

## Draft guidance

# Coronavirus and customers in financial difficulty: additional guidance for insurance and premium finance firms

October 2020

### 1 About this guidance

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- 1.1 This guidance (the October guidance) applies in the exceptional circumstances arising out of the coronavirus pandemic (Covid-19) and its impact on the financial situation of customers of insurance and premium finance involving regulated credit agreements (regulated credit premium finance). It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.2 It supplements the guidance we published in August 2020 - [Coronavirus and customers in temporary financial difficulty: updated guidance for insurance and premium finance firms](#) (the August guidance).
- 1.3 The August guidance was designed to enable firms to act quickly to deliver immediate and temporary support to their customers as the coronavirus pandemic and the Government's response to it evolved. This temporary support was designed to help consumers bridge the crisis and get back on their feet. The steps firms have taken under the August guidance have helped many consumers through the first months of the current emergency. Many peoples' finances are expected to recover and, those who have deferred payment of their insurance premiums, should resume full repayments. However, some consumers will continue to be affected, or will be newly affected by circumstances relating to coronavirus.
- 1.4 We also consider that firms need to move back to providing their customers, including those newly affected by coronavirus, with the tailored support that we normally expect once the August guidance expires on 31 October. This support also needs to reflect the uncertainties and challenges that many customers will face in the coming months, possibly for quite some time to come. So, this October guidance also sets out our expectations of how firms should support those customers who are affected by

coronavirus after 31 October, whether or not they have been granted a payment deferral or other support under the August guidance.

- 1.5 Although the August guidance expires on 31 October, for the avoidance of doubt, certain provisions of the August guidance remain in force beyond 31 October 2020. This is in respect of customers granted payment deferrals under that guidance which come to an end after 31 October 2020. We propose that this October guidance should remain in force during the circumstances created by coronavirus until varied or revoked.
- 1.6 The proposals in this guidance are designed to protect consumers by providing them with temporary and, where necessary, longer term support with their insurance and regulated credit premium finance agreements.

### Equality and diversity

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- 1.7 We are required under the Equality Act 2010 to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.
- 1.8 As part of this, we consider the equality and diversity implications of any new policy proposals. We do not consider this guidance will adversely affect consumers with protected characteristics, but we welcome views on this.

### How to respond

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- 1.9 We want to act quickly to continue to protect consumers in these difficult times, particularly given the fact that our current guidance expires at the end of October. The delay involved in publishing a formal consultation accompanied by a cost benefit analysis would be prejudicial to the interests of consumers. So, we are not doing so. This is not a statutory consultation, so there is no statutory requirement for us to prepare a cost benefit analysis.
- 1.10 We would welcome comments from stakeholders on this draft guidance by 5pm on Tuesday 20 October 2020. Please send your comments to: [Sean.Cafferky@fca.org.uk](mailto:Sean.Cafferky@fca.org.uk) and [Ruby.Adesuyi@fca.org.uk](mailto:Ruby.Adesuyi@fca.org.uk)

## 2 Insurance and coronavirus

- 2.1 This guidance comes into force on **[date]** and remains in force until varied or revoked. Guidance is relevant to firm behaviour only to the extent it is current at the time of the behaviour in question.
- 2.2 This guidance supplements the August guidance and sets out our expectations of firms when dealing with customers who:
- have benefitted from the August guidance (including payment deferrals granted under that guidance) and remain in financial difficulty
  - experience financial difficulty because of circumstances relating to coronavirus after the August guidance is no longer generally in effect
- 2.3 This guidance builds on existing FCA rules including:
- Principle 6 ('A firm must pay due regard to the interests of its customers and treat them fairly')
  - Principle 7 ('A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading')
  - ICOBS 2.5.-1R which requires a firm to act honestly, fairly and professionally in accordance with the best interests of its customers
  - CONC 7 (Arrears, default and recovery (including repossessions))
- 2.4 This guidance is potentially relevant to enforcement cases and we may take it into account when considering whether it could reasonably have been understood or predicted at the time that the conduct in question fell below the standards required by Principle 6, Principle 7, ICOBS or CONC.
- 2.5 A firm is likely to contravene these rules if it acts in a way which does not meet this guidance.

