

03 February 2023

Dear CEO/Director

Implementing the Consumer Duty in Life Insurance

The Consumer Duty is a significant shift in our expectations of firms. It introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers.

We are sending this letter to firms in the Life Insurance sector and their FCA-regulated outsourced service providers (OSPs) to help them implement and embed the Duty effectively. This letter is for all Life Insurance firms whose products and services are used by retail customers, and all FCA-regulated OSPs providing servicing and administration services to these firms. The relevant products and services include:

- Pensions, long-term savings and retirement income
- Pure protection

This letter sets out:

- A reminder of the implementation timeline, key elements of the Duty and how it applies to Life Insurers and OSPs
- Our expectations for how firms should embed the Duty, including relevant examples of good and poor practice
- Feedback from our recent review of firms' implementation plans
- Our approach to supervising the Duty for Life Insurers and OSPs, and planned next steps

We expect the Consumer Duty to be a top priority for you personally. We want good outcomes for customers to be at the heart of firms' strategies and business objectives, and leaders have a key role to play here. Firms' Boards and senior management should embed the interests of customers into the culture and purpose of the firm.

Implementation of the Duty also provides an opportunity to make Life Insurance fit for a digital future, enabling firms to take account of their customers' diverse needs over the course of their financial lives and to better support customer decision-making.

As OSPs play an increasingly important role in the business models of individual Life Insurers and collectively across the sector, **it is essential that firms engage early and proactively with their material OSPs to ensure compliance with the Duty by the dates set out in the timeline. It is equally important for OSPs to engage with their client firms about the Duty in order to define requirements and agree timelines for delivery of the regulatory change required.** We will be undertaking reviews of how OSPs and insurers

interact in our future supervisory work related to the Consumer Duty. Life Insurers and OSPs should discuss this letter with one another.

The FCA will also issue Consumer Duty implementation letters to other portfolios. For Life Insurance firms offering other products and services (e.g. general insurance, lifetime mortgages, etc), please also read the ones relevant to your business. In addition, firms should already be meeting the expectations set out in our Guidance on the fair treatment of vulnerable customers (FG21/1) as referenced in our [Dear CEO](#) letter regarding cost of living and Life Insurers.

We thank the industry for the effort it has made so far towards implementation of the Duty and we look forward to working together to deliver good Life Insurance customer outcomes.

Your timeline for introducing the Duty

In July 2022 we published final rules and guidance for firms, and set out the following timeline for firms to implement the Duty:

- By the end of October 2022 firms' boards or management bodies should have agreed their plans for implementing the Duty
- By the end of April 2023 manufacturers should have completed all reviews necessary to meet the outcome rules and shared necessary information with their distributors
- The Duty comes into force on 31 July 2023 for new and existing products or services that are open to sale or renewal
- On 31 July 2024 the Duty comes into force for closed products or services.

How the Duty applies to firms in Life Insurance and their FCA-regulated OSPs

The Duty builds upon existing FCA rules and guidance already applicable to Life Insurers and their FCA-regulated OSPs. This includes, but is not limited to:

- [Fair treatment of long-standing customers in the life insurance sector \(FG 16/8\)](#)
- [Review of the fair treatment of with-profits customers \(TR19/3\)](#)
- [Guidance for firms on the fair treatment of vulnerable customers \(FG 21/1\)](#)
- [COBS sourcebook](#)
- [SYSC sourcebook](#)

The Duty applies to products and services offered to retail customers, and to all firms who determine or have a material influence over customer outcomes - not just those with a direct customer relationship. We've set out a some more information and examples about how the Duty applies to firms in Life Insurance and their FCA-regulated OSPs in Annex 1 to this letter.

Outsourcing

Where firms outsource activities to third parties, they remain responsible for compliance under the Senior Management Arrangements, Systems and Controls sourcebook (SYSC). The usual regulatory principle applies in that firms are responsibility and accountable for all the regulatory responsibilities applying to outsourcing and third-party arrangements. Firms cannot delegate any part of this responsibility to a third party. This means that, if a firm chooses to outsource elements of its consumer support to a third party, it is responsible for ensuring the support provided meets the Duty standard. The firm should have systems and controls in place to monitor this and provide assurance that it is meeting is regulatory obligations. However, where the OSP is an authorised firm and can determine or has a material influence over retail customer outcomes, it will also be subject to the Duty.

Firms should be mindful of the impact their dealings with other firms can have on the end customer. Firms will fall short of our expectations if the way they interact with other firms has a detrimental impact on the servicing, support and outcomes received by customers.

Existing products

Where products remain on sale to new customers, or are open for renewal by existing customers, they are classed as 'existing products' for the purposes of the Duty. Firms must comply with the Duty for existing products from 31 July 2023. This means they must review existing products against all aspects of the Duty before the end of the implementation period, and then on an ongoing basis in the future.

If a firm identifies issues with an existing product or service, these need to be addressed before it can sell the product to new customers. This action could include updating the contractual terms and conditions of a product before it can be sold to new customers. Firms will also need to consider how to address any harm to customers with existing contracts.

We have included additional commentary about the Duty's application to firms selling pure protection products and [PROD](#) sourcebook in Annex 1.

Closed book products

Products are classed as closed if they have existing customers but are no longer on sale to new customers and are not open to renewal for existing customers.

