

## **Thematic review: Fair treatment of long-standing customers in the life insurance sector**

### **Financial Conduct Authority (FCA)**

**RPC rating: validated**

#### **Description of the measure**

The clarifying guidance was produced as a result of a thematic review; this review identified widespread examples of poor practice, which the FCA considered created an increased risk of unfair treatment of long-standing customers<sup>1</sup>. The finalised guidance, published in December 2016, seeks to reduce that risk. The guidance sets out the FCA's expectations around:

- how long-standing customers should be treated within a firm's strategy and governance;
- communications with long-standing customers;
- management of fund performance and policy values; and
- the ability of customers to move from products that no longer meet their needs.

#### **Impacts of the measure**

The assessment sets out that the clarifying guidance is relevant to approximately 40 firms or groups and around 70 small friendly societies. The guidance does not impose any new obligations on firms, but clarifies and sets out the FCA's expectations in one place for the first time and provides clear examples of good and poor practice.

The FCA believes that firms will incur costs in meeting the existing minimum standards, as set out more clearly in the revised guidance. It argues that these are additional costs only to businesses that are non-compliant with existing standards, and so does not estimate them. The adoption of good practice will also mean some firms exceed the minimum standards, thus imposing further costs on business.

The FCA has gathered data from 11 firms on the estimated costs of the actions they have taken or plan to take in response to the guidance. It has identified costs that relate to good practice and go beyond existing minimum standards. It has used

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<sup>1</sup> Defined as customers with products sold before 2000, which are closed to new business

these cost estimates together with estimates of the 11 firms' market share to extrapolate to the market as a whole. The costs that the FCA has estimated are as follows:

- Ensuring firms' strategy and governance framework results in the fair treatment of closed-book<sup>2</sup> customers (£0.1 million per annum);
- Ensuring firms give adequate consideration to fund performance and policy values (£5.2 million one-off and £0.4 million per annum thereafter);
- Ensuring closed-book customers are able to move from products that no longer meet their needs (£3.7 million one-off and £0.1 million per annum thereafter); and
- Ensuring closed-book customers receive clear and timely communications (costs round to £0.0 million).

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £1.5 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

### Quality of submission

The FCA has provided sufficient evidence to support its estimate of the impact of the measure. Nonetheless, the assessment would have benefited from a more detailed explanation of the cost estimates obtained by firms and how these were extrapolated to estimate the overall cost of the proposal.

### Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£1.5 million
Business net present value	-£13.9 million

### RPC assessment

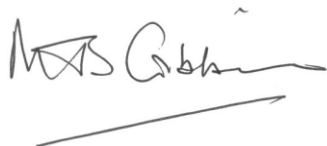
Classification	Qualifying regulatory provision
EANDCB – RPC validated <sup>3</sup>	£1.5 million

<sup>2</sup> Customers invested in products closed to new business

Opinion: EANDCB validation  
Origin: Domestic  
RPC reference number: RPC17-FCA-3772(1)  
Date of implementation: December 2016

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Business Impact Target (BIT) Score <sup>1</sup>	£7.5 million
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**Michael Gibbons CBE**, Chairman

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<sup>3</sup> For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

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