### Applying this guidance

- 2.6 This guidance applies to regulated firms operating in the insurance and regulated credit premium finance markets. This includes:
- insurers
  - insurance intermediaries (including appointed representatives)
  - premium finance lenders that provide credit to fund the payment of insurance premiums in instalments

- premium finance brokers that carry on regulated activities relating to credit granted for the purposes of financing insurance premiums in instalments
  - debt collectors
  - other firms that may be involved in insurance arrangements and/or the provision of premium finance
- 2.7 This guidance applies to all non-investment insurance contracts, ie general insurance and protection contracts. It does not apply to re-insurance products.
- 2.8 The elements of the guidance that apply to insurers and insurance brokers only apply to eligible complainants as defined in DISP 2.7.3R. This includes natural persons and small business customers.
- 2.9 The premium finance sections of this guidance only apply to arrangements where customers pay for their insurance under regulated credit agreements. It is not intended to apply to other arrangements available to customers which facilitate the payment of an insurance premium in instalments, and which do not involve the provision of regulated consumer credit. These include where credit is provided under an exempt credit agreement, and where an insurer and consumer enter into arrangements in which the consumer pays for their insurance on a pay-as-you-go basis. Firms are nevertheless expected to treat all customers fairly and are not prevented from applying the measures set out in the premium finance sections of this guidance to such arrangements.
- 2.10 The premium finance sections of this guidance are also not intended to capture lending for business purposes. So, regulated lending for business purposes such as non-exempt lending to a sole trader would not be within scope of this guidance. However, firms should remember that the Principles, including the obligation to treat customers fairly, extend to all business customers within the scope of the consumer credit regime. Firms may still find the guidance helpful when considering how to comply with the Principles when dealing with businesses.
- 2.11 Customers with ongoing financial difficulty will have a range of needs and circumstances. Some will be facing financial difficulty for the first time and others will have seen their existing difficulties continue or get worse. Many who have taken payment deferrals will still be in temporary financial difficulty, with some in longer term difficulty.
- 2.12 Firms should work with other relevant firms in the distribution chain to help qualifying customers in line with the relevant Handbook requirements and guidance set out below.
- 2.13 If you have any questions or concerns about this guidance, please [contact us](#).

## 3 Insurance

- 3.1 The aim of the guidance is to prompt firms to help qualifying customers, where possible, to:
- reduce the impact of financial distress
  - ensure that customers continue to have insurance that meets their demands and needs

### When firms should act

- 3.2 There are different circumstances in which firms could consider actions to support customers who may be in financial distress due to the coronavirus. In particular, we want to see firms focus on providing support when a customer contacts the firm because they are having difficulty making repayments. For example, the customer may want to reduce cover (whether having paid in-full or on a monthly basis) or ask about their insurance cover in the light of coronavirus.
- 3.3 Firms should also consider if it would be necessary or appropriate to contact a customer to offer support where the customer has missed payments during the pandemic, even if they have not contacted the firm. This is a change from the August Guidance under which we expected all customers who missed payments to be contacted. Nevertheless, firms should still consider what steps they should be taking where it has been identified that the customer is, or could potentially be, vulnerable.

### Action firms can take

- 3.4 Firms should not cancel insurance policies solely because of non-payment without first considering actions to support customers who may be in financial distress due to coronavirus (including actions in accordance with our expectations in section 4).
- 3.5 Where a firm has identified a customer in financial difficulty due to coronavirus it should consider how it will meet its obligations under our rules, including PRIN 6 and ICOBS 2.5.-1. A firm should consider what options it can give the customer and if there are steps it can take which could deliver a fair outcome for the customer, considering their changed circumstances. The following actions may be steps which the firm considers will help the customer understand their options, considering their information needs:
- Re-assessing the risk profile of the customer. It might be that some customers' risk profiles have changed because of coronavirus. For example, some motor insurance customers might not be using their vehicle at all or no longer be using it for business purposes, and customers could potentially be offered materially lower premiums.

- Considering whether there are other products the firm can offer which would better meet the customer's needs and revising the cover accordingly. A customer's needs may have changed because of coronavirus. For example, a motor insurance customer might no longer need associated add-on cover such as legal expense insurance, key cover or other products, or could be moved from fully comprehensive cover to third party fire and theft. There may also be businesses which do not need certain covers for a period.
  - Working with customers to avoid the need to cancel necessary cover such as by acting in accordance with the forbearance measures set out in section 4, where that section applies. Where customers in these circumstances decide it is in their interest to cancel their policy, without encouragement or suggestion from their provider, firms should waive any cancellation fees where the firm needs to do so to ensure it is treating its customers fairly. Firms should also consider fair treatment of customers when assessing new premiums for customers who cancel and then return to the insurer.
  - As well as waiving cancellation fees, firms should waive any fees associated with adjusting a qualifying customer's policy in line with the assessments outlined above.
- 3.6 Firms should make clear in their communications, including on their websites and apps, the different options available to customers, and encourage them to make contact if they are in financial difficulty due to coronavirus. Firms should make it as easy as possible for customers to contact them, and consider the needs of customers with different communication needs (eg those needing to communicate through channels other than telephone) to ensure all customers that need help can access it easily. Where firms are sending communications to customers about missed payments, these should include information to make customers in financial difficulties aware that they can contact the firm to explore potential options.
- 3.7 Firms should consider if it is appropriate to take these steps for all products that the customer holds with the firm.
- 3.8 These actions could result in a reduction in the monthly premium for customers paying by instalments. For customers who have paid up front, this could result in a partial refund of the premium. We generally do not expect firms to take any action that leads to an increase in premiums and this is very unlikely to meet our expectations (unless the action is reasonable and any increase is justified by an objective assessment of the insurance risk).
- 3.9 In carrying out the above assessments, firms should be mindful of the objective of this guidance to ensure that customers continue to have insurance that meets their demands and needs and mitigate the risks of underinsurance. We note that customers are likely to still need some level of cover for many insurance lines, and reducing or suspending a customer's cover may not be appropriate for some products, eg pure protection contracts. Where it is not in the customer's best interests to reduce cover, firms should act in accordance with the forbearance measures set out in section 4 where that section applies.
- 3.10 Where firms adjust cover to take account of a temporary change in the customer's circumstances, this could be done on a short-term basis (affecting a period within the cover period) or for the longer-term (affecting the entirety of the remainder of the cover period). For shorter-term adjustments, firms should take reasonable steps to ensure that they

