



**CALL FOR INPUT: CORONAVIRUS AND CUSTOMERS IN TEMPORARY FINANCIAL DIFFICULTY: DRAFT GUIDANCE FOR INSURANCE AND PREMIUM FINANCE FIRMS**

**MAY 2020**

**1. INTRODUCTION**

- 1.1. Fair By Design welcomes the FCA's invitation to comment on temporary measures for insurance customers in temporary financial difficulty.
- 1.2. Please note that we consent to public disclosure of this response.
- 1.3. For more information about this response please contact Martin Coppack, [m.coppack@barrowcadbury.org.uk](mailto:m.coppack@barrowcadbury.org.uk).

**2. ABOUT FAIR BY DESIGN**

- 2.1. Fair by Design is a movement dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor.
- 2.2. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through post codes considered higher risk. This is known as the poverty premium.
- 2.3. We collaborate with industry, government, and regulators to design out the poverty premium.
- 2.4. Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.
- 2.5. Fair by Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

## **RESPONSE TO CALL FOR INPUT**

We welcome the opportunity to comment on this guidance set out by the FCA.

While we recognise the efforts that the FCA has gone to in order to publish this guidance in a timely manner, we are concerned that many consumers could already have cancelled their insurance or defaulted on premium payments as a result of disruption caused by Covid-19. Their needs will need to be addressed as a priority. We hope that the FCA can provide assurances that wherever possible these measures will be applied retrospectively.

We also share the concerns of our sector colleagues at Macmillan Cancer Support that general insurance and protection insurance should be treated separately in guidance since the products have very different characteristics. For example consumers with cancer and other pre-existing conditions face additional challenges in accessing protection insurance in the first instance and it is vital that they are made aware of the profound risks of cancelling their policy and supported to ensure that this should only be considered as a last resort

The FCA is correct to highlight the changes that coronavirus might have on some customers' risk profiles. While customers will retain an "insurable need" (in the case of motor insurance, most customers will still need to have insurance coverage for their vehicle during this period), they may see their exposure to risk greatly reduced (e.g. not using their vehicle at all or no longer using it for business purposes).

We agree with the FCA that customers could be offered materially lower premiums as a result of this. We note that Admiral has taken steps to offer its customers partial refunds, as many drivers are stuck at home due to the pandemic<sup>1</sup>.

If fewer claims are being processed in this time, because fewer cars are on the road, then partial refunds should be made available for all policyholders. While we understand that the FCA shouldn't dictate the terms on refund levels (i.e. setting the amount that customers should be partially refunded), we feel that the regulator should at least encourage firms to pass on savings they make due to fewer claims being made.

In response to Covid-19, Admiral has also pledged to reduce prices to directly benefit customers with above-average premiums who are renewing their policies (e.g. younger drivers). In light of potential increased financial pressure on households during this pandemic, we would like to see firms identify ways of reducing prices to other policyholders who experience above-average premiums, such as those on low incomes who live in deprived areas. This would be a further step to ensure particular households don't lose coverage during this period. While the FCA cannot oblige firms to do this, it can encourage firms on the best way to make positive impact during this time.

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<sup>1</sup> <https://www.theguardian.com/money/2020/apr/21/admiral-car-insurance-refunds-coronavirus-lockdown-claims>

Special effort should be made by firms to ensure coverage is continued for low income groups. For people with no flexibility in their finances, and who are impacted by Covid-19, it might mean cutting back on essentials like food and energy. While insurance is important, when consumers are faced with the dilemma of eating, staying warm or being insured, insurance can sometimes be relegated to the status of 'nice to have'<sup>2</sup>.

It is vital that firms provide payment flexibility at this time. We share the concerns of our sector colleagues at Macmillan Cancer Support that people living with cancer or, indeed, any other life changing event face a crushing double impact – the severe financial impact of a life shock and now the potential to be placed on statutory sick pay and needing to access the benefits system for the first time. It is vital that their insurance needs, including claims being paid promptly, are met to avoid any further disruption during such a difficult time. This will require insurers to be flexible with payment plans to support vulnerable customers.

