

Mobile phone insurance – ensuring a fair deal for consumers

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Foreword by Clive Adamson – FCA Director of Supervision

Mobile phones are central to modern life – according to Ofcom, 92% of adults personally own or use a mobile phone.¹ Therefore mobile phone insurance (MPI) is an increasingly popular product. In fact, for many younger people, MPI might be their first interaction with insurance.

Our aim is straightforward - whoever the customer is, we want their experience to be positive at all stages of the product lifecycle – the successful firms will be the ones that recognise the diversity of their customer base, design and deliver products and services that respond most effectively to genuine needs and expectations, and meet those expectations. In simple terms, firms need to deliver everyday insurance products that do what they say they will.

Insurance has a unique and important role to play in the daily lives of millions of people. We all want an insurance industry that customers can trust, so that consumers can have confidence that the everyday insurance services and products they need are provided in a straightforward way. Achieving this is central to meeting our objective to make markets work well in the interests of consumers. We want to see a sustainable insurance sector, where firms compete by focusing on service and value as well as price.

The FCA is a forward-looking, proactive regulator that identifies and tackles developing issues early. This focus on changing market dynamics is particularly important where insurance products are sold outside traditional insurance channels and alongside fast-moving consumer durables like mobile phones.

Thematic work is a fundamental part of our supervisory approach. We undertake thematic projects to assess and take action where we identify current and future risks in relation to a particular issue or product. This may be across a number of firms, within a specific part of the sector, or at market level. This particular project looked at MPI from a number of perspectives, including product design, sales processes and claims and complaints handling.

Our findings highlight that sometimes there is a gap between what firms in this market deliver and what they have led consumers to expect. We are working hard with the firms that participated in this project, trade associations and consumer groups to ensure firms close this gap. We want *all* MPI firms to act on our findings now, and expect them to continue to ensure consumers are treated fairly throughout the MPI product lifecycle going forward. We may revisit this market in the future to assess how firms have responded.

If you are reading this report as a customer I hope it will help you to be well informed and confident the next time you buy MPI.

¹ http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf

1. Overview

1. This report summarises our key findings following our thematic review of the mobile phone insurance (MPI) market. MPI typically provides cover to replace a phone that is lost, stolen or damaged. Some insurance also covers the cost of unauthorised calls that have been made following the theft or loss of the phone.
2. Mobile phones play an increasingly important role in consumers' lives, with millions choosing to insure their devices. We are committed to ensuring consumers are getting a fair deal in this market and tackling the issues we have identified.
3. When MPI is designed, sold and administered fairly it can be useful to consumers. However, we found a number of issues that created a gap between what consumers have been led to expect and what firms deliver:
 - Product **governance** in firms was not always effective.
 - Aspects of the products were not **designed** to meet consumers' needs.
 - Product **terms and conditions** were not always clear and fair to consumers.
 - We found some examples of poor **sales** practices.
 - In some instances MPI **claims handling** was slow and unfair.
 - Some firms were not adhering to **complaints handling** rules.
4. We are engaging with consumer groups, firms and industry bodies to ensure that consumers are at the heart of firms' MPI business. Firms have already committed to improving their products and practices and we expect them to ensure these improvements are embedded.

Who will be interested in this report?

5. This report does not constitute general guidance. It provides a factual summary of the thematic work we have completed on the MPI market. Our findings will interest firms that operate in this market, as well as consumer groups and the media.

Why have we looked at the MPI market?

6. We decided to review MPI in response to concerns raised (including by the Financial Ombudsman Service², consumer groups and the media) about the design, sales processes, claims and administration of MPI products.
7. Although the costs of MPI products are relatively low, with premiums for some policies as little as a few pounds a month, the product is widely held with over 10 million³ customers. Firms in our review reported that mobile devices are increasingly complex and the cost of replacing devices has increased significantly over time.