reassess the customer's situation when that temporary period comes to an end to avoid the risk of underinsurance. For example, by introducing an expiration date for any changes to a policy, or by inviting customers to contact the firm when their circumstances have changed.

## 4 Regulated credit premium finance

- 4.1 This section of the guidance sets out our expectations of firms providing forbearance to customers who have entered into regulated credit agreements in respect of their insurance premiums and who:
- have been a granted payment deferral under the August guidance in relation to such regulated credit agreements, which come to an end after [*the date this guidance comes into force*] and remain in financial difficulty
  - experience financial difficulty as a result of circumstances relating to coronavirus after 31 October in relation to such regulated credit agreements
- 4.2 National and local responses to the pandemic will continue to evolve. Many customers will continue to face uncertainty about their short and medium-term employment and income prospects, and may also experience temporary interruptions in income. Customers' circumstances may change quickly, and in ways that might cause or increase vulnerabilities.
- 4.3 If amendments to the insurance (as set out in section 3 of this guidance) do not help alleviate the payment difficulty for customers paying their premium under regulated credit agreements the firm should deal with the customer in accordance with this section of the guidance.
- 4.4 A firm which has the right to cancel the insurance policy should not exercise this right unilaterally because of the customer's financial difficulty in meeting premium finance payments when the firm is treating the customer with forbearance in accordance with our expectations in this guidance. For example, where third-party premium finance is provided and the arrangements give a broker (or other party) the right to cancel the policy for non-payment, we would not expect the broker to exercise the right to cancel the policy in such circumstances. Firms to which this section of the guidance applies should treat their customers with forbearance and due consideration. When treating customers with forbearance, we expect firms to be flexible and employ a full range of forbearance options to support their customers and minimise avoidable financial distress, stress and anxiety experienced by customers in financial difficulty. This may include for example, permitting the customer to make no or reduced payments for a specified period.
- 4.5 We recognise that achieving this in the current environment, where it is likely that many customers will require support, could be challenging. Firms may need to recruit additional, less experienced, staff to meet the increased demands for forbearance and may be supporting them remotely.
- 4.6 We want firms to deliver the following outcomes:
- Firms have due regard to the interests of their customers and treat them fairly.



- Customers are treated with forbearance and due consideration.
- Where applicable, customers are given sustainable arrangements, taking into account their other debts and essential living costs, which give them reasonable time and opportunity to repay their debt.
- Customers are not pressurised into repaying their debt within an unreasonably short period of time.
- Customers are protected from escalating debt once they have entered into a forbearance arrangement with a firm.
- Firms recognise vulnerability and respond to the particular needs of vulnerable customers.
- Firms have clear, effective and appropriate policies and procedures for dealing with customers in financial difficulty and for those who the firm understands or reasonably suspects to be vulnerable, and have adequately trained staff to provide their customers with the help they need.
- Customers are allowed time to consider their options and, if necessary, seek debt advice before deciding on the support they take.
- Customers are referred to debt advice if this is appropriate.

4.7 This section is intended to support firms in delivering fair customer outcomes in the current circumstances arising out of coronavirus. We recognise that some firms go further than the expectations set out in this guidance in their treatment of customers with forbearance and due consideration and we don't expect this to change. This guidance does not prevent firms from treating customers more favourably such as by writing off the balance outstanding.

### **Part A – Dealing with customers at the end of a payment deferral who remain in financial difficulty**

4.8 This section sets out how firms should treat customers at the end of a payment deferral granted under the August guidance where the customer continues to experience financial difficulty (as set in paragraph 4.1 (a) above). Firms should also consider the guidance under Section B below as relevant to these customers.

4.9 The August guidance sets out our expectation for firms to take reasonable steps to use the deferral period to engage with their customers to understand the likelihood of being able to resume payments at the end of the deferral period.

