



# Life insurance legacy review

**Turning the old into the new**

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## Turning the old into the new

In March, the FCA published the results of their thematic review into the treatment of long-standing customers (TR16/2: 'Fair treatment of long-standing customers in the life insurance sector'), concluding that in many cases, long-standing customers have not been treated fairly by insurers. The findings of the review confirm what we have been predicting for some time – that life companies with large closed books are unlikely to continue to meet FCA expectations without significant investment to update aspects of their business model and customer communications.

Some insurers have evidently made positive strides in placing good customer outcomes at the heart of their operations. This has gained pace, especially since the announcement of 'pension freedoms' which prompted development of new retirement income propositions. The competitive challenges of the emerging long-term savings market have also compelled many firms to think differently about their relationship and engagement with their customers. However, the very nature of legacy products and closed book business models make it a much harder task for providers to create a paradigm shift for these customers.

Whilst a paradigm shift may remain out of reach, an increase in focus on these customers and the outcomes they receive has to happen. If the thematic report itself was not a strong enough indication of the direction of travel, then the decision by the FCA to begin investigations into the behaviour of six firms involved in the review is evidence this is being taken very seriously by the conduct regulator. As Tracey McDermott, acting Chief Executive of the FCA, emphasised, the FCA expects.

“ life companies with large closed books are unlikely to continue to meet FCA expectations without significant investment ”

# Next steps for life insurers

As well as ensuring clarity around closed book strategies, TR16/2 highlighted the critical role that an effective product governance framework plays in ensuring fair outcomes for customers. The FCA's expectation is that many of the failures they observed during the review could be rectified by more effective product governance arrangements, such as value for money frameworks and ongoing performance reviews. Recognising that the response to TR 16/2 will require building sustainable controls (rather than a one-off exercise) will be key to firms successfully meeting the FCA's expectations and delivering ongoing fair outcomes for customers.

Good communications with customers will be vital. TR16/2 highlights a broad range of communication issues from the point of sale, to policy events and annual statements. It is clear that the FCA is raising the bar in respect of communications with legacy customers.

The fact that the report directly addresses system constraints – a long standing barrier to improvements in this area – indicates that the FCA expects to see genuine changes being made in this area. Some of the best examples of improvements we have seen in the market are demonstrated by those insurers who seek to target specific customer groups where engagement is needed in order to avoid poor outcomes.

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# How are life companies responding?

Alongside broader regulatory and legislative changes, the report's messages and the implicit requirement to invest in back books, may cause some firms to consider their longer-term future in this market. We expect further consolidation in this sector as some firms choose to exit, rather than invest in their closed-book business.

The remaining firms in the sector will need to determine their response in the context of the range of business and regulatory challenges, including Solvency II, pension reforms, digitisation and the desire to transform legacy assets. Insurance companies that embrace new technology and innovation will find the short-term cost may well be outweighed by the long-term benefits of greater customer engagement and operational efficiency. We have seen examples of firms that have grasped the nettle over the last 18 months and have really embraced the transition to a more customer-centric, simple and transparent, digitally-enabled business model. These are the insurers that will be best equipped to meet the challenges presented by the wave of change sweeping the industry.





If you'd like to discuss further, please get in touch.



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