

Association of British Insurers

**Advice on Practical Aspects of Unfair Contract Terms for
Non-investment Protection Policies with Reviewable
Premiums**

May 2006

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1. Purpose

- 1.1. This ABI advice sets out how, for reviewable rate non-investment protection business, insurers can take practical steps to reduce the risk of not complying with the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs) and take account of the FSA's Statement of Good Practice. The FOS, FSA and OFT have been consulted in its production but the final views are those of the ABI, based on the legal advice we received.
- 1.2. It is important to note that:
 - 1.2.1. The UTCCRs and the FSA statement apply to all retail and individual insurance contracts, not just reviewable non-investment protection business. How they apply will depend on the type of business. Insurers should always have regard to them in designing and operating their contracts.
 - 1.2.2. The reason we have focused on reviewable protection business and critical illness insurance as an example is because the FOS initially raised concerns about this particular area.
 - 1.2.3. Insurers are responsible for examining their own books of business and taking their own legal advice. Our advice and discussions with the FSA and FOS have attempted to clarify the implications of the UTCCRs for new and existing business but any action an insurer may take is still open to challenge.
 - 1.2.4. The FSA Statement of Good Practice does NOT form part of FSA rules under the Financial Services and Markets Act 2000. This reinforces the advisability of paragraph 1.2.3 above.
 - 1.2.5. The FOS has clarified their position in relation to the operation of existing contracts. They have confirmed that: "When we are called upon to review a complaint regarding a contract with a provision permitting the premium to be reviewed by an insurer for specified reasons, we will examine the way the provision has been operated and will take into account the FSA Statement and any ABI advice in this area rather than exercising a purely legal judgement about whether the clause as drafted is enforceable by the insurer on a unilateral basis."
 - 1.2.6. We believe that treating all customers fairly minimises the risk that a review clause will fail. However, FSA and FOS have expressed the view that they are unlikely to consider a review clause to be fair if it does not specify any reasons (see 3.5 below). If a policy review clause does not comply with the relevant legislation, there is a risk that the insurer will not be able to rely on the clause, regardless of how the clause is operated in practice. This could mean that the insurer will not be able to change the premiums at reviews.

2. Background

- 2.1. Currently the industry offers customers a range of long-term non-investment protection policies with a choice of reviewable or guaranteed rates, depending on the type of policy. The possible advantages to consumers of the option to purchase reviewable rate policies should not be underestimated. Some of the advantages are:
 - 2.1.1. For some types of insurance, guaranteed premiums are only available with a significant extra cost. If consumers are prepared to accept the risk that premiums might increase, even if they do increase but by less than the cost of the guarantee, consumers may make a significant premium saving over the term of the contract.

- 2.1.2. Some types of insurance may not be available at all if insurers were only able to offer long term contracts with guaranteed premiums.
- 2.1.3. The ability of insurers to offer long term contracts with reviewable premiums therefore increases consumer choice and encourages innovation.
- 2.2. ABI, FOS and insurance industry representatives originally met on 23 October 2003 to discuss FOS concerns that reviewable rate critical illness policies might not comply with the UTCCRs and/or be fair and reasonable. The aim was to address potential future problems that might otherwise arise when reviews are implemented. The FSA became involved because it is a Qualifying Body under the UTCCRs. Any outcomes have implications for the insurance industry as a whole, and link to the FSA's "treating customers fairly" initiative.
- 2.3. The ABI took legal advice in preparing this document. The QC had access to relevant historical material including the ABI Statements of Best Practice for Critical Illness Cover and a selection of company literature showing the range of information given to customers on reviews.

3. Our legal advice

Core terms

- 3.1. Our legal advice was that it would be possible to mount a case that premium reviewability is a "core term" and therefore excluded from assessment against the provisions of fairness by virtue of Regulation 6(2).
- 3.2. We note that FSA take the view that premium reviewability is not a "core term". We do not concede this. Nevertheless we and the FSA are agreed that ultimately this is a matter on which only the Courts can decide. In the circumstances, it is not productive to dwell on this issue for the purposes of this advice. If one ignores the core terms issue, the enforceability of the reviewable element of contracts depends on whether they are fair under the rest of the UTCCR regulations.
- 3.3. Although this advice does not explore this in detail, if reviewability were to be considered a core term, it must also be prominently and clearly explained as an integral part of the contract. For example, comparable to a "variable rate mortgage".

Fairness

- 3.4. Legal advice received by the ABI suggests that some of the criteria that might tend to cause a Court to hold that premium review clauses are procedurally and substantively fair might include the following:

Procedural fairness

- 3.4.1. A clear explanation of the review mechanism and the reasons why it is adopted before the conclusion of the contract.
- 3.4.2. A choice between guaranteed and reviewable premiums and a clear explanation of the difference.

Substantive fairness

- 3.4.3. Precision about the reasons for variation or criteria to be applied.

- 3.4.4. A verifiable mechanism for calculating the change.
 - 3.4.5. Reference to variations being calculated in a “fair” and/or “reasonable” way.
 - 3.4.6. A clear statement of the maximum and minimum changes, if any.
 - 3.4.7. If the review results in the need to increase the premium to maintain the benefits, a choice¹ for the policyholder.
- 3.5. FSA and FOS have expressed the view that they are unlikely to consider a review clause to be fair if it does not specify any reasons and that procedural fairness is unlikely to remedy a complete absence of substantive fairness.
- 3.6. We also considered the possibility of requiring an independent actuary to confirm that the contractual requirement for premium reviews to be fair and reasonable has been met. However, in the light of the Board and senior managements’ duty to treat customers fairly, it was felt that this would be contrary to the approach currently being adopted by the FSA. It would be for the Board to decide how best to show that this duty has been met. This approach is reflected in the FSA’s Statement of Good Practice.