4.10 Where, at the end of a deferral, a customer is unable to make the repayments due under an agreement, in line with treating customers fairly, we expect firms to act in customers' interests. Where such a customer is entitled to forbearance under our forbearance rules, the firm should treat the customer in accordance with our rules.

- 4.11 Customers should not be considered to be in arrears during the period of a payment deferral granted under the August guidance.
- 4.12 There will be instances where there are no arrears for the purposes of CONC 7 at the end of the payment deferral period, for example, where:
- The firm granted a payment deferral using a contractual variation (for instance using a modifying agreement)
  - The deferred amounts are repaid in full before the end of the payment deferral period. This could include where the sums are repaid in a lump sum.
- 4.13 In cases where deferred amounts do constitute arrears for the purposes of CONC 7, the firm should:
- clearly communicate, as part of their engagement with the customer prior to the end of the payment deferral, including in writing, that
    - when they receive future communications (including statutory notices) concerning any arrears on their account, these will, where relevant, include the deferred amounts but
    - no worsening status has been reported to their credit file in respect of the deferred amounts or the payment deferral period(s)
  - keep a record of the deferred amounts to ensure the firm can identify the unique circumstances in which they arose
  - make reasonable efforts to reach an agreement with the customer to pay back the arrears as part of the wider forbearance offered by the firm in accordance with our rules and this guidance
  - treat customers fairly in considering whether and when to take steps to default or terminate the agreement, unless the customer is unreasonably refusing to engage with the firm
  - consider that:
    - the arrears arose by agreement with the firm and in exceptional circumstances
    - the customer was not expected to address the arrears during the payment deferral period and so may have had less time to address them
- 4.14 Firms should ensure their arrears policy specifically addresses arrears arising in these circumstances. This is to ensure that high standards of consumer protection continue to apply.
- 4.15 Where after the end of a payment deferral period under the August guidance, the customer fails to make payments in accordance with their credit agreement this will also give rise to arrears (including for the purposes of CONC 7).

## **Part B – Dealing with customers in financial difficulty because of coronavirus**

4.16 This section is designed to assist firms in delivering effective forbearance in the current environment and applies to all customers referred to in paragraph 4.1 (a) and (b) above.

### **Engaging with customers seeking support before missing a payment**

4.17 The August guidance set out our expectations for firms to take reasonable steps to use the deferral period to engage with their customers to understand the likelihood of being able to resume payments at the end of the deferral period. This contact should inform customers of what will happen if they do not respond, including providing information about the next payment falling due after the payment deferral and how the deferred amounts will be treated.

4.18 If a customer indicates that they continue, or reasonably expect to continue to face financial difficulty because of circumstances relating to coronavirus the firm should work with them to resolve these difficulties before payments are missed in accordance with the remainder of this section.

4.19 More generally, when a customer experiences, or is reasonably expecting to experience, financial difficulty as a result of circumstances arising out of coronavirus contacts a firm asking for support before missing a payment, we also expect the firm to treat the customer fairly, in accordance with Principle 6. The firm should offer appropriate forbearance to enable the customer to avoid, reduce or manage any arrears that would otherwise arise. This should, in particular, include consideration of the range of forbearance tools set out in CONC 7.3.5G.

4.20 By doing this firms can support customers in a way that minimises avoidable financial distress and anxiety when many customers may be experiencing uncertainty and economic shocks due to coronavirus.

### **Considering a range of forbearance options**

4.21 We expect firms to consider a range of forbearance options when dealing with their customers. This could for example include:

- suspending, reducing, waiving or cancelling any further interest or charges
- permitting the customer to make no or reduced payments
- allowing the customer a reasonable time and opportunity to repay the debt, including by deferment of payment of arrears
- accepting token payments for a reasonable period
- agreeing a repayment plan

- rescheduling the term

- 4.22 This list is not exhaustive and we expect firms to consider other options in appropriate circumstances. Where firms offer a range of options to customers, they should be clear about the different implications of these, including in relation to the total cost of credit and credit file reporting.
- 4.23 Firms should not take a 'one size fits all' approach and a firm offering a single solution to all customers is unlikely to be acting in a way that is consistent with this guidance or our rules.
- 4.24 It is particularly important that firms are flexible and employ a full range of forbearance options, as the coronavirus pandemic and local or national responses to it evolve. Many customers may continue to face uncertainty about their short and medium-term employment and income prospects, for example where they have been furloughed and are unsure if they will remain in employment. They may also have temporary interruptions in income, for example where they work in a sector affected by local or national restrictions put in place to manage the spread of coronavirus.
- 4.25 In accordance with CONC 7.3.11R firms must suspend collections activity for a reasonable period where a customer informs the firm that a debt counsellor or another person acting on the customer's behalf, or the customer themselves, is developing a repayment plan. Firms should also do so where there are extenuating circumstances preventing the customer from making a payment (for example, where the customer is waiting for a benefit claim to be processed or is in hospital).
- 4.26 Firms should not consider a referral to a debt advice provider to be a substitute for working with the customer to come to an appropriate arrangement in relation to the customer's agreement, including a forbearance arrangement. Our expectations around debt advice referrals are set out in Section 7 of this guidance.
- 4.27 Where a claim is made on a policy during the period where forbearance measures are in place, firms can, if they are entitled to do so, deduct sums owed to it under the regulated credit agreements from sums payable to the customers in respect of the claim, in line with current practice. This is provided firms meet obligations to treat customers fairly and act in the customer's best interests.

