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2 September 2022

Our Ref: C220810B

Your Ref: MS68646

Dear Mel

RE: FCA's review of terminal illness benefits on insurance policies

Thank you for your email of 10 August on behalf of your constituent.

The Financial Conduct Authority (FCA) has been engaged in a review of terminal illness benefits, focused on customer concerns over the fairness of terminal illness provision in life insurance policies.

Terminal illness benefit is typically triggered within a life policy if the policyholder is expected to die within 12 months. Customers impacted by this issue are, by definition, a vulnerable customer group and we expect firms to treat them accordingly.

Our review is ongoing; this letter will explain what we have done to date, our high-level findings and our further actions.

Stakeholder concerns regarding terminal illness

Concerns were raised by the Terminal Illness Campaign leader, Peter Bull, who wrote the paper "Terminal Illness is Pain Enough" in October 2020, setting out his view that the terms and conditions to qualify for terminal illness benefit are unworkable and too difficult for customers to reasonably prove.

Such issues were also brought to our attention through our work with consumers as they contact the FCA's Supervision Hub, and through our regular engagement with the Financial Services Consumer Panel (FSCP).

The concerns raised included that terminal illness benefit claims were being declined where the insurer's medical opinion on life expectancy differs from the treating medical specialist. We are also aware of a recent Department for Work and Pensions (DWP) rule change regarding the qualifying criteria of DS1500 benefits (where claimants can qualify for the benefit if they are given less than 12 months to live, not 6 months to live as was previously the case).

Actions we have taken to date

As outlined in our [Approach to Supervision](https://www.fca.org.uk/publications/corporate-documents/our-approach-supervision)¹, we take a risk-based and proportionate approach to supervisory work, which includes reviews such as the one we are conducting in relation to terminal illness. This means that we look to identify where harm is potentially caused and investigate or remediate proportionately based on the risk presented.

¹ <https://www.fca.org.uk/publications/corporate-documents/our-approach-supervision>

We therefore looked to make an assessment of whether there are reasonable indications of customer harm, caused by either the existing policy terms adopted by insurers or the methods and processes firms use when handling potential terminal illness claims. We also wanted to gauge the potential size and impact of the issue.

We have completed a review focused on a sample of life insurers, asking a limited set of questions focused on:

1. the fairness of policy wording relating to terminal illness
2. provisions insurers intend to make to account for the DWP rule change
3. how decisions relating to terminal illness are made during the claims process

We also asked for data relating to claims acceptance rates to gauge the scale of the issue.

Our work gave some insight into insurers' current policy terms and into the claims acceptance rates for terminal illness in life policies. Early indications are that the current terms used by insurers appear reasonable (we did not test terms set earlier) and the claims acceptance rates do not indicate serious flaws in how the products operate. The data also suggests insurers have not thought it necessary to adjust their claims process or criteria on account of the DWP rule change.

Further actions we are taking

We have recently asked follow-up questions to the sample of firms to gain further clarity on a few issues. For instance, we required additional clarifications on how rejections, deferrals and acceptance rates are recorded and measured (reported terminal illness claims acceptance rates seem high ranging from 88% to 96%). We are also seeking more information on the clinical inputs used in the claims decision-making process.

We aim to complete this further review by the end of this year. Depending on the findings of our review, we will consider publishing the outcomes of our work and any proposed next steps. The conclusions of our work will be taken through the appropriate FCA governance and escalated where necessary. More generally, it is worth noting that the introduction of the [new consumer duty](#)², which will take effect from the end of July 2023, makes clear that we expect firms to act to ensure good consumer outcomes. Our requirements of firms include that they provide support to their customers to ensure that they are able to enjoy the benefits of their products. These new requirements will reinforce our expectation that insurers should be taking action to ensure that customers facing a terminal illness are appropriately supported to be able to successfully claim this benefit under their insurance policy.

Any consumers who feel they have been treated unfairly by their insurer should make complaints through the insurer's formal complaints process. If they are unhappy with the final response from the firm, I would encourage them to refer their complaint to the Financial Ombudsman Service. The Ombudsman Service is a free and easy-to-use service that settles complaints between consumers and businesses that provide financial services. More information on how to refer complaints to the Ombudsman Service can be found [on their website](#)³

I hope that this is helpful.

Yours sincerely,



Nikhil Rathi
Chief Executive

² <https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty>

³ <https://www.financial-ombudsman.org.uk/consumers/how-to-complain>