

## **Automatic Renewals R3 Group**

### **Introduction**

In line with many others in the market, a number of general insurance products and schemes within areas of R3: Group employ a process where, dependent upon the method of payment used, customers' policies may be renewed automatically.

In all circumstances the customer is sent a renewal invitation package detailing the terms and the renewal premium – but for a number of schemes, where the policy is paid by direct debit, if the customer takes no action the policy is automatically renewed and the premium collections recommenced.

FSA's ICOB rules introduce greater controls over automatic (or tacit) renewals and other "unsolicited services." The FSA rules concerned are in ICOB 4.7. These rules have not been instigated by the FSA, however, they form part of the Distance Marketing Directive (DMD) which comes into force on 9 October 2004.

This means that, although firms will not need to comply with ICOB until 14/1/2005 – failure to address the automatic renewal requirements of the DMD from 9/10/04 could leave the firm open to legal action under the DMD.

### **What will/won't we be able to do?**

In simple terms it will not be possible to renew a policy automatically without customer's express consent (or to amend a policy without customer's consent, or commence collection of premium for a policy following an initial period of free cover without customer's consent) where to do so would result in money being collected from, or becoming due from, the customer.

However, this does not mean that it will be necessary to seek the customer's consent again at every future renewal – the consent can be sought once and, provided this has been made clear to the customer, continue to be used at future renewals, unless the customer instructs otherwise.

Also, if the firm has a right, contractually or otherwise to renew automatically then it will not be necessary to seek further consent from the customer.

### **What does this mean in practical terms?**

In order to safeguard against possible repercussions under the DMD and ICOB there is a need to:-

- 1) Identify all processes/products where unsolicited services, such as automatic renewals, are provided (e.g. policies where premium is paid by monthly direct debit, which can continue automatically at renewal.)
  - 2) Check whether a right exists to undertake such unsolicited services (e.g. the application form may seek the customer's consent to do so, or
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- the contract itself may provide a right to renew automatically and also a right for the customer to cancel the cover at any time)
- 3) Where unsolicited services ARE undertaken and no right to do so exists – consider the course of action to be taken. The options include:-
    - a. Stop renewing automatically (which will inevitably result in an unwelcome deterioration in retention rates)
    - b. Introduce a right to automatic renewals in the future for all new business and impose these revised terms at renewal for existing customers (could do this for existing customers whose renewal date is between now and 9 October, as could automatically renew them onto the new terms – although clearly have a duty to draw the changes to their attention. But for those due for renewal between 9 October 2004 and March 2005 would need to seek their express consent to renew at these revised terms in order to proceed.)
    - c. Could begin sending a consent form to all customers asking them to complete and return it to confirm their consent to automatic renewals in future (would, however, need to chase to ensure the forms are returned and the consent recorded on the customers' records – the rules prevent taking a lack of response as a consent to go ahead.)
  - 4) If option 3b or 3c is favoured – the sooner the activity is commenced the better – as the more cases will have been addressed before 9 October 2004. Any cases which have not been addressed before 9/10/04 will not be automatically renewable at next renewal (unless it has been established that a right to do so already exists.)

#### **DISCLAIMER**

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