### **Sustainable arrangements**

- 4.28 The paragraphs below under 'Sustainable arrangements' and 'Income and expenditure arrangements' apply to a firm in relation to a regulated credit agreement where the associated insurance is not reasonably required by the customer. In such circumstances, payments under the regulated credit agreement relating to the insurance should not be regarded as 'essential living expenses' (see paragraph 4.30). The paragraphs do not, however, apply in situations where the insurance is reasonably required by the customer. An example of this is where insurance is required pursuant to a legal obligation (such as home insurance required by a mortgage). The payments under the regulated credit agreement in

these circumstances, should be considered to be 'essential living expenses' by firms that carry out income and expenditure assessments in line with our expectations.

- 4.29 Firms should only put in place arrangements that are sustainable. A sustainable repayment arrangement is one that does not adversely affect the ability of the customer to meet their essential living expenses and priority debts. In determining what is sustainable, firms should consider the customer's circumstances and any expected changes in those circumstances.
- 4.30 Essential living expenses include rent, mortgage payments and council tax, reasonable food, clothing, health care and travel costs, and any other expense where non-payment could result in the loss of the customer's home, or essential goods and services.
- 4.31 Priority debts include arrears of mortgages, other secured loans, rent, council tax and gas and electricity supply and arrears under hire purchase or conditional sale agreements where it is necessary for the customer to retain use of the underlying goods. Non-priority debts typically include unsecured loans and credit cards.
- 4.32 A customer's disposable income is the amount left over after essential living expenses and priority debts are met.
- 4.33 Where a customer has multiple non-priority debts, we expect a sustainable arrangement to be no more than the firm's proportionate share of the customer's disposable income (the firm may choose the basis on which to determine this provided that this is reasonable and after considering any preferences of the customer).
- 4.34 If a customer makes a repayment proposal, we would only expect a firm to refuse that proposal where it can demonstrate that the customer can afford to make a higher repayment that is sustainable based on an objective assessment of income and expenditure in accordance with the section on 'Income and expenditure assessments', or where the customer has failed to engage with the firm in a reasonable way to enable the firm to make this assessment.
- 4.35 Where a customer, without prompting or pressure from the firm, makes a proposal to the firm, the firm may put this in place without undertaking an income and expenditure assessment. The firm should make clear to the customer that they can request a review of this arrangement at any time. The firm should also contact the customer after 60 days of the arrangement being in place, to confirm whether they require further support or a review of the sustainability of their arrangement (for example, based on an income and expenditure assessment).
- 4.36 Firms should also monitor the arrangement for signs that it may not be sustainable (for example, based on information the firm holds or missed payments).
- 4.37 If the firm identifies signs that the arrangement is not sustainable, the firm should review the arrangements with the customer and put in place a sustainable arrangement based on an objective assessment of income and expenditure under this guidance (see 'Income and expenditure assessments', below).

- 4.38 Where a firm proposes token or no payments, the firm may also put this in place without undertaking an income and expenditure assessment (and may assume that the arrangement is sustainable). However, we would still expect firms to monitor the arrangements for signs that they may not be sustainable (for example, based on information the firm holds or missed payments) and, if detected, review the arrangements based on an objective assessment of income and expenditure under this guidance (see 'Income and expenditure assessments', below).
- 4.39 Customers experiencing difficulties with multiple debts, and especially those unable to meet essential living expenses and priority debts, may benefit from debt advice. Section 6 of this guidance sets out our expectations around debt advice referrals.

### **Income and expenditure assessment**

- 4.40 Where a firm assesses income and expenditure we expect it to do so in an objective manner, for example by reference to the spending guidelines in the [Standard Financial Statement](#).
- 4.41 The purpose of the income and expenditure assessment should be to assess the customer's level of disposable income to enable the firm to assess whether a customer's proposal is unsustainable, or whether the firm's proposed level of payments is sustainable.
- 4.42 Firms should have clear written policies setting out how they conduct income and expenditure assessments.
- 4.43 Where a customer has credit secured on a good or has a good subject to a hire purchase or conditional sale agreement the firm should ask the customer whether the good is a necessity to determine if the debt is priority or non-priority. Where a customer regards a good as a necessity, firms should only treat arrears relating to that good as a non-priority debt where the firm can objectively demonstrate that the good is not a necessity for the customer.
- 4.44 The firm should, where possible and within its existing systems capabilities, share a record of any income and expenditure assessment that they complete with customers or make these available to customers (so that they are able to share them with other lenders) and debt advice providers. Although firms are not required to rely on information collected by third parties, firms should support and encourage customers to re-use up-to-date income and expenditure information previously gathered where possible. For example, an income and expenditure assessment completed by another lender.