2 Mobile phone insurance has the highest uphold rate of any product the FOS deals with
www.financial-ombudsman.org.uk/publications/ombudsman-news/107/107-ombudsman-focus.html

3 Briefing to the FSA on the mobile phone insurance market, Association of British Insurers, March 2012

2. Scope of review

Firms in the review

8. We reviewed nine firms to get a view across the sector, various different distribution channels and business models: the firms are a mix of insurers, administrators and sellers of mobile phone insurance. Together, these firms have a majority share of the market.
9. The products we reviewed are distributed with mobile phone networks, by high-street sellers of mobile phone handsets, or as part of a packaged bank account (how packaged accounts are sold did not form part of our review). They are sold online, by phone and face-to-face.
10. Our review of sales practices was not a significant feature of this work because MPI sales tend to fall under the 'connected contracts exclusion'.⁴ However, where an MPI policy contains, for example, cover for unauthorised calls, the exclusion does not apply and these sales were included in our review. In addition, the exclusion only applies to the selling activity, so firms must comply with any other relevant requirements, such as claims and complaints handling.

Using data to assess risks to consumers

11. In line with the FCA's commitment to make greater use of data from firms to identify risks to consumers, we collected a range of information, including detailed claims data. Using this we found potential issues with the design of the products and claims handling within firms. For example, one firm was declining 41% of all claims received for theft. This highlighted a potential risk that consumers were not being treated fairly, as so many were not successful in making a claim.

Other material from firms

12. We also reviewed other documents from firms, as follows:
 - *Product terms and conditions* - We considered whether terms were likely to deliver fair outcomes and whether they were clear to consumers.
 - *Customer claim files and calls* - To assess how the products were operating at a customer level we reviewed samples of claims files and calls. We focused on the types of claims that might show poor outcomes for customers.
 - *Documents relating to sales processes (within our regulations)*.

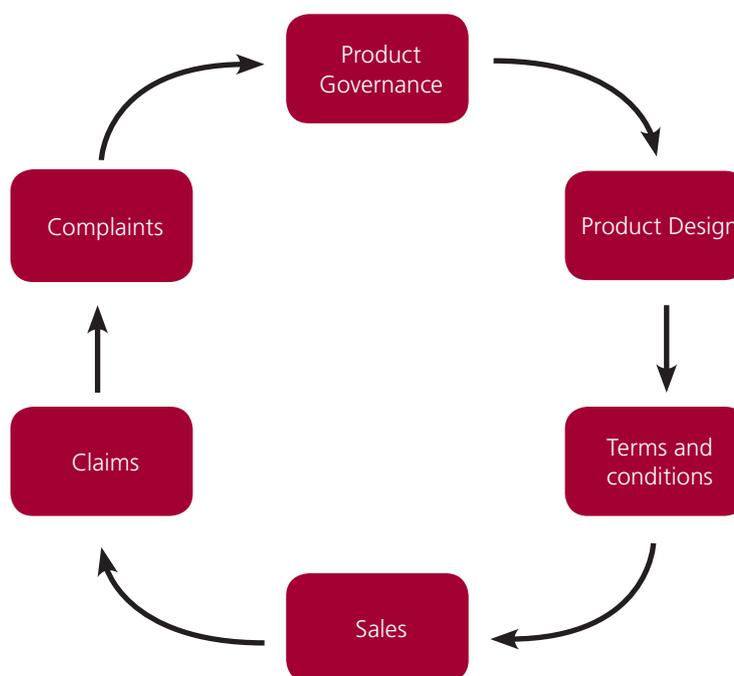
We have drawn on real life examples from customers' claims files.

⁴ Article 72B of the Regulated Activities Order (Activities carried on by a provider of relevant goods or services) excludes from FCA regulation certain regulated activities carried on by providers of non-motor goods and services in relation to contracts of insurance that satisfy a number of conditions. Details about the scope of this exclusion can be found at PERG 5.11.13 G to PERG 5.11.15 G (Activities carried on by a provider of relevant goods or services).

3. Key findings

13. In line with the FCA's focus on products we considered the risks to consumers during six clear stages of the 'product lifecycle'.

Fig 1 - MPI product lifecycle



Product governance in firms was not always effective

14. We found that there was not always the effective governance in place to ensure products were designed to meet the needs of consumers.
15. Typically firms were not considering why a high proportion of certain types of claims were being rejected. The FSA previously published guidance that firms should do this as part of good product governance.⁵
16. Many of the issues below are likely to result from poor product governance.

⁵ For example see 1.13, Payment Protection Products, January 2013 www.fsa.gov.uk/static/pubs/guidance/fg13-02.pdf

Aspects of the MPI products were not designed to meet consumers' needs

17. We found that there is sometimes a mis-match between what consumers may need cover for and what the cover actually provides.
18. For example, the majority of products in our review covered loss, but in practice did not cover instances where the customer accidentally left their phone unattended somewhere. From the files we looked at, customers expect to be covered for this type of loss.