4. Insurer action

Principles

- 4.1. ABI advice and insurers’ own processes should mean that consumers get:
- 4.1.1. A clear explanation of why the reviewable premium product is appropriate, how the review process works and, if applicable, why (or not) they might choose reviewable rather than guaranteed premiums.
 - 4.1.2. Increases or decreases that are calculated fairly when insurers review premiums.
 - 4.1.3. Continued availability of reviewable rate products.
 - 4.1.4. The ability to buy valuable protection at a lower initial price than may apply to similar cover with guaranteed premiums.
 - 4.1.5. Access to new types of protection that insurers might not otherwise be prepared to offer.
- 4.2. Insurers will need to consider what this means for their books of business and should take their own legal advice. What follows is some practical general advice for long-term protection policies, covering the primary targets for improvement and illustrative quotes, Key Facts documents and policy wordings for critical illness (with death benefit) insurance. It takes account of legal advice obtained by the ABI, the FSA Statement (for example paragraph 3.17 about the importance of consumer information being clear, fair and not misleading), together with the relevant FSA Handbook obligations and our understanding of the views of the FOS.

Clarity in product literature

- 4.3. If a policyholder complains after a review, we expect that the FOS will have regard to the following considerations about the point of purchase:

¹ For example, the options to either end the contract or to keep the premium the same and reduce the benefits as an alternative to an increase in the premium.

- 4.3.1. Whether or not the contract was entered into in good faith. An example of bad faith would be a deliberate marketing practice of setting a low price at the start with the intention of increasing the price at subsequent reviews.
 - 4.3.2. Whether or not the individual consumer was given sufficient information to allow them to make an informed decision about whether to enter into the contract.
 - 4.3.3. Whether or not the consumer could have understood the reasons for premiums changing at a review and the risks for them inherent in the policy.
- 4.4. Insurers should take account of the following:
- 4.4.1. Where premiums are reviewable, this should be prominently shown in product literature and the basis for reviews should be clearly set out.
 - 4.4.2. The regulations require all terms to be written in “plain and intelligible” language and FSA rules require product literature to be clear, fair and not misleading. Insurers should also have regard to FSA principles 6 and 7.
 - 4.4.3. Insurers should base reviewable premiums on assumptions based on robust calculations which are documented to provide the necessary audit trail at the time of the review. The insurer may need to demonstrate that fair and reasonable values had been used for the assumptions made at outset and why there is a valid reason for a change the values of the assumptions at a review.
 - 4.4.4. Insurers must explain the risks. Where insurers offer a policy with a choice of guaranteed or reviewable premium types, they may wish to explain the differences. **In practice, where the policy is taken out through an intermediary, the choice may be more likely to be from a range of insurers offering different product types. The role of the intermediary will be to explain the differences.** Responsibilities of providers and advisers are set out in the ABI/AIFA statement produced under the ABI Customer Impact scheme.
 - 4.4.5. The policy should state:
 - a. when reviews will take place;
 - b. a complete list of the pricing assumptions that the insurer can update at the time of a review;
 - c. the valid reasons that could lead to changes in the value of each of the assumptions on which premiums are based²;
 - d. how the changes to the value of the assumptions will be used to re-calculate premiums³;
 - e. the limits within which small premium changes will not be implemented (if applicable);
 - f. the maximum change that applies or that there is no maximum increase (as applicable);
 - g. that reviews apply to groups of similar policies and that the circumstances of individual policyholders will not be taken into account; and

² Insurers will need to strike a balance between providing too little information (which would leave a customer guessing why a review might take place) and providing too much information (see paragraph 3.9 of the FSA Statement). We hope the examples in this document are helpful in getting this balance right. Insurers should also tell the customer how to get further information if they need it.

³ For example, the insurer will compare the value of each assumption applicable at the time of the review with those that were previously used and, by reference to that comparison, use a fair and reasonable method of calculating any change to the premium.

- h. that any change in premium at a review will be calculated by applying the specified method in a “fair and reasonable” way.

Clarity about the criteria for review – including clarification of “Valid Reasons”

- 4.5. Ultimately only the Courts can decide what is, or is not, a valid reason. The FSA, in paragraphs 3.18 – 3.19 and 4.19 – 4.22 of their Statement of Good Practice, have given their views on what are unlikely to be valid reasons for review in long-term contracts including a contract which:
 - 4.5.1. Allows an insurer to recoup its losses on the contract incurred up to the date of the review;
 - 4.5.2. Gives an insurer the discretion to increase profitability margins beyond those assumed at the outset of the contract;
 - 4.5.3. Allows an insurer to unfairly target a particular group of policyholders for an increase in premium;
 - 4.5.4. Seeks to cover losses/higher costs incurred elsewhere in the firms business;
 - 4.5.5. Has an initial pricing decision that is not based on a carefully considered estimate of the cost variables – such as the cost of providing benefits under the contract and expected investment returns over the long term;
 - 4.5.6. Has a low initial price consciously based on overly optimistic assumptions about investment performance;
 - 4.5.7. Allows, for contracts with an investment element, management and/or fund charges to be increased in order to disguise the fact that the cost of protection has increased but this cost has not actually been reflected in the risk charge;
 - 4.5.8. Allows for increases in premiums based on reinsurance rates unless the reinsurance rate increase itself is based on valid reasons; and
 - 4.5.9. Only allows changes which are to its advantage and never to the advantage of its customers.

Freedom to exit

- 4.6. Paragraph 4.25 of the FSA Statement draws attention to the potential effect of customers not being able to withdraw from a contract on its fairness at the review point. For protection insurance, as a customer gets older and further into the term of the insurance it is likely to become increasingly difficult for them to take out alternative cover at the same price, if at all, because of the need for fresh underwriting. FSA and FOS take the view that this may be relevant to the assessment of imbalance between the insurer and the consumer and as to whether there has been consumer detriment.
- 4.7. If premium rates increase as a result of a review, individual customers should have the option to end the contract.
- 4.8. If they continue the contract, they may be given the option to continue paying the same premium but reduce the sum assured instead. If the policyholder is offered the choice and elects to reduce cover then this would be done with their agreement and the unilateral variation clause would not be invoked.⁴

⁴Any attempt to unilaterally reduce cover, without the option of paying higher premiums, would be very difficult to defend if a claim dispute arose because of the changed cover – eg an exclusion of an event that was previously covered.

