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

JULY 2020

INTRODUCTION

Fair By Design welcomes the FCA's invitation to comment on temporary measures for insurance customers in temporary financial difficulty.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Martin Coppack, m.coppack@barrowcadbury.org.uk.

ABOUT FAIR BY DESIGN

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.

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.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

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 updated guidance set out by the FCA.

We welcome continued 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. This should happen in such a way that doesn't risk the customer's coverage.

We are glad to see that where a payment deferral is not in the best interest of a customer, the measures that could be taken might include "premium reductions due to changes in risk profile or offering an alternative product which would better meet the customer's needs, as well as waiving fees associated with altering cover."

Flexible and continued coverage

It is positive to see that the FCA has noted that "where an insurer allows a customer to pay via pay-as you-go arrangements or provides credit under an exempt credit agreement, and grants a payment deferral, the insurer should not cancel the policy solely because of non-payment."

As we added in our previous input:

> "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."

However, while continued coverage is vital, we also wish to raise concerns about firms continuing to charge interest during this period of disruption for a customer. This is in reference to how the FCA considers the waiving or cancellation of interest only being "an example of forbearance a firm might consider include suspending", rather than a rule. We would consider it correct that anyone experiencing financial difficulty due to coronavirus should see their interest waived as a standard practice.

We have also previously echoed the proposal of our sector colleagues at Macmillan Cancer Support saying that interest should be waived where a customer may now have to pay in instalments due to being made redundant or being furloughed.

The guidance on this matter has been updated to:

> "Firms should consider reviewing any interest rates associated with instalments to ascertain whether they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of coronavirus."

This is progress. However, there should also be a principle here that says interest should be waived.

Firm proactivity and time-poverty

In the updated guidance we are glad to see firm proactivity in reaching out to customers in potential financial detriment continued. In particular:

> "There is no expectation that firms should make enquiries with each customer to determine if the circumstances surrounding a request for a payment deferral are connected with coronavirus. But firms should have sufficient information and should consult with customers when determining the payment deferral period that is in the customer's interest. The decision as to the payment deferral period that is in a customer's interest can be made at a cohort rather than individual level."

This sets a positive precedent for how firms can be using customer data to prompt timely interventions and proactivity, rather than waiting for customers to approach firms with regards to financial difficulties.

The reality is that customers in financial difficulties will have multiple competing priorities and for many reaching out to different suppliers can become very difficult and time consuming, in a way that is not always conducive to real life. "Time-poverty", coupled with a higher than typical demand for insurance firms' customer contact centres, requires solutions that are much more appropriate. This is one such solution.

Caution around impact on customer credit files

With regards to credit files, we are glad to see commitments by the FCA that payment deferrals do not harm a consumer's future creditworthiness. In addition to this, we feel that any communication on payment deferrals should make explicit everything we know about the risks to creditworthiness in the future and the degree to which financial service providers will have access to information about a person's payment deferral.

In the updated guidance we are glad to see the following:

> "Where customers 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, we would expect firms to work with customers and Credit Reference Agencies to ensure that any necessary rectifications are made to credit files to ensure no worsening status is recorded in respect of the payment deferral period. Firms should also ensure no default or arrears charges are levied in relation to payments missed in these circumstances […] We expect firms to be clear about the credit file implications of other forms of support offered to customers, including at the end of payment deferral periods. We also expect firms to ensure that a reasonable period of time is afforded to determine an appropriate solution with customers before reporting any new arrears or arrangements to credit files."

One thing we would warn against is any expectations that a customer should take on the responsibility of working with credit reference agencies to ensure any rectifications are made to credit files (in respect of the any payment deferral period). In the first instance this should be the responsibility of firms and the CRAs. Any errors in respect to credit files should ultimately fall to them. The FCA should make this absolutely clear, and the burden eased from consumers (many of whom have less time and resource than the stakeholders also involved).

In light of recent reporting about how payment holidays have been communicated to customers, the FCA must be absolutely clear in its own communication of the risks and precautions of taking on a payment holiday, including with regards to customers who have already taken a payment holiday in good faith that it would not impact their credit score.