Association of British Insurers

MORTGAGE ENDOWMENT POLICY REVIEWS

GUIDANCE FOR INSURERS COMPLYING WITH THE ABI CODE OF PRACTICE

April 2011

Introduction

The aim of this guidance is to support companies in complying with the Mortgage Endowment Policy Reviews Code of Practice.

The guidance is not intended to be a rigid list of what firms must do but it does provide details of how firms can comply with the code.

Guidance Contents

The guidance contains the following sections:

1. Scope

This guidance accompanies the ABI Mortgage Endowment Policy Reviews Code of Practice, which came into force on 1 April 2011.

2. Current and Future Reprojection Mailings

Principle	Detail	Possible exceptions
The purpose of the re-projection letter is to inform customers of two key things: 1. That this is a series of illustrations of what your policy might produce at maturity, though the eventual payout may be more or less than the figures shown'; and 2. These are things you might like to consider doing if you are unhappy about any projected shortfall'. Other information should not detract from these key messages.	All possible steps should be taken by members to provide a consistent message to policyholders by following the model letters as closely as possible. This will help ensure that the different messages contained in the red, amber and green letters and updates are properly received and understood by policyholders. For green letters, it is **<u>no longer</u>** optional to include some of the 'action you could take' information. Even green letters do not guarantee that there will not be an eventual shortfall and consumers may wish to be aware of the options open to them if they wish to have a contingency plan	The 'action you can take' information, and information on the complaints process (as set out in paragraph 5), will not, however, be appropriate for 'super green' cases. 'Super green' refers to policies that are guaranteed to pay at least the target sum, usually because the basic sum assured plus guaranteed bonuses to date already exceed the target sum. There is no requirement in the Code for letters to be sent to 'super green' cases, but many companies wish to include them for completeness and good customer relations.

3. Enclosures

Principle	Detail	Exceptions
Companies must ensure that all policyholders receive all the required CFEB/MAS factsheets with their reprojection pack	Firms are required to send 'Just the facts about dealing with your mortgage shortfall'' and 'Just the facts about making an endowment complaint' in all future re-projection letters for phase 3 and beyond. These factsheets can be obtained from CEFB (to be rebranded Money Advice Service in April 2011) or you can print them yourselves in-house if you wish, provided you abide by the strict print requirements including the requirement to print in colour. These can be established by contacting the CEFB/MAS direct. A suitable period to change over to any new factsheet will always be agreed.	Firms do not need to include the factsheet entitled 'just the facts about making an endowment complaint' in cases where customers are already time barred.

4. Re-projection letters

Principle	Detail	Exceptions

Companies must comply with the model re-projection letters and plan updates provided by the ABI as far as possible.
 	
Any departure will need to be justified by testing to ensure that the change will reduce the risk of the investor being misled.
	Templates for the model re-projection letters have been circulated to ABI members and can be accessed from the members' section of the ABI website, where there is a dedicated section providing information on mortgage endowments. Everyone who works for an ABI member company can access this section of the website by requesting a password in the public section of the site.
	
	When possible, details of multiple policy holdings with one insurer should be sent together so that the investor can ascertain the overall position with that insurer. If it is possible to consolidate multiple holdings in one letter, surpluses and shortfalls may be set off against one another so the investor can see the overall position.
		If firms do decide to depart from the model letter the ABI recommends the following points:
		
		• The letter should fit on to two pages, as should the plan update.
		• The letter should be the top document when the envelope is opened and the contents removed (and unfolded from A5 size if folded).
		• Companies must consider whether red ink or a similarly striking colour should be used to highlight the importance of the information contained in the letter.
		• The warning box should be in the top half of page one of the letter so as to be visible immediately the letter is taken out of the envelope. The warning box should also be highlighted in some way, for example shaded. The heading 'RED ALERT: HIGH RISK OF SHORTFALL', 'AMBER ALERT: SIGNIFICANT RISK OF SHORTFALL' or 'GREEN LETTER: PLAN ON TRACK' should also be clearly written above the highlighted box.
		• The warning box should also be in the top half of the first page of the plan update. The wording for this should not be altered without careful consideration.
		• There should be a further warning box on the second page of the letter including information on how to complain. This should be highlighted in the same way as the warning box on page one. For firms who are implementing time bars it should also include the time a customer has left to complain.
		• The model letter provides the wording that should be used. The whole box can be omitted in letters where a customer has been timed out.
		• Neither the letter nor the plan update should mislead the policyholder, and any changes needed to avoid misleading should be made.
		• Plain language should be used. There should be minimal use of figure work, percentages etc.
		• Technical terms should be avoided.
		• No selling material or other enclosures should be included, with two exceptions only:
		    ○ There may be contractual obligations to include quotations to increase premiums to keep the policy on track.
		    ○ Companies may enclose annual bonus notices and annual statements with the re-projection letters.

