-book customers relative to the actual level of expenses of various types incurred by the firm. Firms should have a consistent and documented approach for how and when they would pass on the benefits or costs of this actual experience as being different from customer expense allocations and charges of all types. This approach should set out clearly how the fair treatment of closed-book customers would be factored into all decisions in this regard.

In the particular area of considering mortality and other risk charges in light of experience, we expect firms should be proactive and appropriately regular in their reviews. This is important given the long-term nature of contracts and the improvements in mortality over time. To facilitate this and ensure consistent application, we expect firms to have a suitably selected and documented cycle for the review of these charges across all relevant products. In line with the general practice we have observed, unless there are exceptional circumstances, a three-year cycle covering all products is appropriate. We expect firms to be clear how the fair treatment of all customers would be factored into any decision to vary charges as a result of such a review.

We also expect firms to review their basis for the variation of any charges that are inflated each year (e.g. policy fees, switching charges) to satisfy themselves that they are fair to closed-book customers (e.g. in light of the current low inflation environment) under Principle 6. Firms should consider the current and future levels of any such fees relative to actual experience with respect to incurred expenses in order to satisfy themselves that any inflationary increases remain in line with the fair treatment of their closed-book customers.

Firms are able to rely on contractual terms in relation to guaranteed, non-reviewable charges, and other contract terms that complied with relevant requirements at the time. However, T&Cs are not the only consideration. Customer expectation is an important consideration in determining fairness; legally enforceable expectations, in addition to T&Cs, may arise from communications made at the time of the contract, such as marketing material and other communications. In such cases, we would expect firms to satisfy those expectations and not see the T&Cs as a constraint from doing this. More generally, products that perform as firms have led customers to expect them to perform are likely to meet the requirement to treat customers fairly.

**Outcome 4: The firm's closed-book customers are able to move from products that are no longer meeting their needs in a fair and reasonable manner.**

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**Sub-outcome 4.1: Exit and paid-up costs are not excessive and are not driving poor customer outcomes.**

### **Finalised Guidance: Our expectations**

We expect firms to assess whether outcomes for customers paying exit or paid-up charges are fair. We expect firms to take action where paid-up or exit charges are the cause of unfair customer outcomes: for example, charges that consistently drive poor performance or are disproportionate relative to the purpose for which they are intended. Examples of actions that firms should take include: exercising any discretion or judgement regarding the level of the charge in a way that treats the customer fairly; and ensuring the customer is fully aware of the charge and the action they can take to avoid such a charge. Other actions that firms may wish to consider, as examples, are allowing the customer to move to a different product at no or minimal charge, reducing the charge that is causing the poor outcome, and enhancing the policy value.

We also expect firms, over the lifetime of the policy, to review contracts for fairness in line with the Unfair Terms in Consumer Contract Regulations<sup>9</sup> (UTCCRs) or subsequent legislation, such as the Consumer Rights Act 2015, which applies to contracts concluded from 1 October 2015. Firms should have regard to developments such as legislative changes, court decisions, guidance issued by regulators (including the FCA and Competition and Markets Authority) and any undertakings published by these bodies. A term is not binding on a consumer if it is contained within a contract concluded from 1 July 1995 and is deemed unfair. We expect firms to consider what action they should take to address any reliance they have placed on any such term they deem as unfair where that reliance has resulted in potential consumer detriment.

Firms also need to consider the action to take regarding contracts with remaining customers impacted by the same term. If a contract was taken out before 1 July 1995, we still expect firms to assess whether the customer is receiving a fair outcome in line with Principle 6<sup>10</sup> when carrying out a product review, and to take into account the drivers of that outcome which would include an assessment of the impact of the T&Cs.

Whether the UTCCRs apply or not, the firm should be able to justify the way in which a term is applied in practice to ensure it is applied fairly. If the justification for it being fair is that it is to recover set-up costs not yet recouped, rather than assume that this is the case, we expect firms to be able to satisfy themselves that this is a supportable position and be able to demonstrate this is the case on an ongoing basis. We expect firms to be able to show that their management and controls are responsible and effective.

