FCA warns insurers to improve support for customers in financial difficulty

AT A GLANCE

July 2023

What's new?

- The FCA published findings of its review into how home and motor insurance firms are meeting its expectations in relation to customers impacted by the rising cost of living on 3 July 2023. It follows the FCA's September 2022 Dear CEO letter, where it reminded firms of its expectations on vulnerable customers, fair value, premium finance, underinsurance, claims handling and leaseholders of buildings insurance (see our At a glance summary).
- The FCA surveyed 11 firms for its review, which represented 35% of the motor and 53% of the home insurance markets. The review period was August to November 2022, compared to the 2021 monthly averages.
- While only motor and home insurers were reviewed, the FCA's findings are relevant to all firms operating in the general insurance market including intermediaries and premium finance firms.

Contacts

Andrew Strange
Director

T: +44 (0) 7730 146626
E:andrew.p.strange@pwc.com

Anirvan Choudhury
Senior Manager

T: +44 (0) 7483 423721
E:anirvan.choudhury@pwc.com

Sania Hussain
Manager

T: +44 (0) 7483 916259
E: sania.hussain@pwc.com

What does this mean?

- In its findings the FCA refers to recent data published by the ABI which shows motor and home premiums are increasing year on year, which can have a disproportionate impact on consumers struggling with the cost of living. The FCA therefore reminds firms to ensure that they provide fair value and support customers in financial difficulty. The FCA states firms should consider its findings in the context of their preparation for the Consumer Duty.
- The FCA finds that cancellations due to non-payment of premiums were low and stable. However, this is a trend it intends to monitor given the potential for harm should more customers experience financial difficulty.
- The FCA states it found that the proportion of policies paid by monthly instalments and the average total excess levels were also static. Nonetheless, the FCA reminds firms to review the cost of premium finance to ensure customers receive fair value, in line with the expectations it set out in its recent Consumer Duty Dear CEO letter.
- On claims handling, the FCA finds examples where significant time was taken to resolve claims. This was due to the time it takes to agree settlement terms with third parties; some claims have longer settlement times such as flood and subsidence claims for home; and motor sector-wide challenges around a lack of available hire cars and car parts.
- The FCA finds that an increase in claims complaints was driven by rising claims costs, supply chain issues and general communication issues, such as long call wait times. Rejected claims also increased and the FCA states that firms explained this was due to customers making claims for things

AT A GLANCE

July 2023

Contacts

Andrew Strange
Director

T: +44 (0) 7730 146626
E:andrew.p.strange@pwc.com

Anirvan Choudhury
Senior Manager

T: +44 (0) 7483 423721
E:anirvan.choudhury@pwc.com

Sania Hussain
Manager

T: +44 (0) 7483 916259
E: sania.hussain@pwc.com

they are not covered for. Therefore, the FCA reminds firms of their obligation to only offer products to customers that meet their demands and needs.

- The FCA is concerned that several firms were unable to share data showing the number of vulnerable customers for which they were offering support. The FCA also finds there is more work for firms to do on identifying vulnerable customers. Further, it was not clear how each firm in a distribution chain had considered its own approach to vulnerability.
- Some firms were unable to show they had the necessary information to monitor consumer outcomes, with more work needed to improve information flows between intermediaries and manufacturers. In light of this the FCA reminds firms that under the Consumer Duty they need to identify relevant data to enable them to assess whether they are delivering good customer outcomes.
- The FCA shares some examples of good practice. These include allowing some forbearance before cancelling a policy due to non-payment of premiums, providing alternative payment options for those that have their policies cancelled due to this, using voice analytics to identify vulnerability and having dedicated sections on websites offering support to vulnerable customers.
- With respect to poor practice, the FCA finds some firms offer lower prices than fair market value for motor claims settlements. The FCA refers to its recent warning to firms about undervaluation and confirms it is taking action against these firms.

What do firms need to do?

- Firms should review the FCA's findings and final guidance and perform a gap analysis against their existing policies and procedures. The FCA has issued several warnings to firms about its expectations in the current economic environment, and so firms should ensure their discussions and decisions follow appropriate governance processes and are effectively recorded, so that they are able to stand up to FCA scrutiny.
- Firms should use this review to help identify possible areas for improvement in the delivery of their Consumer Duty implementation plans. Firms should ensure they have the governance and controls in place to deliver ongoing fair value to customers, and deal with claims promptly and fairly.
- Firms should consider how to improve information flows between themselves and their distributors / manufacturers to ensure good outcomes are being delivered to customers, and that these are being effectively evidenced.
- Senior management and boards should review their vulnerable customer policy and identify any necessary improvements in light of the FCA's specific concerns in this area.

Next steps

The FCA will continue to monitor how firms meet its cost of living support expectations and how prepared they are for the end of July 2023 Consumer Duty deadline.