5. Time bars

Principle	Detail	Exceptions
Companies who are enforcing time bars in accordance with FSA rules[1] need to: • Explain clearly to customers how time barring may impact on their right to make a complaint and to make sure they explain how the time bars are being implemented. • They must follow the FSA rules • Include the information on time bars in all future correspondence until the customer's right to complain runs out.	Firms enforcing time bars must follow the FSA rules in including information on the time limits for individual customers in their re-projection letters. They must calculate either the exact amount of time that a customer has before their right to complain runs out or use a general figure for a larger group of customers, so long as that figure provides at least as much time as any of the customers would have had individually. For policies that have been surrendered matured or have lapsed without receiving their final time bar date, firms may send out information on the final time bar in maturity packs or other appropriate mailings.	Insurers do not have to implement time bars, but they should have regard to the position of any intermediaries who will be affected by their decision. Where the insurer both produced the product and sold it to the customer, the company can determine for themselves not to include information on time bars in the re-projection letters. However companies should be aware that where they are not planning to implement a time bar, intermediaries against whom a complaint might be made may wish to do so. In these circumstances customers need to be informed of the fact that they are still subject to a time bar. As a result, companies who do not wish to implement time bars and where there is an intermediary involved must contact the intermediary to achieve one of the following: Obtain a written agreement with the intermediary who sold the product that neither wish to implement time limits. Make reasonable efforts to provide any intermediary who does wish to impose a time bar with the information they need in order for them to directly contact the customers affected by their (the intermediary's) decision to impose time limitations. In either of the cases above the company does not need to include information on time bars in the re-projection letters. If a company can do neither of the above, a time limit must be included in the re-projection letters.

6. Customers for whom the company does not have an up-to-date address

Principle	Detail
Firms should make reasonable efforts to trace customers for whom the company does not have an up-to-date address.	The code requires reasonable efforts to be made to trace customers for whom the company does not have an up-to-date address in line with normal procedures operated by the insurer for other purposes. It would not be acceptable for no action to be taken to trace them; 'reasonable efforts' requires some action to be taken. If companies are aware that they are unable to trace their policyholder, with reasonable efforts having been fruitless, re-projections should still be prepared with the usual regularity. These can be sent to the last known address or kept on the paper or computer file. When the policyholder is eventually traced, copies of outstanding (i.e. not received) re-projections should be available on request.

[1] See Dispute Resolution Sourcebook: http://fsahandbook.info/FSA/html/handbook/DISP/INTRO

7. Projection rates – what rates to use?

Principle	Detail
Firms should ensure that the projection rates used in re-projection letters reflects the likely investment potential of the underlying investment.	FSA currently mandate projection rates, and re-projections should be done in accordance with FSA rules. These rules also mandate that lower rates must be used if you, the insurer, expect the rates in the tables within the FSA's handbook to overstate the investment potential of a contract. FSA wrote a "Dear CEO" letter on 23 June 2003 reminding firms of these rules[2]. Examples of cases where you may need to consider using lower rates than the standard might include where the policyholder is invested in: • A with-profits fund that is likely to have a significantly reduced equity exposure for the foreseeable future. • A cash fund, or other fund where the long-term return is likely to be significantly lower than the range of FSA projection rates, with no option to switch or reasonable likelihood of switching. The above points are illustrative only. The decision on the projection rates to use is one that must be considered and made by each company for its own funds. In making this decision, companies will need to consider how to handle funds where there are options to switch between higher and lower risk funds, with higher and lower likely long-term returns. It is important that the re-projection letter does not become a detailed explanation of the different funds on offer, or the risk rating applicable to each. If customers would benefit from this sort of information regularly it should be provided separately. Where a company does use their own projection rates, they can adjust the relevant wording on the template plan update accordingly.