We expect firms to review products periodically to check whether they are meeting the general needs of the target market, or whether their performance will be significantly different from what the firm originally expected and communicated to the customer.<sup>11</sup> For example, for pension products, we expect firms to consider whether contracts that incur charges when contributions reduce/cease or the policy exits ahead of a retirement date selected at outset continue to meet the needs of customers, particularly in light of current pension reforms and continuing changes to employment patterns.

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<sup>9</sup> The Unfair Terms in Consumer Contract Regulations 1994 and the Unfair Terms in Consumer Contract Regulations 1999 ([www.legislation.gov.uk/uksi/1999/2083/pdfs/uksi\\_19992083\\_en.pdf](http://www.legislation.gov.uk/uksi/1999/2083/pdfs/uksi_19992083_en.pdf)) which revoked and replaced the 1994 versions.

<sup>10</sup> Principle 6 (Customer Interests) – A firm must pay due regard to the interests of its customers and treat them fairly.

<sup>11</sup> RPPD paragraph 1.21(2).

In line with TCF outcome 6<sup>12</sup>, we expect firms to monitor the extent to which paid-up and exit charges result in unreasonable barriers to changing product or switching provider, and consider appropriate action as a result. An example of this is to monitor customers' exit requests/enquiries and whether they proceed once they become aware of the exit charge, or whether the firm receives complaints about the level of such charges, once the customer has been made aware of them.

Under Principle 7, firms are required to have due regard to the information needs of their customers. Firms should make it clear to customers if they are going to incur an exit or paid-up charge, give sufficient notice to customers and provide clear time lines for when a decision is needed. Reliance on what the customer was told in the original T&Cs, or reference back to this alone, is unlikely to be sufficient as set out under the RPPD 1.21(3) G. We consider there is a high risk of an unfair outcome if a firm levies an exit or paid-up charge, and the customer has not been made aware of the charge, and its potential effect, so that alternative action can be considered.

For products where exit and paid-up charges have not yet been applied but where there is potential for them to apply, we expect firms to consider whether any such charge was made sufficiently clear to the customer at the outset or at other relevant points in time, in line with the relevant standards in place at the time. If not, the firm should take appropriate action to remedy this, which might include not applying the charge and/or making the charge sufficiently clear.

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<sup>12</sup> Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

### Sub-outcome 4.2: Target ranges for with-profits payouts appear reasonable and firms meet these target ranges without the variation of payouts being too wide.

#### Finalised Guidance: Our expectations

We expect firms to be monitoring payouts of all types to satisfy themselves that they have good reason to believe payouts on individual with-profits policies are fair.<sup>13</sup>

##### *Target ranges, monitoring and compliance*

Target ranges are designed to minimise the risk that firms might underpay, or overpay, customers in either the shorter or longer term. While our rules<sup>14</sup> allow some flexibility and discretion in setting target ranges, overly wide ranges increase the risk that payouts at extreme ends of the range, or indeed outside of it, are unfair to either exiting customers or to those remaining in the fund.

We expect firms to satisfy themselves that the width of the target range is appropriate in light of COBS 20.2.3R, 20.2.5R and 20.2.6R. Such a target range is likely to be one which can be met in moderate investment conditions, with the expectation that there is greater possibility of falling out of range in more extreme investment conditions that would be mitigated to an appropriate extent by active management of bonus rates and surrender value bases.<sup>15</sup>

There may be situations where extreme investment conditions mean that, for a limited period or at a particular point in time, the firm is paying less than 90% of payments within the target range, but where the firm is satisfied that payments will revert in the near future so that 90% will be paid within the target range. We consider that, even in these situations, it is possible for a firm to have good reason to believe that payouts on individual with-profits policies are fair (20.2.3R), and have good reason to believe that at least 90% of payments will fall within the target range (COBS 20.2.6R).

