

Insurance: Conduct of Business

Chapter 2

General matters

2.7 Customers in financial difficulty

Purpose

2.7.1 **G** The purpose of the *guidance* in this section is to give the *FCA's* view on the outcomes *firms* should aim to achieve and actions they should take to deliver good outcomes for *customers* experiencing financial difficulties.

2.7.2 **G** The *guidance* complements:

- (1) *Principle 12*, which requires *firms* to act to deliver good outcomes for *retail customers*;
- (2) the obligations in ■ **PRIN 2A** (the Consumer Duty), including in particular the *rules* in ■ **PRIN 2A.2** (cross-cutting obligations), ■ **PRIN 2A.5** relating to communication, interacting on a one-to-one basis and adapting communication, ■ **PRIN 2A.6** (Consumer Duty: retail customer outcome on consumer support) and expected standards in ■ **PRIN 2A.7**; and
- (3) the *customer's best interests rule*.

However, it is not, and does not seek to be, a complete exposition of all of a *firm's* responsibilities to *customers* experiencing financial difficulties, nor does it alter, replace or substitute applicable *rules, guidance* or law, including those in relation to credit agreements.

2.7.3 **G** The *guidance* does not set expectations in relation to *contracts of large risks* distributed to *commercial customers*. However, *firms* distributing *contracts of large risks* to *commercial customers* continue to be subject to *FCA rules* (including the *principles*) referred to in ■ **ICOBS 2.7.2G** in relation to that business, and will need to continue to consider what those *rules* may require of those *firms* in their particular circumstances.

Outcomes firms should aim to achieve

2.7.4 **G** Where a *firm* identifies a *customer* in financial difficulty, the *firm* should:

- (1) provide or ensure that the *customer* is provided with good outcomes-focused support that is appropriate given the needs and characteristics of the *customer* to:
 - (a) reduce the impact of the financial difficulty on the *customer*;
 - (b) enable the *customer* to maintain an appropriate level of insurance that the *customer* can afford; and

- (c) reduce, as far as reasonably possible, the risk of the *customer* losing appropriate insurance cover that is important to the *customer*; and
- (2) ensure the *customer* has an appropriate level of information about the option or options available to them in good time and in an understandable format to enable the *customer* to make an informed decision.

2.7.5 **G** The options available to, and the level of support reasonably expected to be provided by, *firms* to achieve the outcomes in **■ ICOBS 2.7.4G** will vary, depending on the nature of the *firm's* relationship with the *customer*, the *firm's* role in the distribution chain, the type of and characteristics of the *customer* and the type of product.

2.7.6 **G** *Firms* are reminded that the level of support needed for *customers* who have characteristics of vulnerability may be different from that for others; *firms* should take particular care to ensure they act to deliver good outcomes for those *customers*.

2.7.7 **G** In relation to *Principle 12* and **■ PRIN 2A** (the Consumer Duty), *firms* are reminded of their responsibilities as a *firm* in a product's distribution chain, including in **■ PRIN 2A.1.14G**, **■ PRIN 2A.1.15G** and **■ PRIN 3.2.7R**.

2.7.8 **G** When considering outcomes, *firms* should also consider:

- (1) the purpose of the *policy* and the interests of all *policyholders*; and
- (2) whether there are any relevant duties or obligations the *customers* may owe to others in connection with the *policy* that should be taken into account. For example, where a property owner may be subject to a duty to leaseholders and others around adequate insurance cover being in place for the property.

Signposting to customers

2.7.9 **G** *Firms* should take reasonable steps to make *customers* aware of, and help them to understand, the support available to them in the event that they experience financial difficulty, and also to enable those *customers* to easily contact the *firm*. This includes, but is not limited to:

- (1) including sufficiently prominent information:
 - (a) in the *firm's* general communications, including the *firm's* website, software applications, letters, telephone recorded messages and other channels of communication;
 - (b) in communications to *customers* which could be relevant to potential financial difficulties experienced by the *customers* – for example, in communications to *customers* about missed payments;
- (2) making it easier for *customers* to contact them when they need help by considering the different communication needs of *customers* (for

example, those needing to communicate through channels other than electronic means, such as websites, webchats and email).

