Insurance guidance for the support of customers in financial difficulty Fair4All Finance response

March 2023

Summary

We welcome the FCA's proposals to extend and update their Covid guidance on supporting insurance customers in financial difficulty.

Many of the difficulties people needed to be supported through during the pandemic, such as ill health, bereavement, or loss of work – are issues that affect people everyday. And there are also important parallels with the impact of the current cost of living crisis.

Research into our customer group of 17.5 million people in financially vulnerable circumstances suggests that there could 8.6 million people with already low financial resilience who are struggling to afford their insurance protection.

In order to prevent more people cancelling their insurance, and even greater financial exclusion, we would like to see the guidance supports greater use of forbearance by insurers, so that people experiencing financial difficulty do not have their protection cut off when they need it most.

And based on lessons learned from our research into the banks' response to the pandemic, we would also like to see more proactive identification, engagement and outreach to customers who may be experiencing financial difficulty.

About Fair4All Finance

Fair4All Finance is a not for profit organisation founded in early 2019 to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services. We have three main priority areas:

- Expanding provision of affordable credit through a scaled community finance sector
- Partnering with banks and financial services providers to support the delivery of products and services for customers in vulnerable circumstances
- New product and market development – developing and scaling products and services to address market gaps

You can find our full strategy here.

Our response

Q1: Do you agree with our proposed purpose of the guidance? If not, how should we change it?

We agree that the guidance should try to help firms deliver good outcomes for customers in financial difficulty.

The insurance market delivers worse outcomes for people in financially vulnerable circumstances and people in more excluded groups:

- Lower income households pay an extra 'poverty premium' of £430 a year for essentials like energy, credit and insurance. Factors contributing to the poverty premium in insurance include charging based on postcode, and higher charges for people who can't afford to pay annual premiums upfront and need to pay monthly
- 61% of low income renters don't have contents insurance, meaning a loss could push them spiralling into problem debt. Yet this group are also at greater risk of burglary and fire, and more than two thirds say they couldn't cover an unexpected £500 bill
- People of colour report spending on average £250 more than White people for car insurance, according to research by Citizens Advice. And further analysis found that people living in the areas where there's a high proportion of people of colour paid at least £280 more for their car insurance.

We also strongly agree that the guidance should aim to stop customers losing an appropriate level of insurance. We are very concerned that the increase in the cost of living is causing people to cancel or reduce their insurance cover.

Fair4All Finance's segmentation model identifies 17.5 million people in financially vulnerable circumstances who are underserved or excluded from appropriate financial products and services. We recently surveyed a representative sample of this customer group on the impact of the cost of living and insurance. We found that:

- 9% have cancelled an insurance policy in the last year
- 9% have reduced the amount of insurance coverage they have
- 31% say that the cost-of-living crisis is making it harder to afford insurance and
- 10% say the COL is preventing them from taking out a policy

Overall, 49% of our segmentation group are seeing the cost of living crisis affect their ability to afford insurance.

This means **8.6 million people** already in the most financially vulnerable circumstances could see a further reduction in their financial resilience, and are more at risk of being put into real financial difficulty. This would also intensify the existing widespread issue of exclusion from the insurance market.

Q2: Do you agree with our proposed scope? If not, how should we change it?

We agree with the proposed scope of the guidance, particularly that it should cover all customers in financial difficulty regardless of the reason, expanding from the scope of the earlier guidance which was limited to people impacted by the pandemic.

The experience of the pandemic was unique in the way it impacted everyone. But the individual impacts that people experienced – illness, bereavement, loss of work or reduced hours – are ones that happen every day. And these everyday life events are a key driver of people falling into financial difficulty – in 2018, seven in ten people who went to StepChange Debt Charity for advice said the primary reason they fell into problem debt was because of a life event, such as illness, bereavement or job loss.

There are also important parallels between the pandemic and the current cost of living crisis. Many people lost work or had reduced incomes when they were furloughed. Although many people on middle and higher incomes saved during the pandemic, families on lower incomes were more likely to have to spend more and see their savings eroded, and around 11m people built up some £25bn of debt. Rising food, energy and housing costs mean that many households are currently experiencing an even more extreme blow to their financial resilience now.

Fair4All Finance conducted research into the support provided to customers by the FCA and retail banks during the Covid-19 pandemic. The research highlighted lessons that could be learned and areas of support that should be taken forward to continue supporting customers in financial difficulty. We believe that there are also lessons which can be applied across supporting insurance customers who are struggling.

We found that the decisive response and guidance from the FCA was vital to help protect people from the worst impact of the pandemic, and we are pleased to see that the FCA is taking forward much of its pandemic approach to supporting customers in financial difficulty.