Cover with reviewable premiums

- 4.9. We expect that the FOS will consider whether the initial proposal to unilaterally increase the premium was fair (eg based on valid reasons) and therefore whether the insurer had taken action in line with the FSA Statement and this advice.
- 4.10. Insurers should consider the following general principles for reviewable premium contracts:
- 4.10.1. Insurers should base reviewable premiums using values for their pricing assumptions that they believe are applicable for the full term of the policy.
 - 4.10.2. The values for the assumptions on which premiums are based should be reviewed regularly.⁵
 - 4.10.3. The values for assumptions used for in-force business should be consistent with those used for new business with justifiable grounds for any differences.
 - 4.10.4. At reviews, premium increases can only be made if there is a valid reason stated in the policy for changing the value of one or more of the assumptions which affect the premium – see the FSA Statement of Good Practice and paragraph 4.5 above.
 - 4.10.5. At reviews, insurers should not aim to recoup earlier losses. When a premium changes as a result of a valid reason relating to an increase in the expected incidence of future claims, it should be made clear that this does not relate to the claims experience of the individual policyholder but to the general claims experience for similar policies.

Valid reasons

- 4.11. The following considerations might help insurers decide whether a particular reason specified in the contract is a valid reason:
- 4.11.1. **Control** – to what extent is the reason outside the direct control of the insurer and of any third party⁶ the insurer uses to provide services, or carry out functions, on its behalf?
 - 4.11.2. **Predictability** – when the policy started could the insurer have reasonably been expected to foresee the change affecting the value of the assumptions and been able to quantify its impact on the relevant group of policies?
 - 4.11.3. **Impact** – does the reason, or will it potentially, have a material impact on the present or future cost of administering or providing cover for the relevant group of policies?
 - 4.11.4. **Scope** – to what extent does the reason apply collectively (but not necessarily equally) to the relevant group of policies?
- 4.12. The principles above should not be taken to be an exhaustive list of factors that might determine whether or not a reason is a valid reason.

Notifications of reviews and company records

- 4.13. Policy reviews should always take place as specified in the policy. The results of the review should be notified to the customer. Paragraph 4.23 of the FSA Statement explains that notification terms must be fair, and that whether or not they are fair can affect the fairness of the review clauses. Insurers should have a clear and fair policy on how customers will be notified of an impending review, the time by which customers can expect to be advised of

⁵ For example, if a change has occurred but a particular insurer has not amended its pricing basis in time for a review, there is a risk that the insurer may not be able to subsequently make the change at a future review.

⁶ For example, third party underwriting, administration or claims management services or reinsurance arrangements.

the outcome, the default option if the customer takes no action and the alternative options that will be available to them. Allowing sufficient time for the customer to consider their options, and seek financial advice if required, is in everyone's interests.

- 4.14. When insurers contact customers, for example as part of a premium review, it is good practice to remind customers that their premium might change in the future and when future reviews will take place.
- 4.15. Insurers should keep records of the assumptions used to calculate premiums and analysis undertaken to support reviews. Having such records may be important in the event of a dispute.
- 4.16. The FSA Statement (paragraph 4.24) mentions that it may be unfair for firms to alter premiums using a power that is only triggered when an assumption changes, if their records do not indicate what the initial assumptions were.

Reviews of existing policies

- 4.17. The FSA (in its Statement of Good Practice) and the FOS (in paragraph 1.2.5 of this advice) have set out their respective positions on reviews of existing business. **Insurers should examine their existing books of business. Whether or not they decide to amend contracts for new business for reasons of fairness they should review the way in which they operate existing contracts to ensure that existing customers are treated no less fairly than new customers.** Insurers cannot usually unilaterally amend the terms of existing contracts but may need to change the way that the terms in existing contracts are operated. See also earlier paragraphs on the need to take legal advice.

Illustrative wordings for critical illness with death insurance for new policies

- 4.18. For new policies with reviewable premiums, insurers may wish to consider the wordings set out in the example Key Facts documents, quotations, and policy wordings in the attached annexes. We have provided examples for two typical term assurance policies featuring critical illness cover – one offering only reviewable premiums, the other offering a choice of either guaranteed or reviewable premiums – to illustrate the practical effects of this advice and the FSA Statement of Good Practice. Insurers should note that FSA and FOS have seen the examples in the attached annexes but have not given any formal endorsement of them. Insurers should therefore always seek their own independent legal advice and carefully consider the individual characteristics of their specific products when preparing the associated policy documentation.

ANNEX A – An example customer quote for insurers only offering reviewable premium CI policies.

ANNEX B – An example customer quote for insurers offering guaranteed or reviewable premium CI policies.

ANNEX C – An example Key Features document for insurers only offering reviewable premium CI policies.

ANNEX D – An example Key Features document for insurers offering guaranteed or reviewable premium CI policies.

ANNEX E – An example policy wording for a plan offering only reviewable premium CI.

ANNEX F – An example policy wording for a plan offering guaranteed or reviewable premium CI.

Protection Plan from ABC Life
Your personal illustration

Your details

Life 1: [Name]
Sex: [Male/Female]
Smoker status: [Non-smoker/Smoker]
Age next birthday: [ANB]
Salary: [£x/not specified/not post sale]
Occupation: [occupation]

Life 2: [Name]
Sex: [Male/Female]
Smoker status: [Non-smoker/Smoker]
Age next birthday: [ANB]
Salary: [£x/not specified/not post sale]
Occupation: [X]

Date of illustration: dd/mm/yyyy

Client of: (intermediary name)

Your premium for the first <5> years

Total starting premium: £x a <month/year> for the first <5> years

After <5> years and then <every year> we will review your premium and make any required changes. Details of how we will review your premium are contained in the accompanying leaflet called Key Features of the Protection Plan. You can ask us for a copy of this at any time.

Please refer to the Notes section below for further information about the terms of this illustration.

Your benefits

Death or earlier critical illness benefit with reviewable premiums

Life/lives assured	Amount	Term	Type
Life 1 < and Life 2>	£[x]	[x] years	<Level/Decreasing/Increasing>

If your premium needs to increase at a premium review, you can tell us to keep your premium the same and reduce the amount of your cover instead.