8. Date of fund valuation

Principle	Detail
If the fund valuation is not current firms must indicate when the valuation was made.	It is important that consumers are told the date of any fund valuation used in calculating the re-projection if it is not a fairly current valuation. No direct provision is made in the models for insertion of this information, as it is ABI understanding that most companies use up-to-date valuations in re-projection letters. But if you do use older data, for example if you use end of year fund values for the following 12 months for with-profits policies, it is vital that this is made clear in the letters. Firms may wish to include a current value figure in the plan update. This is entirely optional. If firms do wish to include this figure it should be included in the table relating to 'Your Plan now'. The figure should also be clearly explained as a footnote under the table.

[2] See FSA website: http://www.fsa.gov.uk/Pages/Library/Communication/PR/2003/064.shtml

9. Contractual Reviews

Principle	Detail
Contractual reviews should be carried out as dictated by the contract terms. Firms must make any changes as a result of these reviews clear to customers.	Many policies contain contractual conditions whereby you the insurer are bound to carry out a review of the policy at regular intervals and to tell the customer the outcome and perhaps offer certain options and guarantees. Clearly you must comply with these contractual conditions and the ABI code does not require you to do otherwise. The letters must be changed as necessary to ensure compliance. But do bear in mind the need for simplicity of language and the overriding message about possible outcomes and "action you can take". Some contracts give policyholders the opportunity to increase their premiums in exchange for a guarantee for a certain period that the target sum will be met. Other policies do not have such a guarantee. Others again contain automatic premium increases when needed. It is vital that you explain their own situation clearly to your customers. If there is a guarantee, this should be clearly explained, together with the effect of the additional premium not being paid and no guarantee being activated. It is also useful to explain that once the guarantee period has expired the next review may again require additional premium or may show that the target sum might be exceeded, depending on investment returns in the meantime. It is also important that you set out clearly whether or not the policyholder is compelled by the policy terms to increase the premium, or whether you will automatically increase the direct debit unless you hear to the contrary. It would be helpful to include some words explaining that the policy is likely on current projections to fall short of the target sum without a premium increase. But the language should also be clear that there are other ways of addressing projected shortfalls to ensure that any linked mortgage can be paid off at maturity. These letters should not be capable of being read as compelling the payment of additional premium where this is not the case. Where it <u>is</u> the case because of the contractual conditions this should also be clear. The regularity of the contractual reviews may not match the regularity with which the ABI code requires re-projections or the regularity with which you choose to issue re-projections. For example, many contracts require reviews every five years, whereas the ABI code requires re-projections every two years. Many companies choose to issue re-projections every year. This raises difficulties in presentation of regular letters with differing status. ABI believe it is most helpful for consumers to see similar letters each time, and to be able to compare the information provided from one letter to the next. Companies are therefore encouraged to make the contractual review letters and the code re-projection letters as similar as possible, without breaching or exceeding the contractual requirements. For example, if the contract allows you to increase the direct debit automatically every five years to address any projected shortfall, you should not do so at more frequent intervals without the policyholder's agreement.

10. Top-ups

Principle	Detail
Firms must make it clear that if consumers choose to top up there is still no guarantee that the policy will deliver the target sum.	Although the ABI does not issue any guidance on charges and commissions, members will be aware of concerns surrounding the sales of top ups. Firms are encouraged to take this into account when considering how to handle top ups. Firms should make clear that if consumers choose to top up; there is still no guarantee that the policy will deliver the target sum.

11. General Advice

Principle	Detail
Firms should help their customers as far as possible. If not, they should guide them to an appropriate provider of advice.	The general approach to calls from policyholders should be to see what you, the insurer, can do to help your customer. Companies should be prepared to try to leave customers with a further identified route to explore rather than sending them away empty handed. If the customer does not have an IFA you could, for instance, suggest that they can find details of the IFAs in their area at http://www.unbiased.co.uk/