### **Preventing escalating balances**

- 4.45 The support firms provide in the current exceptional circumstances should reflect that many customers may be suffering severe but potentially temporary financial difficulty, and this support should afford them with sufficient time and opportunity to address their situation and to recover their financial position.
- 4.46 CONC sets out examples of treating a customer with forbearance and due consideration, which could include a firm considering suspending, reducing, waiving or cancelling any further interest or charges where, otherwise, the debt would escalate.

- 4.47 Where a firm has put in place a repayment arrangement as a forbearance measure, and for as long as the customer is making payments in accordance with that arrangement, we expect that the firm will, as a minimum, suspend, reduce, waive or cancel any further interest, fees or charges (including, for the avoidance of doubt, those charges firms are permitted to impose under CONC 7.7.5R) to the extent necessary to ensure that the level of debt under the agreement does not rise for the period of that arrangement. This expectation does not apply prior to the repayment arrangement being in place.
- 4.48 The amount of interest, fees and charges that the firm is expected to suspend, reduce, waive or cancel may vary over the period of the repayment arrangement depending on what the customer is expected to pay under the arrangement. For example, if the customer's circumstances improve and the customer can pay larger amounts under the repayment arrangement then the firm will not be required to waive as much interest, fees or charges to prevent the balance from escalating.
- 4.49 We recognise that many firms provide more generous forms of forbearance, such as freezing all interest and charges, or writing off the balance on the account, and this guidance should not affect that.
- 4.50 The above paragraphs do not prevent firms from proceeding with their usual collections and recoveries activities where appropriate, which may ultimately lead to default and termination of the agreement.

### **Reviewing arrangements**

- 4.51 Firms should regularly monitor and review customers' arrangements, to ensure that their circumstances have not changed and the arrangement remains sustainable. This is important in the current environment where a consumer's circumstances can change quickly, and in a way that might expose or exacerbate vulnerabilities. If firms are using their standard processes for monitoring and reviewing arrangements, they will need to satisfy themselves that these are sufficient in the current environment.
- 4.52 Where arrangements are agreed for a limited time, firms may need to review them before they come to an end, for example, if a customer suffers a further temporary loss of income. Where a customer informs the firm that their circumstances have changed, the firm should reconsider what support they need.

### **Customer engagement**

- 4.53 Effective customer engagement is very important where customers may be experiencing significant uncertainty, stress and anxiety about their wellbeing and financial circumstances due to coronavirus. Aggressive or coercive collections practices will run counter to this and contravene Principle 6 and CONC.
- 4.54 Firms should establish processes that seek to avoid customers having to repeatedly describe their circumstances, as this can be stressful and lead to them becoming anxious or disengaged.

- 4.55 Giving customers a consistent point of contact is likely to improve interaction and deliver better outcomes. However, we recognise that achieving this in the current environment where many customers require support may be challenging, and if firms have recruited new case handlers and are supporting them remotely.
- 4.56 It is important that firms enable case handlers to keep, and subsequently refer to, clear records of interactions with consumers, including their individual circumstances and any judgements made, to give consumers continuity and support.
- 4.57 Firms are responsible for putting in place sufficient resources to enable them to meet their obligations to treat customers fairly and provide them with appropriate forbearance. We recognise that achieving this in the current environment where many customers require support may be challenging. However, long or unpredictable call waiting times during busy periods can put customers off from engaging with firms and receiving timely and appropriate outcomes. Firms should consider what they can do to mitigate this. Approaches could include:
- being transparent about average waiting times, and times when customers are likely to experience longer or shorter waiting times
  - use of call-backs
  - offering pre-booked appointments
  - referring customers to on-line tools where these are available
  - clearly communicating the information or documents customers will need to have to hand
- 4.58 Firms should ensure customers receive timely information to enable them to understand their financial position in relation to the debt, their options and the implications of any arrangements including where a firm is allowing a customer to select a forbearance option from a range the firm deems appropriate.
- 4.59 We expect firms to be clear about the impact of any further forbearance options, including the impact on overall balance and any credit file implications of any support offered to customers at the end of payment deferral periods. This can be expressed in general terms.
- 4.60 Customers can become disengaged where they are required to complete detailed forms with little help or where they may lack the capability and understanding to assess their needs without support. Some customers, including those with characteristics of vulnerability, may find it more difficult to interact offline and may prefer to complete as many steps as possible online, while others may not have access to online channels or find digital interactions difficult.
- 4.61 Firms should offer to engage with customers in different ways including through a range of channels and, where possible, give them the ability to switch between them.