We have recognised the challenges for firms with large back books of products that are no longer on sale, particularly given the potential complexity of dealing with legacy systems and revisiting old terms and conditions. This is why we have granted longer to firms to implement the Duty for closed products which will apply from 31 July 2024. However, it is essential for firms to plan for and address product reviews early. We strongly caution firms not to be complacent.

Firms will need to consider all relevant aspects of the Duty. However, the products and services outcome does not apply in the same way as for new or existing products. For example, as there would be no further sales, there are no requirements for firms to have a target market or distribution strategy for the product or service.

As legacy business is an inherent feature of the Life Insurance sector, we have included further detail about the Duty's application in Annex 1 attached (i.e. considering fair value for existing customers and application to books of business sold to a new firm).

Overview of the requirements of the Duty

The [Finalised Guidance](#) we published in July provides firms with a full explanation of the requirements of the Duty, including many helpful examples of good and poor practice.

The Duty requires firms to act to deliver good outcomes for retail customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives. Firms should consider the diverse needs of their customers – including those with characteristics of vulnerability (see chapters 4-5 of the Guidance).

The Duty also introduces new rules and guidance to ensure that:

- **Products and services:** are designed to meet the needs, characteristics and objectives of a specified target market and that they are not sold outside of that target market (chapter 6). These products and services must also be tested and monitored to check they work as expected and that any harms are addressed.
- **Price and value:** Products and services provide fair value with a reasonable relationship between the price consumers pay and the benefit they receive (chapter 7).

- **Consumer understanding:** Firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely and properly informed decisions (chapter 8). You must tailor communications to meet the needs of the customers for whom they are intended and test and monitor that they are doing so.
- **Consumer support:** Firms provide support that meets consumers' needs throughout the life of the product or service (chapter 9). It should be at least as easy to switch products, leave a service or make changes, as it is to buy the product or service in the first place. In addition, the quality of customer support post-sale should be as good as it was pre-sale.

With reference to the first two outcomes, Products and Services and Price and Value, where Life Insurance firms are already subject to PROD 4, they do not need to comply with those outcomes under the Duty. However, firms will need to consider what further action is needed to meet new obligations under the Duty. Further information is provided in Annex 1 and chapters 6 and 7 of the guidance.

As we have said, the Duty will be a significant shift in what we expect of firms. It means making lasting changes to your culture and behaviour to consistently deliver good outcomes. It also means putting customers in a position where they can make informed decisions, where they are presented with products and services that are suitable for their individual needs and that provide fair value. The Duty will require all firms, whether designing, selling, or advising on products and services, to demonstrate that they are acting to deliver good outcomes for their customers.

A key part of the Duty is that firms are able to define, monitor, evidence and stand behind the outcomes their customers are experiencing (chapter 10). This monitoring must enable firms to identify where customers, or groups of customers, are experiencing poor outcomes and where this is the case firms must take appropriate action to rectify the situation.

The Duty does not have a retrospective effect and does not apply to past actions by firms. However, the Duty applies, on a forward-looking basis, to firms' ongoing work for existing customers (chapter 3).

Our expectations for how firms should embed the Duty in Life Insurance and their FCA-regulated OSPs

We recognise that the long-term nature of the Life Insurance sector poses different considerations and challenges for implementing the Duty as compared to other sectors. The long-term nature of products and customer relationships means customer outcomes often emerge after long periods of time, leaving limited time to correct unexpected poor outcomes. Long-standing customer engagement and understanding can be low, which can amplify the risk of harm crystallising, especially when important decisions relating to various life events and retirement need to be made and given the probability that a customer will experience periods of vulnerability during the life of a product. We recognise that the volume and complexity of closed book business pose operational challenges, that, in many cases, are administered and managed by OSPs. However, we remind Life Insurers that they cannot contract out of their regulatory obligations and we expect firms to demonstrate robust oversight over any OSP arrangements. In addition, as firms with material influence over customer outcomes, FCA-regulated OSPs also have their own obligations to ensure they comply with the Duty. We expect this to be an area of particular focus for you and your Boards, and for FCA-regulated OSPs to work closely with client firms to implement the Duty.

Considering these characteristics against the new requirements of the Duty, we set out below our priority areas of interest where firms can expect we will want to engage. The priorities also take account of what we have seen during our review of Life Insurers' and OSPs' implementation plans. Further information is provided in Annex 2.

- **Life Insurers and reliance on OSPs**
- **Volume and complexity of closed product business**
- **Supporting pensions and retirement consumer decision-making (including increasing consumer engagement and advice/guidance boundary)**
- **Life manufacturers and distribution, including information sharing**

These priority areas can be taken as indicators of where we believe much of the effort will be required from Life Insurers and OSPs in order to meet the timelines for introducing the Duty. During the course of our supervisory work we will want to know how firms have applied a Duty approach to each of the priority areas (to the extent they apply) in preparation for implementation of the Duty and embedding thereafter.

We expect firms and appropriate Senior Managers to be fully engaged and focussed on delivering against their responsibilities to implement the Duty within the timelines. We stress the importance of planning and addressing requirements early to meet the key milestones, and to the extent that either the use of outsourcing and/or closed book business is material to a firm's business, we expect firms and their OSPs to focus on difficult areas immediately and engage early with each other and any other third-parties so that implementation activities are not left close to the deadlines.

