



Guidance on the provision of illustrations for long term insurance products

This guidance is issued in consideration of the requirements of the Insurance (Conduct of Business) (Long Term Business) Code 2018 (“the Code”) and sets out the Financial Services Authority’s (“the Authority”) expectations where a regulated entity chooses to provide illustrations to prospective policyholders.

The Authority issues guidance for various purposes, including to illustrate best practice, to assist regulated entities to comply with legislation and to provide examples or illustrations. This guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

There is no requirement to issue an illustration to a prospective policyholder within the Code. The Authority has observed poor practice in relation to the use of illustrated returns in product literature and the Authority’s conclusion is that prospective policyholders may have difficulty in assessing the relative importance of any stated potential investment returns against the investment risk and the uncertainty of such returns. Additionally, the Authority considers the use of a range of prescribed growth rates as potentially introducing unnecessary complexity, whilst not fully being reflective of the wide investment options that may be made available under certain unit linked products.

As a result, the Authority decided that projected illustrations should not be used to demonstrate the impact of charges within the Key Information Document (“KID”), on the grounds of simplicity for policyholders and to avoid the use of misrepresentative growth rates. However, some insurers may still wish to provide personalised illustrations to prospective policyholders or are required to provide such illustrations where local regulation requires it. Prospective policyholders are obviously very interested in the potential returns of a product when deciding whether to invest and so the Authority would not object to personalised illustrations being provided, subject to these being provided separately to the KID.

To ensure consistency of approach where illustrative documents are provided, the Authority expects that any illustrations issued by authorised insurers should:

- show realistic projections of the potential growth of an investment that are not overly optimistic;
- unless expressly prohibited or restricted by other local regulatory requirements, accurately project the effect of charges associated with the product as disclosed within the KID under the requirement of paragraph 8(3)(g) of the Code;



- where a regulated entity's product offers policyholders a range of options for investment, clearly disclose the degree to which charges linked to those investments are taken account of in the illustration projections and the basis on which they are included. For example, where an estimated or average charge is used to produce illustrated returns this should be made clear to policyholders;
- appraise policyholders of a zero growth scenario, alongside other growth scenarios;
- reflect both policy value and surrender value for products where these values differ
- include an appropriately worded statement that draws attention to the impact of inflation on the projected returns; and
- be kept under review to ensure that new illustrations remain relevant and not misleading.