### Supporting vulnerable consumers

- 4.62 CONC 7.2.1R requires that firms establish and implement clear, effective and appropriate policies and procedures for the fair and appropriate treatment of customers whom the firm understands, or reasonably suspects, to be particularly vulnerable. Considering the current circumstances and the increased likelihood that customers in financial difficulty will be particularly vulnerable, firms should consider whether their policies and procedures remain fit for purpose.
- 4.63 Many consumers experiencing financial difficulty, including those benefitting from, and exiting, temporary payment deferrals will display characteristics of vulnerability, particularly low financial resilience. Firms should take particular care to ensure they respond to the needs of vulnerable customers at the greatest risk of harm.
- 4.64 Firms should use their communication channels, including digital channels, to proactively tell consumers about the support available and encourage them to articulate their needs, what support would help them, and take these into account. For example, asking about the consumer's communication preferences when contacting them at the end of a payment deferral and when considering, or presenting, forbearance options.
- 4.65 Firms should look closely at the needs of consumers with protected characteristics under the Equality Act 2010, such as those with physical or mental health disabilities. In Northern Ireland, where the Equality Act 2010 does not generally apply, firms should adopt the same principles.
- 4.66 Firms should have regard to the principles outlined in the Money Advice Liaison Group (MALG) Guidelines '[Good Practice Awareness Guidelines for Consumers with Mental Health Problems and Debt](#)'. Where firms are not having regard to this, they should be able to demonstrate how their own policies are designed to achieve good outcomes for customers with mental health or mental capacity challenges.

### Training, competence and staff incentives

- 4.67 It is likely that higher numbers of customers will require help and support in the coming months as the financial impact of coronavirus continues. Firms may need to recruit additional, less experienced, staff to meet the increased demands for forbearance. We recognise that many staff will be working remotely from home because of the pandemic and that firms may need to adapt their processes to provide support and oversight.
- 4.68 Nevertheless, firms should ensure that staff are adequately trained for the roles that they perform and that they have appropriate oversight arrangements in place. In this environment, this might mean using more experienced staff to deal with the most complex arrears and forbearance cases, including vulnerable customers at most risk of harm, and to support less experienced colleagues.

- 4.69 Firms should consider how best to ensure that their staff have the right skills, capabilities and incentives to support consumers. Incentives and staff objectives should be aligned with delivering forbearance that is appropriate in customers' individual circumstances. For example, addressing operational challenges posed by Covid-19 by incentivising staff to deal with calls too quickly may discourage them from taking appropriate escalation steps in complex cases, or mean they fail to adequately consider customers' individual circumstances. It may therefore increase the risk of poor customer outcomes.

### **End to end quality assurance**

- 4.70 Firms should adopt a quality assurance approach that reviews the end-to-end process, rather than focusing on individual interactions in isolation. This enables firms to evaluate better the fairness of customer outcomes overall, and helps with robust root cause analysis.
- 4.71 This will be particularly important during this crisis, when customer circumstances can change quickly and firms may be using less experienced staff or cannot offer customers a consistent point of contact.
- 4.72 Given firms will be dealing with large numbers of customers in a short space of time, the time to refine and improve processes may be limited. Prompt action is very important to secure good outcomes for as many customers as possible. Firms should be using quality assurance methods and continuously improving their processes to ensure that they learn lessons adapt and improve their approaches quickly where necessary.

### **Governance and oversight**

- 4.73 The Senior Manager accountable for providing support to consumers under this guidance should critically review the firm's policies, procedures and controls and ensure they are appropriate to meet the needs of customers seeking support. This includes ensuring incentives are aligned with fair customer outcomes and taking responsibility for ensuring appropriate governance and oversight is in place to deliver fair customer outcomes in practice.
- 4.74 Executive committees and the Board are responsible for ensuring the function(s) providing customer support in line with this guidance is appropriately resourced and demonstrates a supportive, customer-focused culture. Board management information should be sufficiently granular to enable the Board to satisfy itself that its customers are receiving consistently fair outcomes.
- 4.75 Firms must keep records of the support offered to customers. They should keep a record of both generic information presented to all customers, and any personalised information presented to a particular customer. FCA supervisors may request access to a firm's records and the outcomes of a firm's customer monitoring.

### **Other matters**

- 4.76 Where firms have entered into recourse arrangements with other parties, we expect such firms to consider if this has any impact on the fair treatment of customers.