Cost of living

We wrote to you recently setting out our [expectations of Life Insurers in response to the rising cost of living](#). While our work on the Duty pre-dates our cost of living work, it is particularly important as consumers face increasing pressures on their household finances. Even prior to the rising cost of living, consumers were being asked to make an increasing number of complex and important decisions in a faster and increasingly complex environment. However, the rising cost of living has been particularly hard on vulnerable customers and the current environment underlines the need for high standards and strong protections. It is more important than ever that consumers can make informed, effective decisions, act in their interests and pursue their financial objectives.

On 11 January 2023, we also published our consultation on [Insurance guidance for the support of all customers in financial difficulty](#) (CP23/1), in relation to non-investment insurance. Our proposed guidance will help firms offering pure protection to meet their obligations under our [Customer's Best Interests rule](#) and the Duty.

Vulnerable customers

The Duty also builds on our work set out in our [Guidance on the fair treatment of vulnerable customers](#) (FG21/1) and requires firms to consider the diverse needs of their customers – including those with characteristics of vulnerability – at every stage of the product or service lifecycle. Firms should already be meeting the expectations set out in the Guidance in FG21/1 and failure to follow our existing guidance is likely to breach the Duty.

For Life Insurers, customer vulnerability considerations must be applied to every aspect of the customer journey. During the life of a long-term product it is likely a significant number of policyholders will experience life events that could adversely affect their ability to make informed decisions, especially in later life when product benefits are more likely to be accessed.

We also know that certain groups of consumers with characteristics of vulnerability are more likely to fall victim to scammer tactics and pensions scams. Through the Duty, we expect Life Insurance firms to take positive steps to detect, report and disrupt scams that affect their customers. We also expect Life Insurers to ensure anti-scam communications are used to protect customers where possible, in addition to supporting customers to help them understand how their pension savings work which will enable them to make confident decisions.

Feedback from our review of implementation plans

On 25 January we [published feedback](#) for firms on the implementation plans we have reviewed, including those of Life Insurers and FCA-regulated OSPs. This feedback contains examples of good practice, and areas for improvement, which will be useful for all firms to review as they implement the Duty.

Many of the plans we reviewed showed that firms have understood and embraced the shift to focus on consumer outcomes, established extensive programmes of work to embed the Duty, and are engaging with the substantive requirements. We recognise this progress and thank firms for their work so far.

However, we did also identify plans that suggested some firms may be further behind in their thinking and planning for the Duty. This brings a risk that they may not be ready in time, or they may struggle to embed the Duty effectively throughout their business.

We have identified three key areas where firms should particularly focus their attention during the second half of the implementation period (to 31 July 2023).

- 1. Effective prioritisation:** We saw some plans where it was not clear what the basis was for prioritising some implementation work ahead of other aspects. Firms should make sure they are prioritising appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where they are likely to be furthest away from the requirements of the Duty

Specific to Life Insurers and OSPs, we want to highlight the following areas of feedback in this regard:

- Although Life Insurers have recognised the risk of dependency on their OSPs to deliver the changes required to ensure compliance with the Duty, we observed some less good practice. A number of plans tended to lack detail articulating/defining the OSP work required and the timelines for delivery. We were also concerned to see some mismatch in the perceived urgency of implementation timelines between some Life Insurers and their OSPs. Where these remain unclear, we are concerned that that some Duty requirements may fall through the gaps with firms risking non-compliance after 31 July 2023.
 - Good practice: Firms engaging proactively and at an early stage with OSPs. Firms that have reviewed their existing OSP contracts to ensure they are written in a way they expect to deliver outcomes under the Duty. There is clarity and consensus on both sides about their respective responsibilities, with requirements defined and a clear timeline for delivery.
 - Areas for improvement: Lack of engagement between Life Insurers and OSPs. Expectations regarding delivery of requirements by OSPs have not been agreed or are poorly defined. Sense of complacency with regard to the Duty's timeline for existing products and services.
- We observed that the prioritisation of activities was likely to be more effective where the enterprise-wide plan for implementation also includes strong initial focus on the internal development of consistent approaches, standards and best practices across the organisation's businesses or brands.

- Good practice: Review of internal existing policies/procedures undertaken to identify gaps/inconsistencies in the context of the Duty. Leveraging and sharing information to build out standards from more mature parts of the business that are already subject to existing FCA rules into less mature areas (e.g. value assessment where rules already apply such as PROD or AMMS requirements). Firms devoting time to creating internal taxonomies and consistent MI for use across its business.
- Areas for improvement: Early attention has not been given to internal review of existing policies/procedures or to the approach to development of consistent standards (taking account of the nature and complexity of a firm's business, i.e. proportionality).

2. Embedding the substantive requirements: We saw some plans that suggested firms may have considered the requirements superficially or are over-confident that their existing policies and processes will be adequate. We urge firms to carefully consider the substantive requirements of the Duty, so that when they are reviewing their products and services, communications and customer journeys, they identify and make the changes needed to meet the new standards.