Q3: Do you agree with our proposals about when firms should act? If not, what should the trigger points be?

We strongly agree that guidance should retain the expectation that firms should not cancel insurance policies solely because of non payment, without first considering actions to support customers who may be in financial difficulty.

Regarding trigger points, we recognise that firms will not be able to identify all customers in financial difficulty, and that a customer reaching out will be one of the key triggers alerting firms that someone is experiencing financial difficulty. But we believe that firms should be making a proactive attempt to identify and reach out to customers who may be struggling.

In focus groups held as part of our research into the banking response to Covid-19, respondents frequently cited their preference for being proactively offered support rather than having to independently seek it out. But our survey indicated that customers were more than twice as likely (64%) to have contacted their bank than the other way around (28%).

We would like to see firms making use of our segmentation model to better understand the needs of customers in financially vulnerable circumstances. As well as supporting the design of more appropriate products for people on lower or more volatile incomes, this would allow them to better understand and identify the points at which people may start to experience difficulties.

Q4: Do you agree with our proposals covering actions firms should consider? If not, what actions or types of actions should be in the guidance?

Cancelling the insurance of someone in financial difficulty should be a last resort for firms. Insurance is meant to be there for difficult times, and removing it risks compounding the harm to people's financial resilience. For example, if someone who has lost their job and cannot pay their contents insurance has their cover removed, and then suffers loss or damage, they are likely to be tipped into crisis.

We agree with the list of actions firms should consider, including working with customers to see if reducing their level of cover can continue to provide them the protection they need. But we would like to see stronger guidance to insurers on the forbearance they may need to grant their customers.

In the credit market, it is relatively common for firms to offer forbearance measures such as payment holidays. For people seriously struggling with debt, firms often need to accept token repayments and be prepared to cancel interest or completely write off debts. This is part of their cost of doing business.

We believe that insurers should be prepared to maintain important cover for people who are struggling, and cannot pay or can only afford reduced payments. Guidance from the FCA will be essential in driving this level of support.

Our research into the banks' response to Covid-19 found that payment holidays were potentially the most successful support measure that was provided. They had the highest levels of satisfaction of the surveyed support measures, with 86.9% of respondents satisfied or very satisfied with the impact on their financial situation. While a temporary payment holiday will not be appropriate in all cases, for many people it provides the breathing space they need to get back in control of their financial situation.

Another action to support customers in financial difficulty would be to address the one of the factors of the poverty premium in the insurance market, which is that people who can't afford to pay an annual premium upfront are charged more to pay monthly. We would like to see an end to this practice in general, but taking off this extra cost could also be one way to support customers who pay monthly and are struggling.

Q5: Do you agree with our proposals for firms' signposting with customers in financial difficulty? If not, what expectations around communications should we be setting?

With the increases we are seeing in cancellations of insurance, and the risks this creates for people already struggling, it is vital that banks reach out proactively to customers to let them know that help is available.

Firms should be running communications campaigns around the cost of living, and should be incorporating this messaging into existing communications, to ensure that people in financial difficulty feel able to ask for support.

We recognise that the FCA wants to ensure that customers get support that is tailored to their individual circumstances, and so does not want to take forward parts of the Covid guidance that tells firms to make clear that different support options available to them.

However, we believe that the clear communication about what support was available was an important driver of people asking for the help they needed during the pandemic. Our research into Covid banking practice suggests that customers appreciated the simplicity of the payment deferral offer and widespread promotion and understanding of the measure empowered them to engage with firms at unprecedented levels.

Providing a suite of options can be a way to encourage and make customers confident in asking for help. Firms will still be able to review a customer's position and ensure that support is tailored to their actual situation.

Our research also found that on average across different age demographics there was a preference for using the phone, but digital methods were also popular. Overall, communications with customers can be improved by aligning customers with their preferred method of communication and increasing efforts to make digital channels accessible to all customers.

Q6: Do you have any comments on our cost benefit analysis?

We agree it is not reasonably practicable for the FCA to produce a figure around of the benefits of these proposals. However, we do think that the benefits from firms taking a more proactive and flexible approach to supporting customers in financial difficulty are likely to be considerable.

Supporting people through periods of financial difficulty, and continuing to provide them an appropriate level of cover, will help them get back into a secure financial position. For firms, this means people who have experienced financial difficulty can continue to be profitable customers overall. And our Covid banking research found that there could be significant loyalty benefits to firms based on their support offering – 73% of those surveyed stated that loyalty to their banking institutions increased following the support they received during the pandemic.

The wider societal benefits of protecting people's financial resilience are likely to be much larger. There is extensive evidence about the links between poor financial wellbeing, problem debt and poorer mental health, while money worries have been linked to lower productivity and missed days of work.