For example, provided bonus rates and surrender bases are set in line with our rules.<sup>16</sup> If markets crashed and smoothing rules prevented claim payments falling fast enough to ensure compliance, this would in fact demonstrate the benefits of smoothing. It is, however, important for firms to understand the factors underlying their target range results.

We expect that, in line with the better practices we have observed, funds should set target ranges that are appropriate to deliver fair outcomes in light of fund specific factors such as their smoothing and investment strategies. To ensure firms can demonstrate they are treating customers fairly, they should be able to justify clearly why their target ranges are capable of generating appropriate and fair outcomes for their with-profits customers in reasonable scenarios and include this information in the PPFM.<sup>17</sup> Firms should have a robust target range monitoring process in place to support this. While we would not expect the target range to change frequently, it is appropriate for a firm to consider its appropriateness from time to time. We also expect the same attention and focus to be given to ensuring the fair treatment of surrendering/transferring customers as is given to those holding maturing policies.

When describing compliance with the obligations in its PPFM and, in particular, addressing issues regarding the methods used to guide determination of appropriate payouts per COBS 20.3.6R(1)(a) and COBS 20.3.8G(1), we expect that the annual report to customers (see COBS 20.4.7R) should:

<sup>13</sup> COBS 20.2.3.

<sup>14</sup> COBS 20.2.

<sup>15</sup> In line with COBS 20.2.1A R.

<sup>16</sup> COBS 20.2.3-20.2.16.

<sup>17</sup> In line with COBS 20.3.6R(1).

- explicitly reference compliance with target ranges
- explain why the firm believes the target range is appropriate
- provide commentary in relation to outliers
- detail any proactive steps taken to ensure ongoing compliance, and
- describe any redress work required as a result of finding crystallised issues

### *Outliers and excluded policies*

Although firms are typically targeting compliance with the 90% rule, our view is that all customers are entitled to an appropriate and fair outcome. We expect firms to ensure they have good reason to believe that this is the case, in line with COBS 20.2.3R. To do this, we expect firms to have the systems and processes that allow them to identify and analyse outliers, and to analyse policy types (e.g. paid-ups, altered policies, whole-of-life policies) that fall outside target range monitoring, before considering taking action where appropriate.

In particular, in light of the run-off of endowments, firms should consider whether specifically appropriate bonus and surrender value methodologies for whole-of-life policies are necessary for the fair treatment of these customers where they are currently extrapolated from those used for endowments.

While it is appropriate to check compliance with a target range retrospectively, it is important to check for potential outliers at the time of setting bonus rates and the surrender value basis. It is also important to check claims periodically throughout the period for which the bonus rates/surrender basis applies. We consider that an appropriate period over which to check claims is quarterly (as observed in some firms), unless firms can demonstrate that an alternative timescale is adequate to ensure that any actual or potential future unfair customer outcomes are promptly identified and resolved.

To ensure that specimen policies remain representative of the underlying business, we consider that checking some actual claims is necessary. This can also enhance a firm's understanding of its business, which can then be applied to ensure fairer outcomes for customers going forward. We consider it may be prudent for firms to check some actual claims as part of demonstrating appropriate management controls, and that this checking should include both outliers and excluded policy types.

Depending on the findings, the analysis of outliers and excluded policies may not result in any action being taken by firms. However, we would expect firms to record such investigations and the resulting decisions on whether any action is required, and for there to be appropriate input and challenge from the with-profits actuary and with-profits governance arrangement (taking independent advice where appropriate).

### *Surrender value bases*

To ensure fair outcomes are occurring, we expect that surrender value bases are reviewed whenever bonus rates are reviewed. This is therefore anticipated to be at least once per year, in line with practice we saw at some firms. In addition, we would expect that if the fit of a basis is deteriorating, firms act to review the methodology itself to ensure that it remains fit for purpose and fair to customers.