Notes

- Whenever benefits are paid on death, we include a terminal illness benefit.
- <We will pay waiver of premium benefit until the end of the benefit term, or recovery and return to work or death, whichever is earliest.>
- <Increasing benefits will increase annually on the policy anniversary by the percentage increase in the United Kingdom Government's Retail Prices Index over the year ending 3 months before the policy anniversary date. The benefit(s) increase is subject to a maximum of (X)%. The premium for the benefit will also increase each year, by the percentage increase in the United Kingdom Government's Retail Prices Index.>
- **Our normal business practice is to honour the illustrative terms set out above provided we receive a completed Application Form at our Head Office within 14 days of the date of illustration. This is subject to medical, financial and occupational underwriting. However, these illustrative terms are not guaranteed and we may, without notice, vary or withdraw the terms or restrict the level of cover set out above.**
- You should read this illustration with the Key Features of The Protection Plan.

How much will the advice cost?

For arranging this plan, <intermediary> will earn a <monthly><yearly> amount until the end of the term. The yearly amounts are shown below.

Year	Commission payable
1	£xxxxx.xx
2	£xxxxx.xx
3	£xxxxx.xx
4	£xxxxx.xx
5 (onwards)	£xxxxx.xx
6 to <a>	£xxxxx.xx
<a+1> to b	£xxxxx.xx
etc	£xxxxx.xx
x onwards	£xxxxx.xx

For arranging this plan <Intermediary> will earn an initial amount and a <monthly><yearly> amount from the <x month><y year>until the end of the term. The yearly amounts are shown below.

Year	Commission payable
1	£xxxxx.xx
2	£xxxxx.xx
3	£xxxxx.xx
4	£xxxxx.xx
5 (onwards)	£xxxxx.xx
5 to <a>	£xxxxx.xx
<a+1> to b	£xxxxx.xx
etc	£xxxxx.xx
x onwards	£xxxxx.xx

Date of quotation Quotation number Delivery channel Staff number Version **E&OE**

Protection Plan from ABC Life
Your personal illustration

Your details

Life 1: [Name]
Sex: [Male/Female]
Smoker status: [Non-smoker/Smoker]
Age next birthday: [ANB]
Salary: [£x/not specified/not post sale]
Occupation: [occupation]

Life 2: [Name]
Sex: [Male/Female]
Smoker status: [Non-smoker/Smoker]
Age next birthday: [ANB]
Salary: [£x/not specified/not post sale]
Occupation: [X]

Date of illustration: dd/mm/yyyy

Client of: (intermediary name)

Your premium <for the first 5 years>

Total <starting> premium: £x a <month/year> <for the first 5 years>

[After <5> years and then <every year> we will review your premium and make any required changes. Details of how we will review your premium are contained in the accompanying leaflet called Key Features of the Protection Plan. You can ask us for a copy of this at any time.] (if reviewable)

[We also offer premiums that are guaranteed for the full term of the plan. The equivalent guaranteed premium for your selected benefits would be £<y> a <month/year>.] (if reviewable)

Please refer to the Notes section below for further information about the terms of this illustration.

Your benefits

Death or earlier critical illness benefit <with reviewable premiums>

Life/lives assured	Amount	Term	Type
Life 1 < and Life 2>	£[x]	[x] years	<Level/Decreasing/Increasing>

[If your premium needs to increase at a premium review, you can tell us to keep your premium the same and reduce the amount of your cover instead.] (if reviewable)

Notes

- Whenever benefits are paid on death, we include a terminal illness benefit.
- <We will pay waiver of premium benefit until the end of the benefit term, or recovery and return to work or death, whichever is earliest.>
- <Increasing benefits will increase annually on the policy anniversary by the percentage increase in the United Kingdom Government's Retail Prices Index over the year ending 3 months before the policy anniversary date. The benefit(s) increase is subject to a maximum of (X)%. The premium for the benefit will also increase each year, by the percentage increase in the United Kingdom Government's Retail Prices Index.>
- **Our normal business practice is to honour the illustrative terms set out above provided we receive a completed Application Form at our Head Office within 14 days of the date of illustration. This is subject to medical, financial and occupational underwriting. However, these illustrative terms are not guaranteed and we may, without notice, vary or withdraw the terms or restrict the level of cover set out above.**
- You should read this illustration with the Key Features of The Protection Plan.

How much will the advice cost?

For arranging this plan, <intermediary> will earn a <monthly><yearly> amount until the end of the term. The yearly amounts are shown below.

Year	Commission payable
1	£xxxxx.xx
2	£xxxxx.xx
3	£xxxxx.xx
4	£xxxxx.xx
5 (onwards)	£xxxxx.xx
6 to <a>	£xxxxx.xx
<a+1> to b	£xxxxx.xx
etc	£xxxxx.xx
x onwards	£xxxxx.xx

For arranging this plan <Intermediary> will earn an initial amount and a <monthly><yearly> amount from the <x month><y year>until the end of the term. The yearly amounts are shown below.

Year	Commission payable
1	£xxxxx.xx
2	£xxxxx.xx
3	£xxxxx.xx
4	£xxxxx.xx
5 (onwards)	£xxxxx.xx
5 to <a>	£xxxxx.xx
<a+1> to b	£xxxxx.xx
etc	£xxxxx.xx
x onwards	£xxxxx.xx



The ABC Life Assurance Company Key Features of the Term Assurance Plan

Its aims

The plan aims to do the following.

- To provide the amount of cover you choose, payable as a lump sum.
- To provide cover for the period you choose (the period of cover).
- To provide the type of cover you choose. Your plan can pay out on one of the following:
 - **Death only** – pays out a lump sum if an insured person dies during the period of cover; or
 - **Critical illness only** – pays out a lump sum if an insured person meets the definition of a specified critical illness during the period of cover and then survives for at least 28 days.
 - **Death or earlier critical illness** – pays out a lump sum if an insured person either dies or meets the definition of a specified critical illness during the period of cover.
 - The full list of critical illnesses we cover is shown overleaf.

