

# **FS20/7: Product Value and coronavirus: guidance for insurance firms**

3 June 2020

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# 1 Summary

- 1.1 On 1 May 2020, we published draft guidance for insurance firms on assessing the value of their products in light of Coronavirus (Covid-19). This was subject to a short consultation period, which closed on 15 May.
- 1.2 The guidance explained that to act quickly to protect consumers we would not publish a formal consultation on the proposed guidance or produce a cost benefit analysis. We considered that the delay in doing so would be prejudicial to the interests of consumers. However, we invited comments on our proposals and received 32 responses from interested stakeholders including firms, trade bodies, consumer groups, charities and individuals.
- 1.3 Most respondents were in favour of the proposed guidance. Some firms set out that the draft guidance reflected measures the insurance industry was already taking to support customers. These included partial premium reductions, adapting products to provide benefits in different ways, providing cash in lieu of services or providing additional advice and support. We welcome these steps already taken by the industry to support consumers at a difficult time.
- 1.4 There were some requests for clarification on how firms should carry out product reviews, and in which circumstances. Some firms highlighted potential challenges around carrying out product reviews. Some respondents representing consumers asked whether the guidance goes far enough to help customers in light of coronavirus. In this document, we respond to this feedback and set out amendments to the guidance to clarify our expectations.
- 1.5 This guidance supports our consumer protection objective and is designed to protect consumers by providing them with support in the light of the current, exceptional circumstances created by the impact of the coronavirus. We do not consider that this will adversely affect consumers with protected characteristics under the Equality Act 2010.
- 1.6 We are now publishing our finalised guidance, subject to a small number of changes. This includes changes to clarify that firms:
  - should consider the value of products where, due to the impact of coronavirus, there has been a material reduction in risk so that they are providing little or no utility to customers, and not just where claims are no longer possible
  - are not expected under this guidance to assess value on an individual customer level, but should consider our guidance on helping customers in temporary financial difficulty as a result of coronavirus
  - can assess the longer-term impacts of coronavirus on their insurance products on an ongoing basis beyond the 6-month period we have set out for product reviews resulting from this guidance
- 1.7 This guidance is relevant to all firms carrying on regulated activities relating to all non-investment insurance products, ie general insurance and protection policies and, in particular, firms who have manufactured these products.

1.8 The guidance comes into immediate effect upon being made on Wednesday 3 June.

## Next steps

- 1.9 Firms have until 3 December 2020 to review their product lines in light of the impact of coronavirus and decide on any resulting action. Firms may want to consider the impacts of coronavirus on the value of their products prior to this and continue to assess in the period beyond the next 6 months. Where firms identify issues, we would expect them to take appropriate action.
- 1.10 We will review the guidance within 6 months of it coming into effect in light of developments around coronavirus to assess whether it is still needed.

## 2 General issues

### Scope and application of guidance

- 2.1 In the draft guidance, we set out that all non-investment insurance products would be covered and that, while it was applied to all insurance firms, the guidance is particularly relevant to product manufacturers.
- 2.2 Respondents generally supported the scope of products covered. However, one trade body questioned the benefit of applying the guidance to commercial businesses that could have bespoke contractual terms around value.
- 2.3 One industry respondent asked whether the guidance applies to insurance products provided as part of a packaged bank account.

### Our response

- 2.4 We consider that it is appropriate for the guidance to cover commercial business as well as retail, as we have seen that coronavirus can have an impact on all types of customer. There is no expectation in the guidance that firms complete product assessments for individual customers, so we do not consider that excluding certain types of customers would have a significant impact on firms' capacity to carry out product reviews.
- 2.5 Our intention is that the guidance applies to insurance products included in packaged bank accounts. This is because these products are in scope of our product governance rules and the value of these products could also potentially have changed due to the current situation. We would expect firms to assess the appropriate actions to take where this is the case, including where partial refunds may be appropriate.

### Timing of reviews

- 2.6 Some respondents gave feedback on our expectation that firms have carried out a review within 6 months of the guidance coming into force. Many respondents supported this requirement. However, several firms noted that the effects of coronavirus are expected to last beyond this period and asked if a review could take place over a longer term.
- 2.7 One consumer representative argued that firms should have to carry out a review within 3 months, as many insurers have already refunded customers due to reduced product value. They also suggested that firms should have to review product lines before imminent policy renewals and when selling new policies during the review period. This is because consumers may be unaware that the value of the product has significantly changed.
- 2.8 Another consumer representative suggested that we require firms to carry out a review in a shorter period than 6 months where new restrictions are being put in place around issues from coronavirus. For example, exclusions on cancellation for travel and wedding insurance.