Specific to Life Insurers and OSPs, we want to highlight the following areas of feedback in this regard:

- A number of firms have recognised they need to enhance significantly their ability to monitor customer outcomes, advising us that MI for monitoring was being developed but was not yet meaningful. Firms are generally aiming to make greater use of market and sector intelligence, behavioural insights and outputs from testing consumers understanding. This is an area where we expect that significant implementation effort will be required in order for firms to be able to monitor outcomes effectively.
 - Good practice: Firms are cognisant of the effort required to be able to monitor outcomes effectively. This work is reflected as a specific workstream in firms' implementation projects. Firms' work is also focused on ensuring that measures are both consistent and outcomes focused. Some firms have already obtained tools to support their testing of customer communications.
 - Areas for improvement: Firms not giving early attention or resource to the work that will be required on development of MI and monitoring outcomes.
- As expected, the mapping of customer journeys comes through as an area of focus in the implementation plans of most firms. For Life Insurers, this may be more complex and involve different considerations and challenges to other sectors. For example, the customer journey for pensions accumulation into decumulation may involve a number of routes, features and interactions. These journeys are likely to be multi-channel (written, telephone, digital) as well as involve a number of intermediaries such as advisors or employee benefit consultants. For many firms, the customer journey may also involve OSPs. Given this complexity, it is important that Life Insurers and OSPs give early and robust attention to mapping and fully understanding the customer journeys in order to identify those aspects which will require their particular attention to ensure the new standards are achieved.
- Most firms have mobilised to put an implementation project in place, supported by appropriate resource and formal project governance, and have appointed a Board champion. However, we also observed that that very few firms had included culture change explicitly within their plans. We will want to understand how firms and their people are aligned in addressing the mind-shift required by the Duty while embedding new tools and ways of working into business-as-usual. Many firms noted the need to refresh staff training to incorporate new Conduct Rule 6 in due course but had not yet taken action. We encourage firms not to overlook this.

We are aware of some anecdotal commentary along the lines that the Duty was mostly about evidencing what they are already doing. We stress that the Duty is raising standards and we expect Life Insurers and regulated OSPs to challenge themselves on an ongoing basis about whether they are really delivering good outcomes to customers and ensure that their culture is aligned to this.

3. Working with other firms: To implement the Duty on time, many firms need to work and share information with, other firms in the distribution chain. However, some firms may need to accelerate their work on this important aspect of implementation.

As we have noted elsewhere, OSPs are an integral part of the business models of many Life Insurers. This is recognised by Life Insurers and OSPs, but it is essential that there is early two-way engagement to ensure effective implementation of the Duty. We have set out further detail in this regard in Annex 2.

For Life Insurers (as manufacturers), distributors represent another significant third-party dependency. During our review, a couple of Life Insurance manufacturers expected distribution to be an immediate priority for further gap analysis. Given the 30 April 2023 milestone for information sharing with distributors to meet their obligations under the Duty, these firms wanted to assure themselves they will have completed all the reviews necessary and identify where changes need to be made. Similar to our observations in the context of OSPs, we stress the importance of early engagement with distributors to achieve compliance with the Duty.

As they oversee the implementation of the Duty, firms' boards and management bodies will want to particularly focus and provide challenge in the three areas above, and on the other issues highlighted in our feedback.

Closed book products

The Duty sets clearer and higher expectations for the standard of care, customer service and support that firms give their customers. Whilst firms are understandably focused on meeting the requirements for existing products, we expect that Life Insurers with significant books of closed products will devote sufficient resource and planning now to ensure that they meet the requirement under the Duty (to 31 July 2024). Based on our review of Life Insurer and OSP implementation plans, we want to highlight the following areas of feedback in this regard:

- The volume and complexity of closed product business is an inherent feature of the Life Insurance sector. There also a number of associated challenges (e.g. long-term nature of products and customer cohorts, legacy systems, mixed data quality, disengaged customers, high volume of products/variations, etc). For closed products and services the Duty will apply from 31 July 2024, but implementation will require a significant amount of preparation, planning and effort from Life Insurers and OSPs. However, our overriding observation is that many firms do not yet have a compelling plan which articulates clearly how they will get there. We are concerned that firms with closed products may be underestimating the work required and are not factoring in the essential lead time required to achieve the standards required under the Duty.

We will be challenging Life Insurers and OSPs with closed products to explain to us in more granular detail how they intend to handle the volume and various strands of activity that will be needed, and how and by what means they are tracking and monitoring internal progress of the various reviews required. Areas of activity we will focus on include, but are not limited to:

- The approach determined by firms to prioritising and undertaking reviews of its closed products
- Assessment of fair value

- Customer journey mapping
 - Review of customer communications
 - Development of MI to monitor outcomes
- For completeness, our feedback above about OSPs in respect of the 31 July 2023 deadline applies also to meeting the 31 July 2024 requirements for closed products and services. Early engagement and action are required.

Our supervisory approach and next steps

The Consumer Duty is a cornerstone of our [three-year strategy](#), and a key element of our work to set and test higher standards between now and 2025. It is being prioritised at every level of the FCA, from the Board down, and it will drive our supervision strategies and prioritisation.

As part of this work, we are developing a strategy for Life Insurers and their FCA-regulated OSPs to embed the Duty in our Supervision work and tackle key harms, as well as metrics to measure the impact of the Duty in the sector.

Our headline approach to supervisory engagement with Life Insurance firms and OSPs on the Consumer Duty can be described as follows:

- It will be data-led and focus on consumer outcomes.
- For fixed firms with dedicated supervision teams, we will continue our ongoing engagement with you in respect of firm implementation planning, using existing engagement meetings where appropriate.
- We may undertake multi-firm work where we engage with smaller firms on a targeted and/or sample basis.
- There may be FCA Pensions Policy engagement that includes regulated firms.
- We will continue to communicate via existing channels such as Regulatory Round-up.
- We will hold bespoke events for regulated firms.