12. Handling Customer Complaints

Principle	Detail
All complaints should be treated fairly. Customer's expectations should be managed throughout the process. Members should also use the ABI complaints management resources.	The general approach to complaints from policyholders should be to see what you, the insurer, can do to help your customer. You should ensure that you make consumers aware of the Financial Ombudsman Service (FOS) and the free availability of that service to nearly all consumers. This should be done even if you are referring the complaint on to someone else, such as an IFA, in order to try and help customers avoid them to using complaints handling firms. If a customer makes a complaint, you should try to manage their expectations from the start. Explain in your acknowledgement letter the process you will be following in dealing with their complaint and roughly how long you expect it to take before they hear further from you. The letter could also remind customers that they should still consider taking action even while their complaint is being dealt with because there is no guarantee that their complaint will be upheld or that they will receive compensation. Companies who are enforcing time bars need to explain clearly to customers the effect time barring may have on how their complaint may be handled. Regular updates should then be sent, keeping the customer advised as to the progress of their complaint. Research has shown that customers find the combination of the delay and not being told what is happening to be one of the most irritating aspects of the complaints process – more irritating than having the complaint turned down. It is worth reviewing the wording of your standard complaint letters frequently to ensure they are properly managing customers' expectations of the complaints process. Your workload and timings are likely to change, so the letters should reflect the current situation. Firms are encouraged to follow the processes detailed in the ABI's good practice guide to complaints management and the tools that form the ABI's complaints management toolkit. Appendix A and appendix B include a template complaint upheld and complaint rejected letter.

9. Further Queries

If you have further queries about how to ensure you comply with the ABI code please contact us. Please remember that here at ABI we are not experts on the FSA rulebook and you should seek advice on that from your own compliance department or your FSA supervisors. There are many decisions that you will need to make and review in connection with the mortgage endowment re-projection exercise, and there is rarely one right answer that will apply for all companies in all cases. It can help to think 'what will this look like to the consumer?', 'how can I explain this simply to consumers?', 'what will consumers do or think when they get this?', 'will the consumer understand it as I intend it?', 'will this volume of papers confuse consumers?' It can be helpful sometimes to show a draft to a non-technical person in your office to see if they understand or how they react. Often here at ABI we need to see a draft of what you are proposing, so that we can see how it will look. We can then consider how consumers might react. It is often worth you trying that first.

Appendix A: Mortgage Endowment Complaint Upheld: Final response letter

['Reference' Data] *location and sequence are discretionary*
- Contact details in standard format (must be on 1st page)
- Customer name and address
- Letter Heading – Your Mortgage endowment complaint
- Linking info, for example*: brand specific*
  -Date
  -Customer(s) name
  -Plan number

[Introduction]
- Explains purpose of letter
- Apologise that customer has felt the need to complain and thank them for bringing the issue to the company's attention
- Provide decision on complaint
- Show redress offer amount and date offer closes *if applies*

Your complaint
- Set out the customer's circumstances at the time of sale *if applies, optional*
- Set out understanding of complaint
- Provide details of the investigation
- Provide details of how the decision was arrived at
- Explain the reasons behind offer of redress
  -include details of the assumptions you have used to calculate the offer/refer to calculation page
- Show the options available, include information on:
  -surrendering the policy *if applies, optional*
  -increasing contributions *optional*
  -taking out additional plans *optional*
  -any other relevant options *optional*
- Include warning that the settlement amount should be used to reduce the outstanding debt
  - For example using the wording: 'The endowment was originally designed to repay your mortgage. You should consider using your compensation payment to repay your outstanding debt. If you do not do this, you will need to think of alternative methods for repaying your mortgage'.
- Explain that copies of documents used in the investigation are available on request

Copies of relevant documents *optional*
- Fact find
- Illustration
- Application form
- Reason Why letter
- Policy booklet
- Acceptance
- Policy schedule

What happens next
- Explain that the customer can either:
  -Complete and return the acceptance; or
  -Contact Financial Ombudsman Service, enclose contact details, time limits and information leaflet, but only if he/she is unhappy about the outcome of their complaint

How to contact us
- Relevant contact information

Acceptance form
- Include a form for customer to accept the offer or duplicate of letter for customer to sign and return, with warning that acceptance may preclude right to challenge decision at a later time
  - include pre-paid envelope
  - Include option to make payment to the lender's account *optional.* If this is offered you can use the following wording (which has been agreed with the Council of Mortgage Lenders):

