

INSURANCE: CONDUCT OF BUSINESS SOURCEBOOK (CUSTOMERS IN FINANCIAL DIFFICULTY) INSTRUMENT 2023

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137T (General supplementary powers); and
 - (2) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 July 2023, immediately after the commencement of the Consumer Duty Instrument 2022 (FCA 2022/31).

Amendments to the Handbook

- D. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Insurance: Conduct of Business Sourcebook (Customers in Financial Difficulty) Instrument 2023.

By order of the Board
29 June 2023

Annex

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this annex, all of the text is new and is not underlined.

Insert the following new section, ICOBS 2.7, after ICOBS 2.6 (Distribution of connected contracts through exempt persons).

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 *ICOB*S 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*.