

Treating Customers Fairly  
Through the life time of the product  
  
Ian Reynolds (Beachcroft Wansbroughs Consulting)  
  
2 November 2005

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
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Senior management responsibilities

FSA product life cycle:

- Product design and governance
- Identifying target markets
- Marketing and promoting the product
- Sales and advice processes
- Remuneration of sales forces and advisers
- After sales information
- Complaints handling



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
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Remuneration of sales forces and advisers

Ongoing remuneration issues:

- Trail commission - deferred initial remuneration or  
- payment for ongoing service.
- Fund-based commission - aligns interests of  
policyholder and adviser  
but - leads to excessive  
remuneration.

Whatever the firm concludes, it will be necessary to communicate  
commission payments throughout the life of the policy.



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## Policy Anniversaries

TCF will require good clear information about the progress of the policy on a regular basis.

- Be clear what the policyholder wants to see, which will differ for:
  - pensions contracts
  - protection contracts
  - investment bonds
  - regular savings policies
  - annuities
- The information should relate to the purpose for which the contract was effected, possibly with reference back to the 'Reason Why' letter.
- Any options for the policyholder or any actions they need to take.



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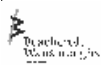
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## Information at policy anniversaries

- Some basic factual data about the policy
- Contributions if any made during the year
- Any withdrawals from the policy including annuity payments
- Changes in the value of the policy
- Some indication of the performance, against objectives as set out in the initial documentation
- Deductions from the policy e.g. to pay for life cover or annual management charge



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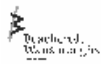
## Options

Over time a wide range of options have been built into policies.

- Guaranteed insurability option
- Guaranteed annuity option
- Open market option
- No MVA dates
- Tax-free withdrawal from bonds

Do you make these options clear to policyholders:

- ▶ When they become exercisable?
- ▶ In each annual communication?



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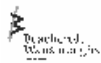
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## Maturities and Claims

Are your processes efficient, effective and customer-friendly?

Different issues arise in respect of:

- Maturities
- Death claims
- Illness, disability, or critical illness claims



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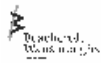
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## Surrenders

Again, are your processes efficient, fair and customer-friendly?

- Alternatives
  - paid-up policy
  - premium holiday (or reduced premium)
  - policy loan
  - sale of endowment policy
- Fairness between 'leavers' and 'stayers'
- Fair value issues differ by policy-type
  - pension contracts
  - with-profits endowments
  - unit-linked policies and bonds
- Rules for Market Value Reductions (MVRs)



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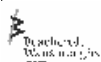
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## Reviewable Policies

- Unfair terms in Consumer Contract Regulations 1999
- FSA Statement of Good Practice (May 2005)
  - "Fairness of terms in Consumer Contracts"
- ABI Consultation Paper:
  - Advice on non-investment protection policies with reviewable premiums (May 2005)
    - Procedural issues
    - Substantive issues
- Role of the Financial Services Ombudsman
- 'Use it or lose it'?



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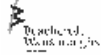
## Management information

Good information is essential for senior management to bear their responsibility for Treating Customers Fairly. It is:

- Simple
- Concise
- Relevant
- Covering key issues – but not every detail

The aim should be that management information is able to:

- Highlight areas of concern of unfair treatment of customers;
- Enable further investigation of any issues;
- Prompt action
- Convince the FSA that TCF is being taken seriously



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## Complaints

How good are your complaint procedures?

They may be a good indicator of where improved processes are deficient

- Admit mistakes quickly
- Settle early
- Delegate powers to settle
- Fight the cases which put other consumers interests at risk
- Define complaint types carefully and distinctively
- "Best performing TESSA"



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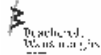
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## Summary

Key messages:

"A firm needs to demonstrate that TCF is integral to all aspects of its operating model"

- **The board** sets key guidelines and monitors their achievement
- **Management** develops policies and strategies that ensure that customers are treated fairly throughout the life of their policies
- **Actuaries:**
  - provide advice that takes account of the interest of policyholders
  - ensures that good management information is available to monitor all aspects of relations with policyholders throughout the life of the policy.
- **Systems** are customer and not product-based



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