



By Email Only

4 August 2023

Re: Thematic Review on the Ongoing Suitability of Long-Term Life Assurance Products

Dear CEO

The Central Bank of Ireland ('Central Bank') has recently concluded a Thematic Review on the Ongoing Suitability of Long-Term Life Assurance Products ('the Review'). The main objective of the Review was to assess and understand the structures and processes that exist within life assurance undertakings ('Insurers') and the wider life assurance sector to ensure that the best interests of consumers are served on an ongoing basis, throughout the lifetime of their products¹.

It is the responsibility of all financial services providers to place the best interests of their consumers at the centre of how they design and/or deliver products and services. This responsibility extends throughout the full lifecycle of a product. The Central Bank's expectations have been highlighted in successive [Consumer Protection Outlook Reports](#), and in the [Dear CEO letter issued in November 2022](#) we reminded financial services providers of the need to address potential risks arising from the Changing Operational Landscape.

Overall, the Review identified a number of weaknesses in the structures and processes in place in the market to assess ongoing suitability of long-term products, which elevates our concerns about how some consumers are being protected in the changing economic environment. Specifically, there is a risk that long-term products may become less suitable, or entirely unsuitable, for the policyholder over time. This can occur for a variety of reasons, such as:

¹ In the context of the Review, and throughout the entirety of this letter, 'products' should be taken to mean the product itself, as manufactured by an Insurer, as well as the individual policy held by the consumer and the investment choices made within the policy.



- Changes to the policyholder’s savings/investment needs, attitude to risk and/or other personal circumstances (e.g. being closer to retirement, employment change etc.).
- The introduction of alternative products that better meet the consumer’s needs, equivalent products with lower charges and/or better fund options becoming available etc.
- Changes in the wider investment and economic environment.

Thematic Review Methodology

For the purposes of conducting the Review, we focussed on Unit Linked Single Premium Investment Products (often referred to as Single Premium Bonds). However, Insurers should consider the findings and supervisory requirements, as set out in this letter, in the context of all relevant savings, investment and pension products it manufactures and/or distributes.

The Review was conducted over two phases and comprised of supervisory engagement with five of the main domestic life insurers. The insurers were chosen based on policy related data submitted in their Conduct of Business Return for the y/e December 2021. Based on this data it was determined that these insurers were the underwriters of approximately 95% of the active² unit linked single premium bonds at that time.

The Review included two detailed quantitative data requests alongside gathering qualitative information in relation to the firms’ relevant structures and processes. The quantitative data requests resulted in over 52,000 data points of information being submitted and led to a second data request where we gathered more granular, policy specific data for a sample of policies. The qualitative information examined included firms’ approaches to ensuring ongoing suitability, details of how the intermediary relationship worked in practice and where specific responsibilities towards consumers lie. We also examined firms’ complaints logs for the period 2019-2021.

In addition to Insurers, a sample of Intermediaries were also included in the Review, given the important role that they play in respect of the overall consumer journey (such as the provision of ongoing financial advice). The purpose was to gather information on Intermediaries’

² By ‘active’ we mean that the policy had not been encashed as of y/e December 2021. This does not include any policies which may have been active at some point in 2021, but that were encashed prior to the year end.



understanding of their role throughout the lifetime of a policy, of their relationship with the policyholder and to further understand the relevant structures and processes that exist between the Insurer and the Intermediary.

Key findings and supervisory requirements

As set out in the Consumer Protection Outlook Report 2023, financial services providers must have appropriate business practices and processes in place to deliver the service needed and expected by consumers. These practices and processes must be underpinned by a consumer focussed culture driven by senior management and embedded throughout the financial services providers. As such, all financial services providers must have robust compliance and risk management processes in place to anticipate, avoid and manage all risks to consumers.

A lack of consumer focus and/or deficient practices and processes can lead to poor outcomes for consumers, particularly in terms of critical after sales services, including the ongoing assessment of product suitability. In this regard, the Central Bank is concerned that not all firms were able to adequately evidence the expected structures, processes and levels of oversight. While some positive practices were identified, overall, it is clear that more must be done by the industry to ensure they can demonstrate the ongoing suitability of long-term products for their consumers, including:

1. Insurers must strengthen their structures and processes to ensure that their consumers' needs are considered on an ongoing basis, throughout the full lifetime of the product. This includes choosing appropriate distribution arrangements, having clearly documented responsibility for assessing ongoing suitability and formal arrangements for ensuring continuity of service for 'orphaned' consumers.
2. Insurers should be more proactive in encouraging and empowering their consumers to engage with their financial services provider in respect of their long-term policies.
3. Insurers must ensure that consumers do not remain in funds that are not appropriate for long-term investment, for a prolonged period, without valid, documented justification.