To support this, firms should demonstrate clearly that they have appropriate systems and controls to show compliance with relevant requirements. We would expect firms to:

- have a clear written policy around the frequency of surrender basis review, which specifies the point at which a full methodology review might be required
- ensure that resources are available so that updates are made ahead of the basis causing actual consumer detriment; and
- be able to show that the policy is clear as to how customer outcomes, including those related to paid-up or altered policies, are factored into the reviews

# Annex 1 – Glossary of terms

This glossary sets out the key terms we use and how we have defined them for this publication.

**Accumulation units** – Units with relatively low charges. For some unitised policies, premiums for an initial period are allocated to capital units for the purpose of recovering the product provider's initial costs. After the initial period, subsequent premiums are invested in accumulation units that have lower charges.

**Altered policies** – For the purposes of this review, altered policies refer to policies that customers have made changes to since inception, such as changes to policy term, the level of life cover, or the level of premiums.

**Annual management charge (AMC)** – Charge levied by the firm in respect of management and administration of the policy, typically expressed as a percentage per annum.

**Asset share** – This represents the underlying value of a with-profits policy as calculated by a firm, taking into account (inter alia) premiums paid and withdrawals made, expense deductions, and the returns on the assets in the with-profits fund. Depending on the context, the asset share may also allow for any smoothing of returns.

**Back-end loaded** – A charging structure on a policy whereby most or all of the initial costs incurred by the firm are recovered over the full expected lifetime of the policy, typically through ongoing charges such as the AMC. Policies with capital and accumulation units are an example of this type of charging structure. In contrast to front-loaded charging structures, 100% (or more) of the customer's premiums are typically allocated to their chosen investment fund(s) from inception of the policy.

**Capital units** – Units that carry relatively high charges. For some unitised policies, premiums for an initial period are allocated to capital units for the purpose of recovering the product provider's initial costs. After the initial period, subsequent premiums are invested in accumulation units that have lower charges.

**Cash-in value** – The amount a customer would receive if they surrender their policy.

**Closed-book customers** – For the purposes of the thematic review, these were long-standing customers with products within the scope of the project. Generally, this applied to products sold before 2000 and which are closed to new business. Where firms had slightly different definitions, we accepted the firms' definitions. See also paragraph 1.20 of the Executive Summary for wider application of the definition.

**Conventional with-profits policy** – A policy with an initial sum assured, which is increased by the addition of bonuses. Any annual or reversionary bonuses and terminal bonuses are declared as a percentage of the sum assured or the sum assured plus attaching bonuses.

**Cross-subsidies** – For the purposes of this review, subsidies between policies within a with-profits fund. Cross-subsidies are a result of the grouping of policies and other aspects inherent to with-profits management. The financial management principles and practices that result in cross-subsidies are set out in a firm's PPFM.

**Direct funds** – Funds over which the firm has direct control.

**Front-loaded charging structure** – A charging structure on a policy whereby most or all of the initial costs incurred by the firm are recovered during the first few years of the policy, typically through allocating a low percentage of the customer's initial premiums to their chosen investment fund(s).

**'Gone-away' customer** - For the purpose of this review, 'gone-away' customers are all customers that firms have lost contact with or are unable to contact (excluding Industrial Branch business). This includes customers acquired as part of Part VII transfers where firms were unable to trace customers and obtained a waiver<sup>18</sup> and those whose assets have been placed on the Unclaimed Assets Register.

**Guaranteed minimum death benefit** – A minimum level of death benefit specified in the contract. In some cases, this can be more than the investment value of the policy.

**Indirect funds** - Unit-linked funds that track the performance of a third-party fund, over which the life insurer has no direct control. Funds are invested in a regulated collective investment scheme or another insurer's fund (a reinsured fund). Rather than directly investing in the underlying third-party fund, customers are investing in the life insurer's 'external funds' version. External funds are sometimes referred to as 'mirror funds.'

**Industrial branch business** – Life insurance business where door-to-door sales people collected small value premiums at the customer's home.

**Non-reviewable charge** – A charge of any type where the level, or the formula by which the level can change, is fixed or cannot be changed, based on a proper interpretation of a policy's terms and conditions.

