

‘Gone Away’ and ‘Orphaned’ Clients

Thematic feedback for long- term insurers



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

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Long-term insurers – thematic review

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This report is issued by the Isle of Man Financial Services Authority (“the Authority”), the regulatory authority responsible for the supervision of financial services, insurance and pensions sectors in the Isle of Man.

What is it for?

This report provides feedback to long-term insurers on the Authority’s findings from its thematic review in relation to ‘gone away’ and ‘orphaned’ clients. The thematic review was undertaken in the last quarter of 2018.

The Authority would like to thank all participants for responding to the information request.

Who is this paper for?

This paper will be of interest to the Board of directors and Senior Management of authorised long-term insurers. In addition, those with functional responsibility for the policy administration area may also find the observations of the report useful.

What do we expect insurers to do?

The Board of directors are ultimately accountable and responsible for the affairs of the insurer. However, the Authority would expect insurers to review their current business practices against the observations made within this report and amend their practices where appropriate.

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1 Background

This thematic review was carried out as part of the Authority's ongoing supervisory programme of work and to supplement the Authority's existing knowledge and understanding of its regulated entities. The scope of the review focussed on authorised insurers carrying on long-term business ("insurers") and assessed the processes and procedures insurers have developed in relation to dealing with 'gone away' and 'orphaned' clients.

The Authority is publishing this report to participant insurers in order to assist with the fair treatment of the above classes of clients and to ensure that as many clients as possible receive clear and timely communications about their policy to enable them to make informed decisions.

2 What we did

A questionnaire was sent to all insurers for completion in November 2018. The Authority's officers assessed the responses against the requirements established under the Isle of Man's insurance framework, against guidance issued by other external parties in the public domain and on a peer to peer basis to understand variances in practices. The Authority also considered the following documents:

- Association of British Insurers ("ABI") – framework for the management of gone away customers in the life and pensions market; and
- UK Financial Conduct Authority – the Fair Treatment of Long Standing Customers in the Life Insurance Sector (FG16/8)

The Authority recommends that all insurers consider the contents of this report, in conjunction with the information contained within the above-referenced documents, when either developing or next reviewing their policies and procedures in relation to 'gone away' and 'orphaned' clients.

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3 Definitions

“TCF” means Treating Customers Fairly

“the Code” means the Insurance (Conduct of Business) (Long Term Business) Code 2018

“Gone away clients” for the purposes of this thematic review, the Authority considered a client to be ‘gone away’ if the insurer was unable to contact the client regarding the policy or its benefits, e.g. because the client had moved away from the address on the insurer’s records. This included communications regarding policies that:

- are **‘active’** (e.g. ‘live’, ‘lapsed’, ‘Paid-Up-Policy’ (not surrendered));
- are yet to reach their benefit/maturity date;
- are making or receiving payments;
- have reached or passed their benefit date and benefits have not yet been paid; or
- have passed their maturity date and the benefit is yet to be claimed.

“Orphaned clients” for the purposes of this thematic review, the Authority considers an ‘orphaned’ client to be a client who has an **‘active’** policy with the insurer but no longer has an Independent Financial Adviser (“IFA”) associated with it e.g. the sole trader IFA has retired, the IFA firm is wound up or the client has terminated their relationship etc.

4 Our findings – ‘Gone away’ clients

Overall, it is the Authority’s view that all insurers appear to have a robust definition of what they consider to be a ‘gone away’ client and, in most circumstances, would appear to have some procedures in place on how to manage their relationship with this class of client.

However, we identified the following areas where variation in practice across the sector was evident.

4.1 Policy information

One insurer was not in a position to provide any information in response to this data request as it noted that *“the information was not readily available on its systems”*. However, most insurers were in a position to confirm the number and value of policies they had recorded as ‘gone away’. In most circumstances, insurers recorded ‘gone away’ clients with a specific data marker on their systems, however, one insurer noted that its records were documented on a spreadsheet.

It is the Authority’s view that all insurers should actively record all ‘gone away’ clients and will be able to provide management information to relevant stakeholders when requested to do so.

It is for the insurer to determine the appropriate method of recording the information. However, should the insurer determine that using a specific data marker on its system is not appropriate to its business, then the insurer should ensure that a member of the Senior Management team has responsibility for the ‘gone away’ client process and introduces appropriate controls; these steps should help with the accuracy of the information provided to stakeholders.