Your commitment

You must do the following.

- Answer all the questions on the application form correctly to the best of your knowledge and belief. If you do not do this, it could mean your plan will not pay out.
- Tell us if there is any change to your personal health, family history, occupation or residence, or if you take up any hazardous leisure activities, between signing the application form and when your plan starts. If you do not do this, it could mean your plan will not pay out.
- *Pay the premium by direct debit every month during the period of cover. If your plan includes critical illness cover, your premiums will be subject to periodic review and may increase or decrease at each review. See "How much does the plan cost" for more details about reviews.*
- If you choose critical illness cover, you must tell us if an insured person changes their occupation or starts living outside the UK. These changes could affect your cover and your premium.

Risk factors

The plan carries the following risks.

- If you stop paying your monthly premiums your cover will end 30 days after the due date of the last premium you paid.
- *If your plan includes critical illness cover your premiums may increase (or reduce) at each review. The first review will be 5 years after your plan starts and then every year. There is no limit to the amount that your premium might increase so you may not be able to afford the same level of cover after a review and you may not be able to take out replacement cover at that time. Further details of premium reviews are set out below and you can find full details of premium reviews in section X of the policy. You can ask us for a copy of the policy at any time.*
- We will not pay out in the circumstances described under "When will the plan not pay out" on page 3.
- The plan has no cash-in value at any time.

How does the plan work?

You decide which type of cover you want. Your plan can pay out a tax-free lump sum on one of the following:

- **Death only** – pays out if an insured person dies during the period of cover; or
- **Critical illness only** – pays out if an insured person meets the definition of a specified critical illness during the period of cover and then survives for at least 28 days.
- **Death or earlier critical illness** – pays out once if an insured person either dies or meets the definition of a specified critical illness during the period of cover.

You also decide how long you want the cover for. The period of cover can be any period from 5 to 25 years providing that the plan ends before you reach age 85 (age 65 for plans with critical illness cover).

How much does the plan cost?

You pay a premium every month by direct debit to keep your cover in force. The initial amount of your premium depends on your personal circumstances – for example, your age, sex, occupation and whether you smoke – the amount and type of cover you choose, and how long you decide you want the cover to last. Your health at the time your plan starts might also affect your premium and/or your cover but, once your plan has started, any future change in your health will not affect your premium or your cover.

Plans which pay out on death only – your monthly premium always stays the same (unless, for example, you increase the amount of your cover).

Plans which include critical illness cover – *your monthly premium is reviewable and can change. So that we can offer you a premium which is more affordable when your cover starts, we will calculate it on the basis of assumptions which cover the whole period of the plan but which we will review after 5 years and then every year. At a review, your premium may increase or reduce.*

- *The reasons that your premium may change at a review are [insert the relevant valid reasons here⁷].*

⁷ *It is for individual insurers to determine and set out the valid reasons which could cause the insurer to exercise the unilateral right to change the premium. The list must be complete but not overly long.*

- *If our view of these assumptions at the time of the review differs from the view we took of them at the outset, we may increase or reduce your premium based on that difference.*
- *If the premium indicated by the review is within (X)% of the existing premium then we will not change your premium. There is no limit to the amount that your premium might increase or reduce, but the method we use to calculate any increase or reduction in your premium will be applied in a fair and reasonable way.*
- *We will tell you before we change your premium. If your premium needs to increase, you can tell us to keep your premium the same and reduce the amount of your cover instead. Alternatively, you can cancel the policy and stop paying premiums altogether.*
- *You can find full details of premium reviews in section X of the policy. You can ask us for a copy of this at any time.*
- *If you are in any doubt about reviewable premiums, or whether they are suitable for you, you should take financial advice.*

Who can the plan cover?

You can apply for the plan to cover:

- you alone;
- you and another person; or
- one or two people not including you.

If the plan covers two people it can still only pay out a tax-free lump sum once when either an insured person dies or has a valid critical illness claim during the period of cover, whichever is first – depending on the cover you choose.

Which critical illnesses are covered?

The complete list of conditions we cover is:

- Alzheimer's disease before age 60
- aorta graft surgery
- benign brain tumour
- blindness
- cancer
- coma

Examples of valid reasons might be:

- *medical advances which affect the insurer's expectation of future claims;*
- *any event outside the insurer's control that the insurer expects to have an impact on future claims which the insurer could not reasonably have foreseen when the assumptions were last reviewed.*

- coronary artery by-pass surgery
- deafness
- heart attack
- heart valve replacement or repair
- HIV from a blood transfusion
- kidney failure
- loss of limbs
- loss of speech
- major organ transplant
- motor neurone disease before age 60
- multiple sclerosis
- paralysis / paraplegia
- Parkinson's disease before age 60
- stroke
- terminal illness
- third degree burns
- total permanent disability before age 60

Please remember that the heading of each critical illness is only a guide to what is covered. For example, some types of cancer are not covered. Further details of how we will consider your claim, including the full definitions we will use and the evidence we will need, are given in section 2 of the policy document. You can ask us for a sample copy of this.

Can children have critical illness cover?

If you choose critical illness cover, the children of each insured person also have critical illness cover, as long as the policy remains in force. The cover for each child starts when the child is three years old and ends when they become 18.

The most we will pay for a child being diagnosed with a critical illness is £10,000, and we will only pay one claim for each child.

If we pay a claim for a child being diagnosed with a critical illness, cover for that child will end. However, cover will continue for the insured person and their other children (if any).

How much does the plan pay out?

You decide how much benefit you would like this plan to pay out. The higher the level of benefit, and the longer the period of cover, the higher your monthly premium will be. The attached personal illustration shows the period of cover, the type and amount of cover you have chosen and your initial monthly premium.

Other than critical illness payments for children, the plan only pays out the main benefit once and then all cover ends.

When will the plan not pay out?