Full details of our findings and related requirements are set out in **Appendix 1**. The findings and learnings from the Review will also be considered as part of the ongoing review of the Consumer Protection Code.

It is essential that firms protect consumers' best interests throughout the lifecycle of the consumer's relationship with their financial services provider. As well as protecting individual consumers, this also helps build consumer trust in regulated financial services more generally. Business practices and processes and their impact on the service provided to consumers is a key cross-sectoral risk, which forms a central element of our strategy in supervising the insurance sector. We expect firms to objectively assess the effectiveness of their Consumer Protection Risk Management Frameworks against the requirements that are set out in this letter, and take any actions that are necessary to ensure these expectations are met.

While we have already engaged with firms on certain issues identified and captured in this letter, we will continue to engage with firms as they address the structural and procedural weaknesses identified, where relevant, to ensure consumer risks are identified and managed appropriately.

Please share the findings of this Review with the appropriate committee and/or the Board. Should you have any queries in relation to the contents of this letter, please contact the team at cplifeandhealth@centralbank.ie.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Helena Mitchell'.

Helena Mitchell
Head of Consumer Protection: Strategy & Insurance



Appendix 1 - Key findings from the Review and related supervisory requirements

The requirements set out in Appendix 1 are not exhaustive. Insurers must continually evaluate the effectiveness of all arrangements and controls to ensure that they are meeting the highest standards of consumer protection.

1. *Insurers must have appropriate structures and processes in place to ensure that their consumers' needs are considered on an ongoing basis.*

1.1 Distribution Arrangements

First and foremost, the Review found insufficient evidence of Insurers assessing their entire range of product offerings in order to determine the products that are likely to require a periodic review (or ongoing assessment of suitability). For the avoidance of doubt, the Central Bank expects that investment products require a periodic assessment of suitability unless the Insurer has clearly documented the reasons why it would not be required for such a product. The outcome of this assessment must be included in the information that is provided to all distributors of the product, in line with the requirements of Article 8 of Commission Delegated Regulation (EU) 2017/2358.³

Having this information will also assist distributors in fulfilling their obligation to advise consumers, as part of the suitability statement, whether a recommended insurance-based investment product is likely to require them to seek a periodic review of their arrangements, as set out under Article 14 of Commission Delegated Regulation (EU) 2017/2359.⁴

In addition, where a product has been identified as being likely to require a periodic review (or ongoing assessment of suitability), it is expected that this would inform the distribution strategy for the product and that this product characteristic will be a central consideration

³ Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.

⁴ Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products.



when Insurers are selecting appropriate distribution channels, in line with the requirements of Article 8 of Commission Delegated Regulation (EU) 2017/2358.

Insurers must ensure that they distribute such products via distribution channels that offer an ongoing service (including a periodic review) to consumers. It was not evident from the Review that the appropriateness of the distribution channel was clearly considered in all cases. Furthermore, Insurers have an obligation to assess whether periodic reviews are being conducted as part of the monitoring of distributors undertaken by Insurers in accordance with Article 8(4) of Commission Delegated Regulation (EU) 2017/2358.

1.2 Ongoing Responsibilities

Insurers have different approaches to product distribution and the subsequent provision of an ongoing service. However, in all cases where other entities are involved (e.g. Intermediaries, Banks etc.), it is of utmost importance that all parties are clear as to their ongoing responsibilities, in order to mitigate the potential risk that the assessment of ongoing suitability may be overlooked, or not considered, due to a lack of clarity around who has that responsibility. The Central Bank is concerned that such clarity was not evidenced in all cases in the Review.

For example, we found that this is not explicitly called out in the agency agreements entered into between Insurers and Intermediaries. Agency agreements tend to set out the relationship between both parties, as well as general requirements that the Intermediary must comply with, for example, being authorised by the Central Bank etc., but do not set out obligations in respect of ongoing service/suitability. There appears instead to be an established informal industry practice, whereby the entity that distributes the product retains the responsibility/ownership for the ongoing relationship with the consumer, including the offering of periodic suitability assessments (where applicable).

The Central Bank does not propose to prescribe the content of the agreements that Insurers enter into. However, Insurers must regularly review the contents of these agreements to ensure that they remain fit for purpose, and provide, at a minimum, the service level that is required.