- 2.7.10 **G** Where the *firm* has reason to believe that the *customer* is, or is likely to be, experiencing financial difficulty, the *firm* should take reasonable steps to make the *customer* aware of, and help them to understand, the support available (whether or not a *customer* has contacted the *firm* in relation to their financial difficulty).

Identifying customers experiencing financial difficulty

- 2.7.11 **G** There are a number of circumstances in which *firms* may have reason to believe that a *customer* is, or is likely to be, experiencing financial difficulty. In particular, *firms* should include consideration of circumstances where:

- (1) *customers* contact the *firm*:
 - (a) wanting to reduce their insurance cover (whether having paid in full or on a monthly basis); and/or
 - (b) asking about their insurance cover in a manner that indicates they may have financial difficulties, or about *premium* payments, including where they have difficulty paying the *premium*;
- (2) *customers* have missed payments, even where they have not contacted the *firm* about possible financial difficulties. A *firm* should not cancel a *customer's policy* solely because of missed payments without first considering options to support the *customer*;
- (3) there are other indications (whether the *customer* has contacted the *firm* directly or not) that the *customer* is, or is likely to be, experiencing financial difficulty (for example, where the *customer* has requested cancellation of insurance cover that is important to the *customer*).

Options firms should consider

- 2.7.12 **G** Options which *firms* should consider to ensure they meet the relevant obligations under the *rules*, including to act to deliver good outcomes (which may be used in combination with each other), include but are not limited to:

- (1) whether there are other products that provide an appropriate level of insurance cover for the *customer* at a price the *customer* can afford and revise the existing cover accordingly;
- (2) adjusting cover to take account of the change in the *customer's* financial circumstances. This could be done on a short-term basis (affecting a period within the *policy* cover period) or for the longer term (affecting the entirety of the remainder of the *policy* cover period);
- (3) working with *customers* to help them avoid the need to cancel cover that is important to them;
- (4) re-assessing the risk profile of the *customer*. It might be that some *customers' risk* profiles have changed since purchasing the *policy* and *customers* could potentially be offered lower *premiums*; and

(5) considering whether it is appropriate to require the *customer* to pay all contractual fees or charges in circumstances where the *firm* not relying on these contractual provisions would be needed to provide fair treatment in the *customer's* best interests.

(6) considering whether in the particular circumstances (see ■ ICOBS 2.7.5G) it would be appropriate to refer the *customer* to another *firm* in the distribution chain who is in a better position to support the *customer*.

- 2.7.13 **G** For shorter-term adjustments, *firms* should take reasonable steps to ensure that they re-assess the *customer's* situation when that short-term period comes to an end to ensure the *customer* continues to have an appropriate level of insurance. For example, by introducing an expiry date for any changes to a *policy* and reviewing the situation on expiry, or by inviting *customers* to contact the *firm* when their financial circumstances have improved sufficiently.
- 2.7.14 **G** Depending on the circumstances, options could range from consideration of a single *policy* to a more holistic approach considering all the *policies* a *customer* has with the *firm*. *Firms* should consider if it is appropriate to take steps for all *policies* that the *customer* holds with the *firm*.
- 2.7.15 **G** When setting out the options available to a *customer*, *firms* should include an appropriate level of information about each option, including:
- (1) where the option includes possible changes to insurance cover or to a different *policy*, what the possible changes are, the effect of the changes on the *customer*, the period of time the changes might apply for, the main exclusions where claims would no longer be able to be made, and the change in the costs to the *customer* or to their payment plan;
 - (2) the effect on *premiums* paid and still due, and on any interest owed; and
 - (3) any cancellation or adjustment fees and charges associated with the options.
- 2.7.16 **G** *Firms* are reminded that other *rules* in *ICOBS* – for example, those relating to specifying the demands and needs of the *customer* (■ ICOBS 5.2.1R), the appropriate information *rule* which applies at all of the different stages of a contract (■ ICOBS 6.1.5R), and renewal (■ ICOBS 6.5) – may also be relevant to the *firm* in relation to the options available to the *customer*.