We will not pay a critical illness claim:

- If your plan is for critical illness cover only and you die within 28 days of meeting the definition of the critical illness.
- If your claim arises within three months of reinstating a plan that has previously ended.
- If the cause of the claim results from aviation, criminal acts, drug abuse, hazardous sports and pastimes, HIV/AIDS, self-inflicted injury or war and civil commotion.
- If the claim is for a total permanent disability from a cause that arose while the insured person was living abroad.
- If the claim is for a total permanent disability and you did not tell us about the insured person changing their occupation.
- If the claim is for a child diagnosed with a critical illness and:
 - the condition was present at birth;
 - the symptoms first arose before the child was covered; or
 - if the child dies within 28 days of meeting the definition of the critical illness.

We will not pay out on death as a result of an insured person committing suicide in the first year of the policy.

Full details of what is covered, and any limits to the cover are given in sections 2 and 4 respectively of the policy document. You can ask us for a sample copy of the policy document.

We may apply specific exclusions when we accept your policy. These will be shown in your acceptance letter and policy schedule.

Further Information

Your cancellation rights

When we accept your application for the plan, we will send you a notice explaining your right to cancel. You will then have 30 days in which you can cancel the policy. If you do this, we will refund any premiums you have paid.

Making a claim

To make a claim, you should contact our Claims Department at:

ABC Life
Our Road
Any Town
County
AB1 2CD

Phone: 01234 56789

Complaints

If you have any complaint about this plan, or about any part of our service, contact our Customer Service Manager at:

ABC Life
Our Road
Any Town
County
AB1 2CD

Phone: 01234 56789

If you are not satisfied with the way we deal with your complaint, you can contact the Financial Ombudsman Service at:

South Quay Plaza
183 Marsh Wall
London E14 9SR

Phone: 020 7964 1000

Making a complaint will not affect your right to take legal action. You can ask us for details of our compensation arrangements.

Law

The Law of England applies to this plan.

The Financial Services Compensation Scheme (FSCS)

The plan is covered by the FSCS. You may be entitled to compensation from the scheme if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim. You can get more details from us or from the Financial Services Authority.

Tax

The proceeds from this plan are free from UK income tax and capital gains tax. However, if we pay the proceeds after the death of an insured person, inheritance tax may be due on the benefit paid. You may be able to avoid inheritance tax by using an appropriate trust. Ask your financial adviser for more details.

The Government may change the tax position described above.

A Guide to Critical Illness Cover

The ABI (Association of British Insurers) give general information about critical illness cover in their booklet 'A Guide to Critical Illness Cover'. You can ask us for a copy or you can get a copy at www.abi.org.uk or by writing to:

The Association of British Insurers
51 Gresham St
London
EC2V 7HQ.

Please Note

This leaflet complies with the ABI Statement of Best Practice for Critical Illness Cover. It is a guide to our Term Assurance Plan and is based on our understanding of current laws and tax rules. Further details are given in the plan schedule and the policy document. You should get expert advice about the legal and tax information in this leaflet.

keyfacts

ABC

The ABC Life Assurance Company Key Features of the Term Assurance Plan

Its aims

The plan aims to do the following.

- To provide the amount of cover you choose, payable as a lump sum.
- To provide cover for the period you choose (the period of cover).
- To provide the type of cover you choose. Your plan can pay out on one of the following:
 - **Death only** – pays out a lump sum if an insured person dies during the period of cover; or
 - **Critical illness only** – pays out a lump sum if an insured person meets the definition of a specified critical illness during the period of cover and then survives for at least 28 days.
 - **Death or earlier critical illness** – pays out a lump sum if an insured person either dies or meets the definition of a specified critical illness during the period of cover.
 - The full list of critical illnesses we cover is shown overleaf.
- If your plan pays out a tax-free lump sum on death only, to provide you with premiums that are fixed for the period of cover (unless, for example, you increase the amount of your cover).
- *For plans with critical illness cover, to allow you to choose either:*
 - **Guaranteed premiums** which are fixed for the period of cover (unless, for example, you increase the amount of your cover); or
 - **Reviewable premiums** which start lower but can increase (or reduce) at each review.

Your commitment

You must do the following.

- Answer all the questions on the application form correctly to the best of your knowledge and belief. If you do not do this, it could mean your plan will not pay out.
- Tell us if there is any change to your personal health, family history, occupation or residence, or if you take up any hazardous leisure activities, between signing the application form and when your plan starts. If you do not do this, it could mean your plan will not pay out.
- *Pay the premium by direct debit every month during the period of cover. If your plan includes critical illness cover and you choose reviewable premiums, your premiums will be subject to periodic review and may increase or reduce at each review. See “How much does the plan cost?” for more details about reviews.*
- If you have critical illness cover, you must tell us if an insured person changes their occupation or starts living outside the UK. These changes could affect your cover and your premium.

Risk factors

The plan carries the following risks.

- If you stop paying your monthly premiums your cover will end 30 days after the due date of the last premium you paid.
- *If your plan includes critical illness cover and you choose reviewable premiums, your premiums may increase (or reduce) at each review. The first review will be 5 years after your plan starts and then every year. If we increase your monthly premium at a review, the new premium may be higher than a guaranteed premium would have been. There is no limit to the amount that reviewable premiums might increase so you may not be able to afford the same level of cover after a review and you may not be able to take out replacement cover at that time. Further details of premium reviews are set out below and you can find full details of premium reviews in section X of the policy. You can ask us for a copy of the policy at any time.*
- We will not pay out in the circumstances described under “When will the plan not pay out” on page 3.
- The plan has no cash-in value at any time.

How does the plan work?

You decide which type of cover you want. Your plan can pay out a tax-free lump sum on one of the following:

- **Death only** – pays out if an insured person dies during the period of cover; or
- **Critical illness only** – pays out if an insured person meets the definition of a specified critical illness during the period of cover and then survives for at least 28 days.
- **Death or earlier critical illness** – pays out once if an insured person either dies or meets the definition of a specified critical illness during the period of cover.

You also decide how long you want the cover for. The period of cover can be any period from 5 to 25 years providing that the plan ends before you reach age 85 (age 65 for plans with critical illness cover).

How much does the plan cost?