Claim example 1

The claimant accidentally lost his phone in the back of a taxi. He realised immediately after he'd left the taxi and attempted to recover the phone. After his attempts to recover the phone were unsuccessful he submitted a claim under his mobile phone insurance.

The claim was declined on the basis that he had left the phone unattended in a public place. When telling the claimant that his claim had been declined, the claims handler agreed the decision was 'harsh'.

Claim example 2

The claimant was eating in a fast-food restaurant with her mobile phone on the table and thought, but was not certain, that she then put it back in her bag. On returning home a couple of hours later she realised she no longer had her phone and lodged a claim for loss. Her claim was declined even though she did not appear to intentionally leave the phone behind.

When unsuccessfully appealing the decision to decline her claim, the claimant stated 'I said I wasn't 100% sure that I left my phone on the table or not. The staff on the phone try to get you to remember exactly how I lost it... If I knew that, I wouldn't have lost it in the first place. I feel it is totally unacceptable'.

19. Some firms include a feature in their product where cover is not provided if the original SIM card is not in the phone at the time of loss or theft, or if the phone has not been used recently. Firms have told us they use this feature to reduce fraudulent claims. However, we saw some examples of customers having seemingly legitimate reasons for having a different SIM card in their phone or not using their phone for a period of time, who were unable to successfully make a claim. For example, where a phone had been stolen shortly after it had been purchased and before the customer had inserted the SIM card.

Claim example 3

The claimant had lost his phone. His claim was declined because of the 'mis-use' of his phone in that the SIM card and phone had not been used during the last two weeks. The claimant explained that he had been using his company phone during the last two weeks and, although his personal phone was kept on his person in case of emergency, it was switched off.

His claim was initially declined. The claimant described the reasons for declining his claim as 'preposterous' and that 'the reasons have nothing to do with the situation whatsoever'.

He asked to speak with a more senior claims handler or the complaints team and was told that he would need to write to the firm as it was not possible to do this by phone. The claimant was very insistent and was finally transferred to a supervisor.

The supervisor stated that, as the claims handler had reached a decision on his claim, the only way to have the decision reviewed was to write to the firm.

The customer stated that 'it looks to me like the company is picking at terms and conditions to get out of it'. After further discussion the customer was put through to a complaints team and the claim was paid.

Product terms and conditions were not always clear and fair to consumers

20. We found instances where the description of what is and is not covered by MPI policies is not clear to consumers. For example, terms such as you will not be covered for loss or theft in 'a public place' or 'a place which is easily accessible by people you do not know' are broad and open to interpretation. This can lead to customers having their claim rejected. In practice we saw these terms interpreted to include hotel rooms, taxis and workplaces.

Claim example 4

The claimant was on holiday in Italy and discovered on her return to the UK she had unintentionally left her phone in her hotel room. She contacted the hotel but they told her they could not find it.

The firm appeared to argue that at the point the claimant checked out of the hotel room it became a public place, so loss was not covered by the policy.

21. We were also concerned about terms describing the extent to which a customer will or will not be covered for 'loss'. We thought they were not always clear and fair. Although such terms were generally clear that a customer would not be covered for *intentionally* leaving their phone somewhere, the terms often didn't say whether a customer would be covered for *accidentally* or *unintentionally* leaving their phone behind (i.e. leaving or forgetting it).

22. As these policies were marketed and sold on the basis they cover loss, in our view the failure to make it clear in which circumstances loss would or would not be covered was also misleading and led to customers' expectations not being met.

We found some examples of poor sales practice

23. Examples of poor practice included in-store documents that were not clear, and the practice of automatically including MPI when selling phones online. In relation to other types of insurance, the FCA's predecessor, the Financial Services Authority, has previously said that such practices can lead to poor outcomes.⁶

In some instances claims handling was slow and unfair

Some firms were slow at handling customers' claims

24. Table 1 highlights the differences in claim periods experienced by customers at the firms in our review.

Table 1

Type of claim	Shortest (days)	Longest (days)
Accidental damage	1.8	26.7
Loss	1.6	29.7
Theft	2.9	32.1

Claim example 5

When the claimant initially contacted the firm to register his claim the firm did not record all the details of the claim properly. The claim was automatically cancelled twice and the customer had to repeatedly 'chase' the firm for a decision about the claim.