In the context of the Duty, our planned areas of focus for Life Insurers in the short to medium term are as follows:

- Priority/targeted engagement with Life Insurers using OSPs to a material extent for their customer servicing operations, as well as the FCA-regulated OSPs themselves, to understand how they have fully assured themselves that their businesses will achieve July 2023 compliance.
- Engagement with Life Insurers about their preparedness (as manufacturers) for the April 2023 milestone for information sharing with distributors. Essential to this, manufacturers will need to have completed all reviews necessary to meet our outcome rules for existing open products. Firms should be able to evidence this.
- Priority/targeted engagement with firms that have material closed books about their planning for July 2024 compliance, particularly those using OSPs, but not limited to this. Firms should not underestimate the scale of work involved and will need to demonstrate how they are approaching their product portfolios/universe and prioritising the reviews that will be required. Linked to this, we will also want to understand whether firms plan any more complex solutions (e.g. product simplification or migration).

We may choose to refine our supervisory work as we learn more from our engagement with Life Insurers and OSPs regarding the Duty.

We will continue our work to support firms' embedding activities in the run-up to the July 2023 implementation deadline. Our programme of communications on the Duty will continue, with further events and updates to our dedicated [webpages](#). We are working with an external research agency that will soon be sending a short survey to a sample of firms. This anonymised survey will help us understand the progress firms are making in implementing the Duty and will inform our ongoing communications to firms.

For more information:

- Read our **Finalised Guidance** [Finalised Guidance \(FG22/5\)](#)
- Consider our [feedback](#) on our **review of implementation plans**
- Visit our **Consumer Duty homepage** <http://www.fca.org.uk/firms/consumer-duty> where you will find additional information about the Consumer Duty, on-demand webinars and [podcasts](#), and the option to sign up for email updates
- If you have any questions, you can **email us** at lifeinsurerportfoliomailbox@fca.org.uk. We suggest that you also copy in your usual FCA supervisory contact.

Yours sincerely

Matt Brewis
Director of Insurance
Supervision, Policy & Competition - Consumers & Competition

Annex 1 – How the Duty applies to Life Insurance firms and their FCA-regulated outsourced service providers (OSPs)

1. Application to firms selling pure protection products (PROD)

Firms selling pure protection products will already be subject to product governance and fair value requirements in PROD for these products and compliance with these rules will meet the requirements of the Duty under the products and services and price and value outcomes respectively. However, there are some additional factors these firms should take into account:

- While PROD applies to the manufacture of products, the product and services outcome also has rules in relation to the manufacture of services. If you are involved in the design of a service (e.g. a platform) the Duty may apply to you for it.
- In addition, the scope of the Duty is broader than the scope of PROD, so satisfying the PROD rules alone is unlikely to mean that a firm meets all aspects of the Duty in relation to its regulated business. For example, firms would still need to consider elements of the Duty such as the customer support outcome for their product or service, and to pay appropriate regard to the nature and scale of vulnerability characteristics that exist in the target market.
- Firms offering pure protection should already be familiar with the PROD 4 requirements on fair value noting that compliance with those existing rules will satisfy that part of the Duty. However, this will be a new requirement for firms offering some other insurance, including insurance-based investment products and pension products, who now need to consider if they are providing fair value to retail customers in order to comply with the price and value outcomes We expect firms to be developing robust approaches to what long-term value looks like in pension and investment products.

2. Considering fair value for long-standing customers

We recognise that the rules under the price and value outcome cannot be so easily applied to existing contracts made before the Duty comes into force. These rules are linked to the product's original contractual terms and may be vested rights. For these purposes, vested rights include pre-existing contractual rights to which a firm already has legal entitlement (e.g., annual fees that are due) and rights to payments falling due to occurrence of a contractually specified event (e.g., exit charges). Firms acting to address potential harm for existing customers are not expected to give up any vested contractual rights – although they would be free to do so.

Where there is a vested right, firms would need to consider alternate ways to prevent harm for existing customers. Appropriate actions would depend on the context. Firms might be able to take actions that do not require any contractual changes or to make changes to contracts that do not alter vested rights. -Depending on the case, these changes could include, for example, providing greater flexibility on how customers can engage with a product or assisting a customer to switch to a new product or service that does not have the same issues. Firms could also consider enhanced customer support to help customers avoid the risk materialising.

It is important for firms to consider our overarching expectations under the price and value outcome. For example, firms should be confident that:

- these products do not exploit consumer lack of knowledge and/or behavioural biases to enable unfair prices to be charged
- complex pricing and terms do not make it harder for customers to assess value

- there is and remains a reasonable relationship between the price customers pay and the benefits of the product or service
- they have considered whether significant changes to the benefits of a product or service should affect the price: for example, if a firm reduces the benefits available on a product, it should consider if there should be an accompanying reduction in charges for the product

For further detail, we refer firms to sections 3.14-3.23 in our [Finalised Guidance \(FG22/5\)](#).

3. Application to books of business sold to a new firm

Firms can sell a product or service book to another firm to operate. This could happen, for example, where a firm leaves the market but where there are existing contracts that need to be managed.