You pay a premium every month by direct debit to keep your cover in force. The initial amount of your premium depends on your personal circumstances – for example, your age, sex, occupation and whether you smoke – the amount and type of cover you choose, and how long you decide you want the cover to last. Your health at the time your plan starts might also affect your premium and/or your cover but, once your plan has started, any future change in your health will not affect your premium or your cover.

Plans which pay out on death only – your monthly premium always stays the same (unless, for example, you increase the amount of your cover).

Plans which include critical illness cover – If your plan includes critical illness cover then we can offer you a choice of either:

- **guaranteed premiums** which are fixed for the period of cover (unless, for example, you increase the amount of your cover); or
- **reviewable premiums** which are subject to review and can change.

How do reviewable premiums work?

If you choose reviewable premiums, so that we can offer you a premium which is more affordable when your cover starts, we will calculate it on the basis of assumptions which cover the whole period of the plan but which we will review after 5 years and then every year. At a review, your premiums may increase or reduce. The premium

after the review could then be higher than a guaranteed premium would have been.

- *The reasons that your premium may change at a review are [insert the relevant valid reasons here⁸].*
- *If our view of these assumptions at the time of the review differs from the view we took of them at the outset, we may increase or reduce your premium based on that difference.*
- *If the premium indicated by the review is within (X)% of the existing premium then we will not change your premium. There is no limit to the amount that your premium might increase or reduce, but the method we use to calculate any increase or reduction in your premium will be applied in a fair and reasonable way.*
- *We will tell you before we change your premium. If your premium needs to increase, you can tell us to keep your premium the same and reduce the amount of your cover instead. Alternatively, you can cancel the policy and stop paying premiums altogether.*
- *You can find full details of premium reviews in section X of the policy. You can ask us for a copy of this at any time.*
- *If you are in any doubt about guaranteed and reviewable premiums, or which may be suitable for you, you should take financial advice.*

Who can the plan cover?

You can apply for the plan to cover:

- you alone;
- you and another person; or
- one or two people not including you.

If the plan covers two people it can still only pay out a tax-free lump sum once when either an insured person dies or has a valid critical illness claim during the period of cover, whichever is first – depending on the cover you choose.

⁸ It is for individual insurers to determine and set out the valid reasons which could cause the insurer to exercise the unilateral right to change the premium. The list must be complete but not overly long. Examples of valid reasons might be:

- medical advances which affect the insurer's expectation of future claims;
- any event outside the insurer's control that the insurer expects to have an impact on future claims which the insurer could not reasonably have foreseen when the assumptions were last reviewed.

Which critical illnesses are covered?

The complete list of conditions we cover is:

- Alzheimer's disease before age 60
- aorta graft surgery
- benign brain tumour
- blindness
- cancer
- coma
- coronary artery by-pass surgery
- deafness
- heart attack
- heart valve replacement or repair
- HIV from a blood transfusion
- kidney failure
- loss of limbs
- loss of speech
- major organ transplant
- motor neurone disease before age 60
- multiple sclerosis
- paralysis / paraplegia
- Parkinson's disease before age 60
- stroke
- terminal illness
- third degree burns
- total permanent disability before age 60

Please remember that the heading of each critical illness is only a guide to what is covered. For example, some types of cancer are not covered. Further details of how we will consider your claim, including the full definitions we will use and the evidence we will need, are given in section 2 of the policy document. You can ask us for a sample copy of this.

Can children have critical illness cover?

If you choose critical illness cover, the children of each insured person also have critical illness cover, as long as the policy remains in force. The cover for each child starts when the child is three years old and ends when they become 18.

The most we will pay for a child being diagnosed with a critical illness is £10,000, and we will only pay one claim for each child.

If we pay a claim for a child being diagnosed with a critical illness, cover for that child will end. However, cover will continue for the insured person and their other children (if any).

How much does the plan pay out?

You decide how much benefit you would like this plan to pay out. The higher the level of benefit, and the longer the period of cover, the higher your monthly premium will be. The attached personal

illustration shows the period of cover, the type and amount of cover you have chosen and your initial monthly premium.

Other than critical illness payments for children, the plan only pays out the main benefit once and then all cover ends.

When will the plan not pay out?

We will not pay a critical illness claim:

- If your plan is for critical illness cover only and you die within 28 days of meeting the definition of the critical illness.
- If your claim arises within three months of reinstating a plan that has previously ended.
- If the cause of the claim results from aviation, criminal acts, drug abuse, hazardous sports and pastimes, HIV/AIDS, self-inflicted injury or war and civil commotion.
- If the claim is for total permanent disability from a cause that arose while the insured person was living abroad.
- If the claim is for a total permanent disability and you did not tell us about the insured person changing their occupation.
- If the claim is for a child diagnosed with a critical illness and:
 - the condition was present at birth;
 - the symptoms first arose before the child was covered; or
 - if the child dies within 28 days of meeting the definition of the critical illness.

We will not pay out on death as a result of an insured person committing suicide in the first year of the policy.

Full details of what is covered, and any limits to the cover are given in sections 2 and 4 respectively of the policy document. You can ask us for a sample copy of the policy document.

We may apply specific exclusions when we accept your policy. These will be shown in your acceptance letter and policy schedule.

Further Information

Your cancellation rights

When we accept your application for the plan, we will send you a notice explaining your right to cancel. You will then have 30 days in which you can cancel the policy. If you do this, we will refund any premiums you have paid.

Making a claim

To make a claim, you should contact our Claims Department at:

ABC Life
Our Road
Any Town
County
AB1 2CD

Phone: 01234 56789

Complaints

If you have any complaint about this plan, or about any part of our service, contact our Customer Service Manager at:

ABC Life
Our Road
Any Town
County
AB1 2CD

Phone: 01234 56789

If you are not satisfied with the way we deal with your complaint, you can contact the Financial Ombudsman Service at:

South Quay Plaza
183 Marsh Wall
London E14 9SR

Phone: 020 7964 1000

Making a complaint will not affect your right to take legal action. You can ask us for details of our compensation arrangements.

Law

The Law of England applies to this plan.