- The compensation can be paid directly to your mortgage lender, to reduce the sum owing on your mortgage. Please fill in the name and address of your lender and your mortgage account number on the acceptance form and we will send the payment direct to them. Your mortgage lender will contact you when they have received the payment

Calculation methodology

About your policy

- Amount of mortgage. Type of policy, including term
- Commencement date
- Number of years since policy commenced
- Premium, state monthly, quarterly or annual

Surrender value deficit

- Policy surrender value
  - If the policy has been surrendered on [date to be included], it would be worth
- Show capital that would have been repaid under equivalent repayment mortgage
- Show surrender less capital repaid

Difference in outgoings to date

- Equivalent repayment mortgage (capital + interest + decreasing term assurance life cover)
- Endowment mortgage (endowment premium + interest)
- Difference in outgoings (repayment – endowment)

Conversion costs

- Cost of converting from endowment mortgage to repayment mortgage

Total compensation (summary of previous sections)

- Potential loss from surrender value less capital repaid
- Loss from total extra outgoings under endowment mortgage
- Cost of converting to repayment mortgage
- Any additional payment for inconvenience or distress caused *if applies*
- Total loss/ compensation amount

Important notes

- Explain that this is the company's final offer and that the redress is based on a formula prescribed by the regulator, to put them back in the position they would have been had they purchased a repayment mortgage
- If you do not have full details of the mortgage history give full details and explanations of the assumptions you have used in arriving at a compensation offer
- Explain the basis of the calculation when using Halifax rates *if applies*
- If using Halifax rates give option of a more precise calculation and include a warning that this may result in a different loss amount *if applies*
- Where the complainant chooses to use the settlement figure to reduce their mortgage, associated costs will be met *if applies*

Example Calculation Methodology

Capital shortfall and higher endowment mortgage outgoings		
Background		
• Capital sum of £50,000 • 25 year endowment *policy* (commencement date: XX/XX/XX) • Number of years since policy commenced: 5 years • Endowment *premium* per *month: £75*		
A	**Surrender value deficit**	
• Endowment surrender value as at XX/XX/XX:		£3,200
• Capital repaid under equivalent repayment mortgage:		£4,200
• Surrender value less capital repaid:		(**£1,000**)
B	***Difference in outgoings to date***	
• Equivalent repayment mortgage (capital + interest + decreasing term assurance life cover):		£21,950
• Endowment mortgage (endowment *premium* + interest):		£22,250
• Difference in outgoings (repayment - endowment):		(**£300**)
C	***Conversion costs***	
• Cost of converting from endowment mortgage to repayment mortgage:		(**£200**)
D	***Total compensation due (A + B + C = D)***	
• Loss from *surrender value* less capital repaid:		(£1,000)
• Loss from total extra outgoings under endowment mortgage:		(£300)
• Cost of converting to repayment mortgage:		(£200)
• Total loss/compensation amount:		(**£1,500**)
see Important notes overleaf		

Appendix B: Mortgage Endowment Complaint Reject: Final response letter

[‘Reference’ Data] *location and sequence are discretionary*

- Contact details in standard format (must be on 1st page)
- Customer name and address
- Letter heading – Your Mortgage endowment complaint
- Linking info, for example*: brand specific*
  -Date
  -Customer(s) name
  -Plan number

[Introduction]

- Explains purpose/nature of letter
- Apologise that customer has felt the need to complain and thank them for bringing the issue to the company’s attention
- Provide decision on complaint

Your complaint

- Set out the customers circumstances at the time if sale *if applies, optional*
- Set out understanding of complaint
- Provide details of the investigation
- Provide details of how and why the decision was arrived at
- Explain the reasons behind any offer to compensate for inconvenience or distress
- Show the options available include information:
  -on surrendering the policy *if applies, optional*
  -increasing contributions *optional*
  -taking out additional plans *optional*
  -any other relevant options *optional*
- Explain copies of documents used in the investigation are available on request

Copies of relevant documents *optional*

- Fact find
- Illustration
- Application form
- Reason Why letter
- Policy booklet
- Acceptance
- Policy schedule

What happens next

- Explain that the customer either:
  -Contact Financial Ombudsman Service, enclose contact details, time limits and information leaflet, where you are unhappy with any part of the decision

How to contact us

- Relevant contact information