After approximately four weeks the claimant had to reconfirm his crime reference number and from the information on file it appears he then gave up on the claim which was subsequently cancelled by the firm.

Claims were sometimes declined unfairly

25. We found instances of firms declining claims for a breach of a term where the breach was unconnected to the nature of the claim. For example, where a customer failed to report the incident in the required amount of time but this had no bearing on the claim. This is likely to be a breach of our claims handling rules (ICOBS 8.1.2R (3)).

⁶ www.fsa.gov.uk/smallfirms/your_firm_type/insurers/travel/travel_tcf.shtml

26. We understand that imposing a time limit is a way for the insurer to mitigate the consequences of the loss and/or to assess the genuineness of the claim. However, we saw examples where a delay in reporting the claim did not appear to have any impact on the insurer's ability to do either, and yet the claim was still declined.

Claim example 6

The claimant was returning from a work night out on a coach with his colleagues and discovered at 1am on Saturday that his phone was missing. He checked with the coach company and his colleagues but the phone had not been handed in or picked up by any of his colleagues. He also contacted his network so the SIM card was 'blocked'.

He then called the insurer at 8am on Monday and was informed that the claim was declined as he had exceeded the 48 hour time limit stipulated in the policy by seven hours. On hearing the decision the customer asked the claims handler 'what am I paying this insurance for then?' and cancelled the policy. It is not clear how this seven-hour delay affected the firm's ability to limit the consequences of the loss or assess the genuineness of the claim.

27. In one firm up to 70% of customers who appealed had their original decision overturned and the firm agreed to pay their claim. This was an example of a two-stage claims process, whereby claims that were originally rejected would be accepted on appeal. We found that in some firms those customers who did not appeal had worse outcomes than those who did.

Some firms were not adhering to our complaints handling rules

28. We found that some firms only allowed customers to complain in writing about a decision to decline their claim. Our complaints handling rules require firms to allow customers to complain by any reasonable means.

4. Change in the MPI market

29. Following our dialogue with firms we are pleased that they have told us they want to deliver improvements for consumers in the MPI market. We expect firms to embed these changes as set out below.

Product governance

30. Firms have committed to reviewing and improving their product governance to ensure it is fit for purpose. This includes considering the root causes of why claims are being declined and where appropriate making changes to the product to ensure it meets consumers' needs and delivers what they have been led to expect.

Product design

31. Since conducting our review, firms in our sample have told us that they intend to cover customers accidentally leaving their phone somewhere and they have committed to changing their terms and their claims handling processes to ensure this is made clear and happens in practice.
32. Firms have said they will continue to include a feature⁷ where cover is not provided if the original SIM card is not in the phone at the time of loss or theft to detect and prevent fraud. However, they have agreed to make changes to ensure those with a genuine claim are not disadvantaged.

Terms and conditions

33. Firms have committed to reviewing their terms to ensure they are clear and fair. For example, making it clear the extent to which customers are covered for loss.
34. In addition, some firms have agreed to remove phrases such as 'public place' altogether to make their terms clearer and fairer.

Sales

35. Firms have made in-store documents clearer and have ensured that customers have to 'opt in' to the insurance when buying a phone online.

⁷ See paragraph 19

Claims

- 36.** We have already seen some improvements, including increasing the amount of time customers have to register a claim, removal of the two-stage claims process and increasing the speed with which claims are handled.
- 37.** We have also required one firm to put in place a third party to oversee their claims handling where outcomes for consumers were particularly poor. This has led to significant improvements, demonstrated by their Management Information.

Complaints

- 38.** The firms in our review have confirmed that a customer can complain about a decision to reject a complaint by post, email or phone and will take steps to ensure this is made clear to customers.

Follow-up work

- 39.** Our findings on MPI will be considered as part of our wider work as we develop our approach to General Insurance add-ons.⁸
- 40.** We may also revisit the MPI market in the future to ensure the issues identified continue to be addressed.
- 41.** Where firms cannot prove that they are treating their customers fairly and adhering to our rules and principles for businesses, we will take regulatory action. This could include enforcement action.

⁸ We announced in December 2012 a 'General insurance add-on study' www.fsa.gov.uk/library/communication/statements/2012/gi-study.

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