### Our response

- 2.9 We welcome the feedback on this aspect of the guidance. We think, on balance, that 6 months is a realistic timeframe for firms to have carried out their product review and assessed the impact of coronavirus on the value of their products. However, firms can assess the longer-term impacts of coronavirus on an ongoing basis beyond the 6-month period as part of the regular review process, and we would encourage firms to carry out assessments sooner where possible.
- 2.10 We note the concerns raised around renewals. Where firms identify that a product is no longer delivering its intended value as a result of coronavirus, firms should consider whether any actions taken to address this should extend to customers who have started or ended a contract since the onset of coronavirus.
- 2.11 We note that some firms are making changes to products or offering new products with additional exclusions related to coronavirus. We remind firms that where there is a significant adaptation to an existing product then the product will need to be put through the full product approval process. This must consider whether any new exclusions have a corresponding impact on value. Firms should also consider whether any new exclusions need to be included in the insurance product information document (IPID) and be clearly flagged to the customer as a significant exclusion of which they need to be aware.

#### **The role of brokers**

- 2.12 Some insurance distributors sought more clarity on the extent that they would need to perform product assessments, and the need for information to be shared between firms.
- 2.13 One industry respondent also highlighted that brokers may incur costs from not being able to charge adjustment fees.

#### **Our response**

- 2.14 The guidance is targeted primarily at product manufacturers, which are usually insurers. We would not expect brokers to be conducting product assessments about the provision of contractual benefits or underlying risks, unless they are the product manufacturer. However, we expect firms in the distribution chain to work together to ensure customers are made aware of any actions taken at the product level.
- 2.15 If insurers decide to make a product level change, this should not result in customers being liable for fees or charges. Where a manufacturer decides that there should be a refund to affected customers then firms should work together to consider the best ways to deliver this. For example, firms can take an approach that does not create an additional burden for brokers. We note that some brokers have been taking actions where product or services are no longer delivering the intended value to customers as a result of coronavirus.
- 2.16 Firms should also be aware of the existing requirements in PROD 4 around the sharing of product information between manufacturers and distributors, taking into account our [guidance on the GI Distribution chain](#). We have highlighted that distributors should inform product manufacturers where they become aware of circumstances that may mean that a product is not providing the intended value to customers.

## **Implementation and supervision**

- 2.17 Some respondents asked how we will assess the changes made by firms as a result of the guidance.
- 2.18 Some firms requested clarity on the relationship between the review process in the guidance and the existing expectations on firms to assess value of products.
- 2.19 One consumer group suggested that we require firms to publish the outcomes of their reviews of the value of their products.
- 2.20 One trade body asked how we will review the guidance in light of developments around coronavirus.

## **Our response**

- 2.21 Our priority in supervising this guidance will be to ensure that firms are taking steps to reach the right outcomes for customers of products which have been affected by coronavirus. We recognise that many firms are facing operational challenges because of coronavirus, which is why we have allowed for 6 months for firms to carry out reviews of products. We will monitor the steps that firms have taken through our contact with firms, but we do not consider it proportionate to require firms to publish the outcomes of their reviews at this time.
- 2.22 This guidance builds on firms existing obligations under PRIN, SYSC, PROD and ICOBS of the FCA Handbook. We explained in the recent [guidance on The GI Distribution chain](#) how we expected firms to consider the value of their products. We view the coronavirus situation as being a trigger for firms to consider the effects on their insurance products, including the intended value being delivered.
- 2.23 We will review the guidance in 6 months of it coming into effect in light of coronavirus to assess whether it is still needed.

## 3 Product Review

- 3.1 We received a number of questions and comments on our expectations on firms when carrying out a product review.

### **The circumstances where a review is necessary**

- 3.2 The guidance set out our expectation of the product level assessments that firms should prioritise was restricted to cases where a firm cannot deliver a benefit under a product, or where the customer cannot make a claim as the underlying event is no longer relevant.
- 3.3 In response, both industry and consumer representatives said our wording could result in firms reasonably concluding that a review is not required for the vast majority of products. This is because there is usually a chance, however small, that a claim could arise and some marginal benefit may be delivered. For example, they highlighted that for public liability insurance a claim event could occur even where businesses are closed, such as personal injury from a sign falling or window breaking.
- 3.4 Two consumer representatives also argued that we should require firms to reassess the value of their products where there has been a change in risk.

### **Our response**

- 3.5 It was not our intent to limit the situations in which firms should prioritise product reviews only to situations where a claim event is not possible in all circumstances. The examples we set out, eg boiler service and public liability insurance for closed businesses, meant to capture insurance products which are currently providing little or no benefit to customers, not just those where it's technically impossible to make a claim. Firms should consider which of their products are likely to have been affected by the coronavirus situation and carry out a review accordingly.
- 3.6 We have therefore made a minor amendment to the guidance to clarify that firms should consider the value of products where, due to the impact of coronavirus, there has been a material reduction in the risk so that they are providing little or no benefit to customers.
- 3.7 As the guidance set out, we do not expect firms to take action as a result of the guidance where the likelihood of a particular customer making a claim may have changed, such as reduced car use. We consider that fluctuations in risk are a normal characteristic of an insurance product. The guidance focuses on manufacturers prioritising reviews where there have been fundamental changes as a result of coronavirus, eg where benefits can't be delivered or where products are now providing a significantly reduced level of utility to customers.
- 3.8 However, firms can still include factors such as a temporary reduction in claims in their consideration of the value of their products and act accordingly if they see this as appropriate.

