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13 November 2023

Our Ref: 20220907 ECU B

Mr Pete Bull
Campaign Lead
TI Campaign

By email: ticampaign@outlook.com

Dear Mr Bull,

Terminal illness benefit within life insurance protection products

Thank you for your response of 4 October 2023 to our published findings and recommendations on terminal illness benefit within life insurance protection products. We'd also like to take the opportunity to thank you again for your engagement with us. Although we recognise that you are not in full agreement with our findings, we have greatly valued your inputs.

Following the publication of our findings, our intention is to now focus on the next stage of the process - ensuring firms take actions to meet the expectations we have set out and are acting to deliver good customer outcomes in relation to terminal illness benefit.

Your response sets out where you think we have omissions in our review, other observations, and actions you view as still required. There are elements of your response which are either addressed within our publication or within previous correspondence with you. However, we feel it would be helpful to make several points to add detail or context to the publication:

You suggest the key omission from our findings is a direct confirmation or rebuttle of your estimates of the number of declined customers and deferred customers.

- On the number of declined customers, we have used up-to-date ABI data to inform our work (unfortunately our license purchased from the ABI prevents us from publishing these numbers). These do not support the position that there is a large volume of declined claims relating to the terminal illness clause in life protection products.
- We do acknowledge it is likely that terminally ill customers, or their representatives, may be less able to dispute a claim than other customers. We've taken this into account in our overall assessment and findings, including highlighting the need for firms to have robust and swift claim processes.

- You rightly quote us as noting that we could find no credible industry data on 'deferrals'. Although there is currently a lack of industry-wide data on this point, we have assessed data from a number of sources, including that provided by several firms, to give us an indication about this. Importantly, we have also set out the expectation that firms should be able to evidence the fairness of end-to-end journeys for all potentially terminally ill customers. This would likely include improving management information on parts of the customer journey that occur prior to the formal claims process, such as customers' initial contact with the firm and any deferrals.

The next two omissions detailed in your response are related to legal questions: Does the 12-month rule contravene certain consumer rights and contracts; and has the market acted in a discriminatory fashion?

- We have responded to these questions in previous correspondence. This includes detailing our role in our 3 March 2023 response, and do not believe we can add any further comments regarding this point.
- We confirm that, on the basis of our own in-house legal counsel views, we have not raised any issues related to our findings on terminal illness with EHRC.
- You have raised a discrete concern about the difficulties and complexity of meeting policy terms, whether these challenges are apparent to customers when purchasing a policy and consider that the 12-month rule should be dropped completely. We have stated within the publication that the terminal illness feature, in its current form, can be a valuable addition to life insurance policies for customers. However, we have stated that it is good practice for firms to ensure that the benefit is in the most appropriate form for their target market.
- We have not commissioned external legal views on these points as we regard the use of our in-house legal counsel to be sufficient and proportionate.

The final omission detailed in your response relates to the consideration of compensation for customers found to be unreasonably declined and, where appropriate, deferred.

- Whilst it is not the role of the FCA to award compensation to individual customers, where we see evidence of poor practices leading to unfair outcomes in terminal illness benefit, we can take action against firms.

You outline a number of actions that you believe are still required, which largely relate to the points above. We would note that the FCA applies a risk-based approach to supervising firms, meaning that we focus our resources on where we see the most potential harm to customers. We believe our approach has been proportionate to mitigate the main risks of customer harm.

We originally undertook this review as we absolutely recognise the importance of terminal illness benefits given the very clear vulnerability of the customers involved. We have now concluded this particular review. Our focus now turns to ensuring firms meet the expectations we have set out.

Thank you again for your valuable insights into this work.

Kind regards

A handwritten signature in grey ink, appearing to read 'AK', is positioned above the printed name.

Andrew Kay

**Head of Department, Market Interventions - Fixed
Supervision, Policy & Competition**