We support the FCA's view that firms should work with consumers to avoid the need for cancellation of necessary cover (such as considering payment deferrals). This is vital because we know (from reasons stated above) that as an expense, insurance can sometimes be lower down on the list of priorities if people are struggling financially and need to prioritise other essentials. For those people who are financially struggling, we want firms to do all that they can to offer the necessary support, including accepting smaller token payments, to ensure insurance coverage is continued during the time they are affected by Covid-19 and beyond. Additional affordability assessments should be carried out by firms to ensure they understand new financial pressures of customers.

We welcome the FCA's assurances that they "generally do not expect firms to increase premiums as a result of any reassessment and this is very unlikely to meet our expectations". We would like to see assurances that any customer who decides to move to making monthly payments, as a result of Covid-19 and their own financial resilience, will not see an increase in their premiums for having to take this payment option. We would also echo the call of our sector colleagues at Macmillan Cancer Support that any reassessment of a consumer's risk profile be undertaken with the explicit intent of reducing premiums.

We also share the concerns of our sector colleagues at Macmillan Cancer Support that where a customer has no other option than to cancel their policy as consequence of Covid-19, firms should offer to reinstate the policy on the same terms as before within three months of the policy being cancelled. This should apply retrospectively.

We welcome assurances that where a customer wishes to receive a payment deferral, a firm should grant it unless the firm determines (acting reasonably) that it is obviously not in the customer's interests to do so. We do however wish to raise concerns about firms continuing to charge interest during this period of disruption for a customer. We echo the proposal of

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<sup>2</sup> <https://www.barrowcadbury.org.uk/wp-content/uploads/2019/04/Insurance-and-the-poverty-premium-WPI-Economics-final.pdf> (p.9)

our sector colleagues at Macmillan Cancer Support that interest should be waived where a customer may now have to pay in instalments due to being made redundant or being furloughed. We would also welcome clarity from the FCA in relation to when waivers of interest and charges or other temporary relief measures will be considered as forbearance and recorded on credit files, and how these decisions are made.

We welcome the requirement in the FCA's guidance that firms should help customers where they have been "unable to reach timely agreement with firms for a payment deferral because of firms' operational difficulties and subsequently miss a payment which is reported to their credit file". Customers have a number of legitimate reasons for not successfully contacting providers with whom they have existing contracts. They range from not being able to get through to their supplier due to the extra demand for customer contact in this period, to time-poverty caused by changes in their financial/personal situation. For this reason, it is correct that firms proactively offer help to customers to correct errors where this has shown up on their credit files.

For this reason, we think firms should proactively approach customers who they identify as being at risk of financial detriment during this period. Firms will hold data on customers that show whether they are in a particular risk group. For example, firms may/might/are likely to hold (non-sensitive) data that would be useful in helping them to identify customers most in need of support (e.g. a customer's employment status, employment contract type (e.g. within the gig economy), and income bracket). It would be reasonable for firms to proactively contact these customers as a matter of urgency to ensure they know about the temporary measures in place. We would recommend, for example, that customers who have experienced financial difficulties/missed payments in the past 12 months should be a top priority for proactive contact.

To echo our sector colleagues at Macmillan Cancer Support, firms should be proactively doing the following:

- Re-contacting customers who have made contact with them prior to this guidance to raise concerns about being able to pay their premiums, and retrospectively offering them the range of options set out in the guidance.
- Contacting all customers who they know to be vulnerable or have disclosed pre-existing conditions, to advise them of the risks of cancelling their policy (particularly protection policies) and make them aware of the available options.
- Proactive communications in accessible formats. These should aim to reassure customers and offer options for how premiums can continue to be paid, whether premium holidays are available and non-forfeiture.
- Contact details for more specialised support for vulnerable consumers should be made clear across websites and other communications channels and shared with charities and support organisations.

- At the same time, firms should be reminding customers of how their insurance can help, whether they might have a claim and how to make one as well as any areas where there insurance may be impacted by Covid-19 or there are unexpected 'gaps' in the cover, for example self-isolation not being covered by income protection policies.