Firms that purchase product books before the Duty takes effect must still comply with the Duty. We recognise, however, that, in many cases, purchasers did not develop the product and so will not necessarily have all of the relevant information to conduct ongoing reviews under the products and services outcome and the price and value outcome (e.g. details of the original pricing basis). We would therefore expect these firms to use their best endeavours to meet these requirements.

After the Duty comes into force, firms selling a product book must provide relevant information to the firm buying the book to evidence that they are complying with the Duty and to help the buying firm ensure that it will continue to comply with the Duty on an ongoing basis.

This information should enable the purchaser to understand the product design and the basis on which it has been assessed as providing fair value. The purchaser needs to monitor if the product meets the needs, characteristics and objectives of the target market and offers fair value on an ongoing basis.

Annex 2 – Key things for firms to consider

1. Life Insurers and their outsourced service providers (OSPs)

A key risk to the Life Insurance sector's ability to achieve compliance with the Duty within the timelines, arises from the dependency on OSPs for people, systems and processes to deliver the regulatory changes required. We are concerned that, given the reliance on a small number of OSPs, there is a risk of "bottlenecks" of regulatory change requests, if several regulated client-firms are asking the same of an OSP at a very late stage. Such pressures and poor engagement generally with OSPs may result in misalignment between what firms expect the OSP to deliver and how the OSPs interprets the client-firm's requirements. Fee pressures may further exacerbate inconsistent expectations between the parties. Firms should be proactively reviewing their existing contracts with OSPs as part of preparedness work (to understand the nature of their ongoing contracts including fees and charges). We equally expect OSPs to be engaging at an early stage with their client firms to ensure that they understand requirements, are able to challenge and share best practice, and are clear on their resourcing requirements as well as the milestones they will need their client firms to meet in order to deliver the Duty.

We stress again that early, proactive two-way engagement between Life Insurers and OSPs is absolutely essential to ensure there is sufficient lead time to implement the changes required. We will want to know how effectively this two-way engagement is working in order to meet the Duty timelines. This engagement should involve a discussion of mutual expectations and agreement of requirements (including but not limited to data, MI and customer communication requirements). The mapping of customer journeys is likely to be more complex where customer facing operations involve the use of OSPs. With data being the key enabler, some firms have acknowledged the challenges of doing justice to the Duty on legacy systems. Where firms' implementation plans rely on simplification or migration projects, it remains essential that Life Insurers manage the operational and execution risks arising from planned programmes in order that these are delivered safely on behalf of your customers and support delivery of good outcomes to them under the Duty.

For firms which have greater closed book business complexity outsourced to their OSPs, activities such as the review of customer communications (e.g. letters, call scripts, online journeys) and development of outcomes-based management information (MI) may pose a greater challenge. Failure of Life Insurers and OSPs to sufficiently factor in the extent of the work required may adversely affect firms' ability to achieve timely compliance with the Duty; whether due to lack of appropriate mutual engagement, or due to poor oversight of material OSPs. It is important that firms do not lose sight of the July 2024 deadline for closed books.

Finally, it is essential that OSPs undertaking customer-facing activities on behalf Life Insurers are able to offer appropriate support to customers in the course of their customer servicing contact and decision-making. A Life Insurer should be able to demonstrate to us how it has assured itself fully as to the adequacy of its customer servicing provided by OSPs. This includes, by what means has the firm assured itself that any OSPs used for customer operations are alert to vulnerability considerations and have embedded our [Vulnerable Customer](#) guidance within the business. We also refer you to our vulnerability requirements under the consumer understanding and support outcomes (chapters 8 and 9), and the specific points made with regard to firms' responsibilities and outsourced elements of its consumer support (9.40).

2. Volume and complexity of closed product business

The volume and complexity of Life Insurers' closed product business is an inherent feature of the Life Insurance sector. These present challenges to overcome to consistently deliver good outcomes to long-standing customers. Some examples include:

- The number of closed products and variations increases overall complexity for firms administering these closed books.
- Closed product business may also be housed on legacy IT systems.
- Customer service operations may also involve OSPs.
- The quality of long-standing customer records and closed product data may be lacking.
- More manual processes are likely involved, leading to potentially increased errors.
- Firms are likely to have less budget/people devoted to customer servicing of closed product business.
- Products may be complex and include terms and features (e.g. bonuses, smoothing, guarantees and options to switch investments) which lack transparency and are difficult for customers to understand.
- Closed product business written historically may have charges that are higher relative to modern products.
- Policy cohorts will be older and include long-standing customers who are typically inert/disengaged.

For closed product business, the products and services outcome will not apply in the same way (i.e. no requirement for firms to identify a target market or distribution strategy). However, this still leaves a great deal of work for Life Insurers and OSPs with closed products to do in order to satisfy the requirements under the Duty's price and value and customer understanding and support outcomes. Firms should not be complacent regarding the July 2024 deadline and as set out in point 3.8 of our guidance we expect you to take early action to prioritise reviewing products and services with higher risk of consumer harm. Those areas will likely need the most work to achieve compliance. We expect early engagement from firms with large books of closed products to explain to us how they are going to prioritise these - and we expect Boards to be monitoring this closely.