### **Factors to consider when undertaking a review**



3.9 Several industry respondents pointed out the complexities of assessing the value of their products in light of coronavirus. For instance:

- changes in the provision of services and to cashflow may only be temporary where, for example, benefits can be provided later in the year when lockdown is eased
- providing some product lines may be more expensive than the profits taken
- the impacts of a coronavirus could last for several years

#### **Our response**

3.10 We recognise there are a number of factors which firms will need to take account of when assessing the impact of coronavirus on the value of their products. We have designed the guidance to give firms flexibility, recognising that circumstances will differ according to product type and target market. If an assessment of the value of a product in light of coronavirus does not find there has been any impact then firms would not need to take action. Our priority through this guidance is that firms take the necessary steps to make such an assessment.

3.11 We recognise that some firms may not be able to determine the full impact of coronavirus on the value of their products within 6 months. For example, there may be residual effects on health which could have an impact on private medical insurance or life insurance products for several years. Firms will be able to take these factors into account on an ongoing basis as part of their usual product review process under our PROD requirements.

#### **Engaging with individual customers**

3.12 Some firms and trade bodies asked how far we expected firms to contact individual customers to ascertain changes in their circumstances which may affect the value they get from a product.

3.13 One firm raised concerns that policy holders may think that they no longer need insurance, which could cause them harm, such as public liability insurance for closed businesses.

3.14 One consumer representative outlined measures that firms should take to support vulnerable customers, such as prioritising their claims and giving refunds where firms are not able to achieve usual service levels.

#### **Our response**

3.15 The objective of this guidance is to prompt firms to consider the value of their products at a product level as a result of coronavirus, and where necessary make changes for all customers of a specific product line. As a result, we do not expect firms to look into individual cases or communicate with individual customers as part of the product level review. However, firms should consider whether anything is required under wider rules where there is a reasonable basis to conclude that an individual customer is not being provided with fair outcomes.

3.16 We recognise that in carrying out a product level review firms could explore whether they should take action for certain groups of customers even if the value of products hasn't changed for the broader customer base. For example, customers approaching renewal without having received a benefit due under the policy.

- 3.17 We note that many types of insurance are still necessary even where businesses are closed, and some are required by law. This guidance is not intended to result in customers no longer having cover which they need. Its intention is for firms to prioritise certain product reviews to assess whether the intended value of the product is being delivered in light of coronavirus and respond appropriately.
- 3.18 We recognise the feedback about the impact of coronavirus on vulnerable customers in the insurance industry. As this guidance discusses product level, as opposed to individual level, assessments we do not consider it necessary to introduce specific measures for vulnerable customers. However, we expect that these customers may benefit from firms taking steps to review their products to identify if there has been a change in their value. We also remind firms of their obligations under the Equality Act 2010 in communicating any changes to customers with protected characteristics.

### **Actions to take following review**

- 3.19 Some firms asked what actions firms can take after reviewing the value of their products. This is particularly relevant where a review concluded that there had been no or little change to the value of a product and that making changes would not be in a customer's best interests. One firm asked if a product review could result in an increase in prices, if evidenced by increased use and/or claims.
- 3.20 One firm questioned whether communicating changes to a customer would constitute a personal recommendation.
- 3.21 One consumer group argued that firms should pay consumers as quickly as possible when an issue with the value of a product is identified and communicate with them within 14 days.

### **Our response**

- 3.22 The onus will be on firms to consider what actions they can take if the product review identifies that a product is no longer delivering the intended value due to coronavirus. In the draft guidance, we referred to potential options firms may need to consider including the scope for partial premium refunds, delivering benefits in a different way, providing alternative, comparable benefits or reducing premiums.
- 3.23 We do not intend to be prescriptive on which actions firms should take. Firms can make an assessment on a case by case basis and exercise their judgement about what they should be doing to deliver fair outcomes that are consistent with obligations under our rules. We noted that many respondents welcomed the flexibility this approach gives.
- 3.24 We do not expect firms to take action where a product review has found no change in value for customers. Firms may reach a number of conclusions from such a review and react accordingly. However, they should consider their obligations under both product governance, and wider requirements including the need to treat customers fairly. We would not expect to see price increases for in force contracts as a result of this guidance.
- 3.25 We consider that firms can take actions as a result of finding a reduction in the value of their products which would not amount to giving a personal recommendation to their customers. In the guidance, we discuss delivering benefits in a different way or offering a refund within the same product line and communicating this to a customer. Firms will need to decide what actions are required to deliver appropriate outcomes

for customers. Where this includes communications with customers, we would expect firms to consider how to provide these in a way that doesn't amount to a personal recommendation.

- 3.26 We do not intend to be prescriptive on the timing of any actions, including any refunds firms identify as being required following a product review. But we remind firms of their obligations under the product governance rules and the Principles, including to treat customers fairly.

## **Annex One: List of non-confidential respondents**

ABI  
AFM  
AMI  
AXA  
Ardonagh Group  
BGL Group  
BIBA  
Consumer Council  
FSCP  
Home Serve  
ILAG  
IUA  
LVGI  
Macmillan  
Nationwide  
Which?

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