**Outlier** – Individual with-profits claim payouts (at maturity or surrender/transfer) that are a particularly high or low proportion of their underlying asset share.

**Paid-up** – A policy is made paid-up when a customer ceases to pay premiums before the end of the term but continues to hold the policy. Where premiums are reduced rather than ceased, this is sometimes referred to as being 'partially paid-up'.

**Part VII transfer** – A Part VII transfer is the common name for the transfer of a portfolio of contracts from one entity to another under Part VII (Control of Business Transfers) of the Financial Services and Markets Act 2000 (FSMA 2000). A transfer is typically used to consolidate acquisitions or run-off portfolios and to generate capital and operational efficiencies.

**Percentile** - A measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, fund performance below at least the 75<sup>th</sup> percentile means that at least 75% of funds have better performance.

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<sup>18</sup> The legislation requires that all policyholders of the transferor and transferee are notified individually. In practice, however, it is often impossible to comply with strictly. As a result, the practice has evolved of seeking a waiver from this notification requirement where it may be impossible. For example, the firm's database may not hold all of the information required to enable compliance.



**Principles and Practices of Financial Management (PPFM)** – A document containing with-profits principles and practices, which a firm carrying on with-profits business must establish, maintain and record under COBS 20.3.

**Reduction-in-yield (RIY)** – An industry standard figure given to show the effect the total charges applied to a policy will have on its potential rate of growth.

**Sharpe ratio** – A measure of the risk-adjusted return of an investment. It measures the excess return for every unit of risk that is taken in order to achieve the return.

**Reviewable charge** – A charge of any type where the level, or the formula by which the level can change, is not fixed or can be changed, based on a proper interpretation of a policy's terms and conditions.

**Smoothing** – A standard practice used by firms in the operation of with-profits policies with the aim of smoothing out fluctuations in investment returns, through holding back some of the profit in good years in order to ensure that a reasonable return can be paid during years of poor performance.

**Surrender** – Surrender occurs when a customer cashes in a policy before the specified maturity date. The customer normally receives a cash amount derived from the value of the policy. The customer may be charged an exit penalty.

**Surrender value basis** – The methodology and assumptions used by a firm to calculate the surrender value on a policy.

**Target range** – The target range relative to asset share set by the firm within which it is targeting individual with-profits maturity payouts should fall, as per COBS 20.2.5R–20.2.6R.

**Transfer** – Transfer occurs when a customer transfers a personal pension product from one provider to another.

**Transfer value basis** – The methodology and assumptions used by a firm to calculate the transfer value on a policy.

**Unitised with-profit policy** – A with-profits investment where premiums buy units in a with-profit fund. The value of the units increases in line with bonuses declared, either through the addition of units at a fixed price or through increases to the unit price.

**Unit-linked policy** – A policy giving access to a unit-linked fund. A unit-linked fund is a type of pooled investment offered by insurance companies through their life or pension policies. With a unit-linked policy, the premiums buy units in a fund of the investor's choice. The value of the policy is measured by the total value of the units allocated to it.

**With-profits policy** – A contract falling within a class of long-term insurance business which is eligible to participate in any part of any established surplus. Bonuses, if declared, are added to the value of the policy annually. The bonuses are based on a number of factors, the most important being the fund's profits from its investments. With-profits policies can be conventional or unitised.

## Annex 2 – List of non-confidential respondents

Aegon

Association of British Insurers

Association of Financial Mutuals

Aviva (including Friends Life)

Barnett Waddingham

Callcredit

Countrywide Assured

Experian

Financial Services Consumer Panel

Herbert Smith Freehills

Institute and Faculty of Actuaries

International Financial Data Services

Investment & Life Assurance Group

LV= Liverpool Victoria

Phoenix Group

Royal London Group

Scottish Widows

Standard Life

Sun Life Financial of Canada

The Association of Policy Market Makers

Zurich UK Life

We also received three responses from individuals.