The Duty seeks to raise the bar for customer servicing, and firms with books of closed products will need to consider all relevant aspects of the Duty. For customers in closed products, customer journeys and servicing have not always worked well for them and we have seen practices by some firms that may cause harm, such as firms presenting information in a way that exploits behavioural biases given the long-term nature of products and placing unreasonable barriers in customer journeys which prevent consumers from getting the assistance they need from firms to enable them to take further action or make timely decisions. Examples of this include firms providing closed product customers with few channels of communication and the inadequacy of these leading to unreasonable service delays from under-resourced call centres; unnecessary multiple hand-offs where customers are obliged to repeat what they need several times over; and claims processes involving bereavement which do not take sufficient account of vulnerability considerations, exacerbating distress and inconvenience to the claimant / beneficiary.

Although not an exhaustive list, we expect firms may need to undertake the following to underpin their implementation of the Duty.

- Obtain a clear view of your total product portfolio for closed product business. In addition, determine the approach you will take to address your closed product reviews; and establish how you will monitor the pace and progress of these reviews.

- Ensure your closed products continue to offer fair value under the price and value outcome rules. This requires looking beyond price to a more holistic view of the wider benefits and costs of products/services. For further information, please see 'Considering fair value for long-standing customers' in Annex 1 to this letter. Please also refer to [chapter 7](#) of our Consumer Duty guidance for more detail on the price and value outcome.
- Undertake mapping of your customer journeys. These are likely to be more complex where there are multiple operations, use of OSPs, hand-offs or other interfaces. It will be essential that customer journeys have been mapped clearly and are understood.
- Undertake a review of your communications to customers (i.e. letters, scripts, online).
- Firms will need to carefully consider their approach to disengaged customers and how they can act to deliver good outcomes for this group. Disengaged customers may be particularly vulnerable to harm, without the right support.
- Some firms may also decide it is appropriate to carry out more complex solutions to deliver good outcomes, e.g. product simplification or migration. As this type of project will take longer to complete, we expect firms to have a robust plan in place to be compliant by July next year (this may include telling customers they could switch to a different product for instance).

For those with significant books of closed products, we anticipate this is where a significant portion of Life Insurers' and OSPs' effort will be required. Firms can expect we will want to engage with them to understand how they are approaching the variety of challenges and activities required in order to achieve timely compliance with the Duty.

3. Supporting pensions and retirement consumer decision-making

Transition into retirement and accessing pensions savings is a very significant life stage involving complicated decisions. Customers in this stage of life may also have inherent characteristics of vulnerability. Consumer decision-making for pensions and retirement is an area where we have set higher standards for firms under the Duty. Firms must communicate in a way that customers are likely to understand and their support offering must meet customers' needs, including the needs of those with characteristics of vulnerability.

Substantively engaging with existing FCA requirements, for example, around pensions annuity comparison information (COBS 19.9) will help ensure that firms are meeting Duty requirements. However, the Duty should also push firms to consider whether they are doing enough to ensure sufficient customer understanding and support.

Under the consumer understanding outcome of the Duty, firms are required (where appropriate) to test communications and monitor their impact, to check if they are supporting good outcomes - and to adapt them where that isn't the case (PRIN 2A.5.10 R). Firms should use this evidence-based approach when thinking about what level of nudging is necessary to deliver good customer outcomes. If they find that following the minimum requirements isn't delivering good outcomes, they should go further, e.g. try a different approach.

Over the coming months, you can expect that we will ask about your progress and findings from activities such as customer journey mapping and communication reviews (i.e., wake-up-packs, quotes, letters, scripts, online, etc). We will also want to understand what action you plan to take as a result.

We also think that firms can do more to communicate and support customers to make informed decisions. We set out below examples of the areas which Life Insurers should be considering when implementing the Duty in relation to customer understanding and support.

- **Increasing consumer engagement**

Our [Pensions Consumer Journey Feedback Statement](#) published jointly with The Pensions Regulator (TPR) in June 2022 (FS22/3) explored how to engage consumers throughout their pensions journey so they can make informed decisions that lead to better pension saving outcomes. As we explained in our FCA/TPR regulatory strategy update in December 2022, we do not think proposing new prescriptive rules is the right approach at this point given the highly personalised nature of the pensions consumer journey. We think this is best left to firms to consider the most appropriate way of supporting consumers in their decision-making throughout their journey, tailoring communications based on their customer base with a focus on ensuring consumers achieve good outcomes. This is consistent with the requirements of the Duty which sets a higher expectation for the standard of care that firms give all retail consumers, and requires firms to act to deliver good outcomes for these consumers and to put their needs first so they are in a position where they can make effective decisions. It is supported by the cross-cutting rule requiring firms to enable and support retail customers to pursue their financial objectives and the consumer understanding outcome with its requirement to equip retail customers to make decisions that are effective, timely and properly informed. Our [guidance on the Duty](#) says that firms should *communicate and engage with customers so that they can make effective, timely and properly informed decisions about financial products and services and can take responsibility for their actions and decisions.*

Our [Stronger Nudge to Pension Wise guidance rules](#) came into force in June 2022, but we believe that there is more that firms can do to support consumer decision-making in this area. In particular, as we say in our [guidance on the Duty](#), *firms should 'put themselves in their customers' shoes' when considering whether their communications equip customers with the right information, at the right time, to understand the product or service in question and make effective decisions'.* The timing of the Stronger Nudge was prescribed by legislation, and feedback we received in response to our consultation on the Stronger Nudge as well as our Pensions Consumer Journey Call for Input indicated that engagement could be improved if there were interventions earlier in the consumer journey, for example, communications with consumers when they have not yet made up their mind about what action they want to take.