The Financial Services Compensation Scheme (FSCS)

The plan is covered by the FSCS. You may be entitled to compensation from the scheme if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim. You can get more details from us or from the Financial Services Authority.

Tax

The proceeds from this plan are free from UK income tax and capital gains tax. However, if we pay the proceeds after the death of an insured person, inheritance tax may be due on the benefit paid. You may be able to avoid inheritance tax by using an appropriate trust. Ask your financial adviser for more details.

The Government may change the tax position described above.

A Guide to Critical Illness Cover

The ABI (Association of British Insurers) give general information about critical illness cover in their booklet 'A Guide to Critical Illness Cover'. You can ask us for a copy or you can get a copy at www.abi.org.uk or by writing to:

The Association of British Insurers
51 Gresham St
London
EC2V 7HQ.

Please Note

This leaflet complies with the ABI Statement of Best Practice for Critical Illness Cover. It is a guide to our Term Assurance Plan and is based on our understanding of current laws and tax rules. Further details are given in the plan schedule and the policy document. You should get expert advice about the legal and tax information in this leaflet.

ANNEX E – Example policy wording for a plan offering only reviewable premiums

Your premiums are reviewable. This means that the assumptions we have used to calculate your premium have been adopted to cover the whole period of the policy but will be reviewed as set out below. We will not change your premium before the <fifth> anniversary of the policy commencement date. We will review your premium and it may change on the <fifth and then every subsequent> anniversary of the policy commencement date.

At a review we may change your premium for any of the following valid reasons:

- [*list the relevant valid reasons that may cause the premium to change*]⁹.
-
-

Your premium is based on our view of the following assumptions:

- [*list the assumptions here that may change the premium*]¹⁰.
-
-

Your premium may increase or decrease at each review if our view of these assumptions changes for any of the valid reasons listed above. If so, we will compare our view of the assumptions that are applicable at the time of the review with our view of the assumptions when the policy started and, by reference to that comparison, use a fair and reasonable method of calculating any change in your premium. However, if the premium resulting from a review is within <X%> of your existing premium then we will not change your premium as a result of the review. There is no upper limit to the increase or decrease that may apply.

Changes in premium will not depend on your individual circumstances, for example your health, at the time of the review.

Any change in your premium will take effect from the relevant policy anniversary commencement date and we will tell you at least <60> days before we make any change. If we advise you of an increase to your premium as a result of a review, then you can choose to continue paying the previous amount and your cover will be reduced proportionately. To do this you must tell us at least <10> days before the change would otherwise have taken effect, and your reduced cover will apply from that date. Alternatively, you can stop paying your premiums altogether in which case your policy will end with no cash value and your cover will stop.

⁹ It is for individual insurers to determine and set out the valid reasons which could cause the insurer to exercise the unilateral right to change the premium. The list must be complete but not overly long. Examples of valid reasons might be:

- medical advances which affect the insurer's expectation of future claims;
- any event outside the insurer's control that the insurer expects to have an impact on future claims which the insurer could not reasonably have foreseen when the assumptions were last reviewed.

¹⁰ It is for individual insurers to determine and summarise which assumptions that were taken into account in fixing the initial premium will or will not be open to review and to insert them as appropriate. The list must be complete but not overly long. Examples of the assumptions affecting the premium at a review are the insurer's expectation of:

- future claims;
- future investment returns on premium income;
- the future incidence of taxation on the insurer.

ANNEX F – Example policy wording for a plan offering guaranteed or reviewable premiums

Your schedule will show whether guaranteed or reviewable premiums apply to your policy.

If your premiums are guaranteed this means that the assumptions we have used to calculate your premium have been adopted to cover the whole period of the policy without any change before the policy end date. This does not mean that the actual amount you pay will necessarily stay the same – it will change if you change your cover and it will increase as described in the “Escalation” section if your benefits are increasing.

If your premiums are reviewable this means that the assumptions we have used to calculate your premium have been adopted to cover the whole period of the policy but may be reviewed as set out below. We will not change your premium before the <fifth> anniversary of the policy commencement date. We will review your premium and it may change on the <fifth and then every subsequent> anniversary of the policy commencement date.

At a review we may change your premium for any of the following valid reasons:

- *[list the relevant valid reasons that may cause the premium to change]*¹¹.
-
-

Your premium is based on our view of the following assumptions:

- *[list the assumptions here that may change the premium]*¹².
-
-

Your premium may increase or decrease at each review if our view of these assumptions changes for any of the valid reasons listed above. If so, we will compare our view of the assumptions that are applicable at the time of the review with our view of the assumptions when the policy started and, by reference to that comparison, use a fair and reasonable method of calculating any change in your premium. However, if the premium resulting from a review is within <X%> of your existing premium then we will not change your premium as a result of the review. There is no upper limit to the increase or decrease that may apply.

Changes in premium will not depend on your individual circumstances, for example your health, at the time of the review.

Any change in your premium will take effect from the relevant policy commencement date anniversary and we will tell you at least <60> days before we make any change. If we advise you of an increase to your premium as a result of a review, then you can choose to continue paying the previous amount and your cover will be reduced proportionately. To do this you must tell us at least <10> days before the change would otherwise have taken effect, and your reduced cover will apply from that date. Alternatively, you can stop paying your premiums altogether in which case your policy will end with no cash value and your cover will stop.

¹¹ It is for individual insurers to determine and set out the valid reasons which could cause the insurer to exercise the unilateral right to change the premium. The list must be complete but not overly long. Examples of valid reasons might be:

- medical advances which affect the insurer’s expectation of future claims;
- any event outside the insurer’s control that the insurer expects to have an impact on future claims which the insurer could not reasonably have foreseen when the assumptions were last reviewed.

¹² It is for individual insurers to determine and summarise which assumptions that were taken into account in fixing the initial premium will or will not be open to review and to insert them as appropriate. The list must be complete but not overly long. Examples of the assumptions affecting the premium at a review are the insurer’s expectation of:

- future claims;
- future investment returns on premium income;
- the future incidence of taxation on the insurer.