1.3 Continuity of Service

The Review found that when an Intermediary exits the market and has not sold/transferred its book of business to another Intermediary, the ongoing responsibility for their consumers⁵ is taken on by the relevant Insurer. For example, the Intermediary may have retired and availed of a 'buy-back' facility offered by an Insurer. This can clearly give rise to a risk of a reduced level of ongoing service to these consumers, in particular in relation to ensuring the ongoing suitability of their products.

We found that while Insurers all have their own internal processes in place for such situations, some firms appeared more proactive in engaging with customers than others. At a high level, this will generally result in the consumer being considered a 'direct' consumer, with the same approach taken to providing an ongoing service as is provided to existing direct consumers. Generally, the approach taken by each Insurer is that the consumer will be informed of the change of agency and provided with the relevant contact details. The consumer will also be advised that they may appoint a new Intermediary, should they wish to do so.

Where an Insurer becomes aware that there is no longer a servicing intermediary/agent appointed, they are required to take the necessary steps, without any undue delay, to ensure that there is no disruption to the service provided to the consumer, and to ensure that they are satisfied that the consumer has been informed of this change.⁶ In addition to the above, Insurers must satisfy themselves - and be able to demonstrate - that all fees and charges that are applied to the policy remain justifiable in terms of the ongoing service that will be provided (in comparison to what would have been available to the consumer previously).

2. *Insurers should take steps to encourage consumers to engage in respect of their policies*

2.1 Information in annual statements

As with all financial products and services, it is important that consumers feel that they are empowered and encouraged to engage with their financial services providers. Insurers have a key role to play in reinforcing this message and should proactively encourage

⁵ These consumers are generally referred to by the industry as 'orphaned clients'.

⁶ Consumers must be notified by the Intermediary exiting the market, in accordance with the requirements of 3.11(b) of the Code.



consumer engagement. In the context of ensuring ongoing suitability of existing long term products, one way of doing this is by providing regular and clear messaging to consumers, for example, through the annual statement⁷.

When conducting the Review we were concerned to find that, while all Insurers included contact details and encouraged consumers to make contact with any queries they might have, there were varying levels of information included in the annual statement to highlight the importance of ensuring ongoing suitability of long-term products. As such, at a minimum, the Central Bank expects Insurers to include a clear message to consumers in the annual statement setting out (a) the importance of having the ongoing suitability of their policy assessed, and (b) what they can do / who they can contact, in order to have the suitability assessed.

Insurers should consider whether there are any other points of engagement (not solely limited to written correspondence) with consumers where this messaging would also be of benefit and incorporate it accordingly.

2.2 Access to up-to-date information

There are requirements on Insurers to provide certain information to consumers on a periodic basis (usually annually). However, it is also important for consumers to have access to up to date information relating to their policy and investments. Not having such access potentially creates a barrier for consumers to proactively engage in respect of the policy/policies they hold.

The Review found that Insurers have dedicated ‘fund centres’ on their websites, which provide information on existing funds - such as factsheets, fund prices and performance. In addition, Insurers have ‘consumer portals’ which allow consumers to access to up-to-date information in respect of their own investment(s) – such as the current value, the fund(s) invested in and policy related documentation. Alternatively, consumers can obtain the same information over the phone, or from their financial adviser.

⁷ Annual statements are issued to consumers in accordance with Provision 6.16 of the Code.



As stated previously, for this Review our focus was on single premium bonds. However, the Central Bank expects that, where possible to do so, consumers are provided with similar access in respect of all other savings, investment and pension products. Where it is not possible to provide similar access, the reasons why should be clearly documented and the decision approved at an appropriate level in the firm. In addition, any such decision should be reviewed on a periodic basis, to ensure that it remains appropriate.

3. Insurers must ensure that consumers do not remain in funds that are not appropriate for long-term investment, for a prolonged period, without valid justification.

During the Review, Insurers acknowledged that there are certain funds that would not generally be considered suitable for long-term investment. Cash funds are one example, as they provide minimal inflation protection to consumers. We note that there are often valid reasons why a consumer is recommended to, or has chosen to, invest in such funds. However, in periods where returns on these funds are low, the fees and charges (such as annual management charges, commissions etc.) which are still being taken from the value of the investment will further reduce any growth, potentially leading to an overall reduction in fund value.

While some Insurers had already identified this risk and started to take mitigating action, the Central Bank is concerned that not all Insurers have done so. This raises related concerns about the maturity of some Insurers' Consumer Protection Risk Management Frameworks. We expect all Insurers to proactively monitor the duration that consumers are invested in such funds to ensure consumers are not left in these funds, for a prolonged period, without valid justification. Such processes should be approved at an appropriate level in the Insurer and monitored regularly to ensure effectiveness.