When considering this earlier engagement, firms can go further than our Stronger Nudge rules – which represents a minimum requirement - and deliver additional nudges to guidance earlier in the pensions consumer journey where they think this will achieve the aim of delivering good outcomes for their customers. More generally, we think industry has a key role to play in supporting and engaging consumers throughout the pensions consumer journey so that they are able to make informed decisions when they access their pension savings. In our [guidance on the Duty](#) we say that one of the relevant questions in relation to the consumer understanding outcome is *"What insights is the firm using to decide how best to keep customers engaged in their customer journey, whilst also ensuring its customers have the right information at the right time to make decisions?"*. Firms need to consider how to comply with the requirements of the Duty in this area, innovating, testing (where appropriate) and monitoring outcomes, rather than focussing only on narrow compliance with specific rules. Our Pensions Consumer Journey Feedback Statement discussed various considerations around engagement which firms can have regard to. For example, firms could tailor communications around life events or other touchpoints when consumers are more likely to be receptive about finding out more about their pension or primed to make decisions. For those not eligible for Pension Wise appointments, firms could also provide earlier nudges or signposting to wider pensions guidance from MoneyHelper. Support post-initial access may also be important for consumer outcomes – consumers' needs change throughout retirement, and so firms should consider this as part of their offering.

We remain open to discussions with Life Insurers if they are considering more innovative ways to engage consumers at different stages of their pensions journey.

- ***Advice/guidance boundary***

We continue to hear that firms want to provide more direct support to consumers but are put off from doing so as a result of concerns that they will be seen to be providing advice with the potential liability risks that come with this. While we have announced a holistic review of the boundary between advice and guidance, we think there is more that pension providers should be doing now within the existing framework. We think some firms are being too risk averse when engaging with the boundary or choosing not to engage with the issues presented by the boundary at all. In light of the Duty, consumer outcomes may not be most effectively supported by firms taking a conservative approach to managing risks from the boundary. Where customers are dealing with complex products or decisions, for example pensions and retirement, firms should not be reticent to provide such support simply because they are being overly cautious about coming closer to the boundary between regulated financial advice and guidance.

[The cross-cutting rule \(2A.2.14 R\)](#) requiring firms to enable and support retail customers to pursue their financial objectives and the consumer understanding outcome with its requirement to equip retail customers to make decisions that are effective, timely and properly informed are particularly relevant here. This rule applies throughout the customer journey and the life cycle of the product or service – and firms must consider it both proactively and reactively – both at the target market level and when dealing with an individual customer.

Our [guidance on the Duty](#) notes that where a customer requests specific information or it becomes apparent to the firm that the customer requires specific information or further explanation we expect firms to respond to this and act reasonably in the circumstances to deliver good outcomes by providing this information in a way the customer is likely to understand. However, firms obviously still need to be equipping customers with relevant information to make effective decisions in a way that does not amount to the provision of regulated advice.

We are currently exploring with industry the concerns they have about providing support in the pensions context within the current framework with a view to addressing any misconceptions or issues that can be resolved without change to the current boundary, and to then inform any future discussion about whether further legislative change is required. We remain open to discussing this issue with firms. Firms can also make use of our [Innovation Pathways service](#) if they wish to get specific help with offering innovative guidance or advice services within the framework as it currently stands.

4. Life manufacturers and distribution

Like OSPs, distributors are another significant third party dependency for Life Insurance firms. In the GI market, we saw significant issues in delays relating to manufacturers providing information to distributors and we do not expect to see this happen in the Life Insurance sector. Life Insurance firms (as manufacturers) should be having an early dialogue with their distributors to ensure they are confident they will meet the April 2023 deadline. Under the Duty we expect manufacturers to identify poor customer outcomes that may be occurring within their product's distribution chain and, where they can influence the outcome, take appropriate steps to mitigate that risk of harm.

Life manufacturers and distributors need to work together and share information to perform their own roles effectively and deliver good outcomes. Distributors should have a clear understanding of the target market and the way products operate. We expect distributors to get the information they need from manufacturers, and manufacturers to be monitoring that their products are delivering good consumer outcomes. Chapter 6.68 of [the Guidance](#) includes examples of the type of information we would expect to be shared, where appropriate. In general, we do not expect distributors to share information without being asked. We expect the manufacturer to consider what information would be helpful and to take reasonable steps to gather it. For example, through focus groups or sending surveys to distributors.

Unless there are regulatory or contractual requirements, firms are only responsible for their own activities and do not need to oversee the actions of other firms in the distribution chain. If a firm identifies consumer harm elsewhere in the chain, it must raise the concerns with other relevant parties. This could include situations where a distributor identifies foreseeable harm or problems with the way a product or service is operating in practice. Firms must also notify us where they become aware that another firm in the distribution chain may not be complying with the Duty. This expectation is in line with the existing Principle 11 requirement to inform us of anything relating to the firm about which we should reasonably expect notice.

The Duty applies to all firms with a key role in delivering retail customer outcomes, including those with no direct customer relationship. For example, it applies to firms that can determine or influence:

- the design or operation of retail products or services, including their price and value
- communications with retail customers
- customer support for retail customers

Where this applies, a firm's responsibilities under the Duty will depend on the firm's role and level of influence.

See Chapter 2 of our [the Guidance](#) for how the Duty applies across the distribution chain.