4.2 Management of ‘gone away’ clients

A number of insurers acknowledged that they did not have any procedures currently in place to manage their ‘gone away’ clients. While the Authority accepts that it will not always be possible to re-establish contact with ‘gone away’ clients, insurers should make reasonable, and documented, attempts to do so. These measures should help to manage any potential or perceived conflicts in relation to this class of client.

In this regard, it is the Authority’s view that all insurers should establish Board approved principles and a framework to manage ‘gone away’ clients paying due consideration to the insurer’s established TCF principles. The framework should be appropriate and proportionate

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to the insurer's business. Insurers may find the framework issued by the Association of British Insurers, referenced above, useful in their considerations.

4.3 Methods and attempts to contact 'gone away' clients

The responses provided to the Authority demonstrated that processes developed by Isle of Man insurers vary significantly.

In some circumstances 'gone away' clients had a "*final chase*" from an insurer after 30 days and no further correspondence was issued to the client after this date. Further, one insurer made no additional attempts to contact the client(s) after the first piece of mail was returned.

It is for the insurer to determine the methods and frequency it believes appropriate to its business to try and re-establish contact with 'gone away' clients. However, the Authority does not believe it is appropriate for Isle of Man insurers to make no additional attempts to re-establish contact with a 'gone away' client after the first piece of returned mail, especially given the long-term nature of the products provided to these clients.

At a minimum, insurers should initially review the veracity of the address on their systems to the original application form, or any other relevant policy information they hold on their records. Additionally, insurers should contact any parties associated with the policy such as the IFA, Fund Adviser etc. or consider information that may be available within the public domain. The framework developed by the insurer to re-establish contact with the client should be recycled, and updated as required, on an appropriate basis.

If the insurer is able to re-establish contact with a 'gone away' client, then the insurer should consider whether it is appropriate to make available all relevant documentation which is specific to the client and which the client may not have received.

4.4 Board reporting

Disappointingly, no insurer provided any formal reports proactively to the Board of Directors on 'gone away' clients, although in some cases limited management information was provided to the Executive.

It is the Authority's view that insurers should develop and report to their Boards on a regular basis, and at least annually, any information they consider relevant to 'gone away' clients and whether their treatment is in line with the Board approved principles.

5 Our findings – ‘Orphaned’ clients

Most insurers appear to have a robust definition of what they consider to be an ‘orphaned’ client and, in certain circumstances, a number of insurers document the reasons why the client is ‘orphaned’ for their own management information purposes.

5.1 Policy information

A number of insurers acknowledged that they did not have any procedures currently in place to identify the number and value of ‘orphaned’ clients.

It is the Authority’s view that all insurers should establish procedures to actively record all ‘orphaned’ clients and be able to provide management information to relevant stakeholders when requested to do so. Insurers should also consider documenting the rationale for the termination of such a relationship as this may aid insurers in developing future propositions and may assist insurers with the broker monitoring requirement of the Code.

5.2 Management of ‘orphaned’ clients

The responses provided to the Authority demonstrated that processes developed by Isle of Man insurers in relation to ‘orphaned’ clients varied significantly.

Insurers should develop a procedure of managing ‘orphaned’ clients appropriate to their business. However, insurers should consider whether it is, at a minimum, appropriate to write to ‘orphaned’ clients informing them of the position and to ensure that they are aware of the potential implications of not having access to expert professional advice.

5.3 TCF considerations

The responses provided by insurers demonstrated a varied approach to TCF. In particular, one insurer retained the existing commission structures and adviser fees even though the IFA had been removed, noting it was *“a matter for the adviser and client to action”*. Another insurer noted that its procedures could be more proactive in relation to ongoing fees and charges.

It is the Authority’s view that insurers will develop processes to pay due regard to TCF and outcomes specific to orphaned clients. This should include a review of communications with those clients and any ‘trail commission’ arrangements. In this regard, insurers may find it useful to document the reasons why a client has an ‘orphaned’ status, which should help insurers determine if it believes it appropriate to continue paying fees where a client has removed the IFA for ‘poor service’, as an example.

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Insurers should also develop and report to the Board on a regular basis, and at least annually, information they consider relevant to ‘orphaned clients’ clients and their treatment.

6 Next Steps

This report provides feedback to industry on the latest thematic review, along with the views of the Authority as to what improvements are required. The Authority expects all insurers to take appropriate action to address the issues outlined and can evidence same to the Authority.

Insurers are requested to review the contents of this report and revert back to the Authority within 3 months of the report’s date providing confirmation that the contents of the report have been considered by the Senior Management and the Board; outline the improvements made; and outline improvements to address any remaining gaps, including timelines for implementation.