- 4.77 We encourage all firms in the distribution chain to work together in a joined-up way to ensure they achieve the best outcomes. For example, lenders that have entered into recourse arrangements with brokers may want to consider whether it is appropriate to rely on the recourse arrangements during the current exceptional circumstances, where a customer is experiencing temporary financial difficulty because of coronavirus.
- 4.78 Firms should take account of the need to reduce the likelihood, as far as possible, that a customer suffers adverse consequences because they are being treated with forbearance under this guidance. For example, when considering the customer's credit risk and affordability risk when they seek additional credit to finance a new premium, the fact of the deferral should not itself be a determining factor. The firm should look beyond the stressed circumstances that led to the forbearance, at whether the customer's financial position has improved, or is reasonably likely to improve over the term of the new credit agreement.

## 5 CRA reporting

- 5.1 This section sets out our expectations of firms for Credit Reference Agency (CRA) reporting when dealing with customers who:
- have been granted a payment deferral under the August guidance; or
  - experience payment difficulties because of circumstances relating to coronavirus after 31 October
- 5.2 We expect firms to resume normal CRA reporting once all of a customer's payment deferral periods have come to an end under the August guidance, subject to the principles set out below.
- 5.3 We expect firms to resume normal reporting from the payment status that was 'frozen' at the start of the payment deferral period to preserve the benefit of having no worsening status reported during payment deferral periods. This reflects the updated Coronavirus Data Reporting Guidance, issued by the CRAs in consultation with the Steering Committee on Reciprocity (SCOR). This gives detailed reporting guidance for typical scenarios at the end of payment deferrals.
- 5.4 Where a mechanism to repay deferred amounts is agreed at the end of a payment deferral period and the customer can resume at least the level of contractual payments we would not expect this to result in the reporting of an arrangement to credit files (subject to subsequent payment performance being reported in the usual manner).
- 5.5 Where customers are unable to reach timely agreement with firms for appropriate forbearance after a payment deferral granted under the August guidance due to firms' operational difficulties and subsequently miss a payment which is reported to their credit file, we would expect firms to work with customers and CRAs to ensure that any necessary rectifications are made to credit files so that no worsening status is recorded in respect of this period. We would not typically expect this period to relate to more than a single monthly payment.
- 5.6 For all customers, we expect firms to report any further forms of support, whether or not it follows after a payment deferral, to credit files in the usual way. This includes, for example, where it agrees to the customer making no or reduced payments for a further period, without changing the sums due under the contract.
- 5.7 Firms should ensure that they are clear about the credit file implications of any forms of support they offer to customers, including the rescheduling or refinancing of accounts.

## 6 Debt help and money guidance

- 6.1 Customers who are coming to the end of a payment deferrals or other temporary relief granted under the August guidance, as well as those experiencing financial difficulty because of circumstances relating to coronavirus after 31 October 2020, might benefit from some help to manage their credit payments or their money more generally.
- 6.2 We expect firms to help customers understand what types of debt help or money guidance are available. They can do this by signposting or referring them to appropriate sources of guidance. This could include providing a link to our information page '[Dealing with financial difficulties during the coronavirus pandemic](#)' and to the [Money Advice Service's Navigator Tool](#).
- 6.3 When communicating with customers, firms should signpost, or refer to, appropriate money guidance or self-help tools or debt advice in a timely manner. For example, where a firm anticipates that a customer may need to wait before the firm can discuss or assess their situation and circumstances, they should consider how to avoid this delaying the customer getting appropriate money guidance, self-help tools or referral to debt advice.
- 6.4 Where customers could benefit from debt advice we would expect firms to inform the customer that free and impartial debt advice is available from not-for-profit debt advice bodies; and signpost or refer them to one or more sources of such free advice. Signposting can include providing a link to the [Money Advice Service's debt advice locator tool](#).
- 6.5 Firms should try to make such referrals as effective as possible, and should consider:
- encouraging consumers to use digital tools, where appropriate
  - offering to transfer a consumer's call directly to a debt advice provider
  - whether the customer would benefit from a specialist source of debt advice, such as making a self-employed customer aware of business debt advice providers
  - the debt advice referral strategies highlighted in the [Money Advice Service 'Strategic toolkit for creditors'](#)
- 6.6 Firms should tell customers that they can get guidance or not-for-profit debt advice through both digital and telephone services, and we would expect signposting and referral processes to take the full range of delivery channels into account. Firms should also highlight the availability of face to face services, where this is appropriate, but should help the customer to get debt advice through alternative means in case face to face services are not available.

- 6.7 Where firms handle customers through a digital or scripted process, we expect this to include appropriate signposting or referrals to debt advice or money guidance, as appropriate to the consumer's needs.
- 6.8 Customers who are considering whether an arrangement by which they agree to make no or reduced payments for a specified period is right for them may benefit from firms referring them to the [Money Advice Service's Navigator Tool](#).
- 6.9 Some customers in short-term difficulty may feel they are able to deal with their own debts without needing full debt advice. For these customers, the firm may also wish to:
- Suggest the customer works out a budget. Firms may find it helpful to refer customers to resources mentioned in our [information page](#).
  - Explain to the customer that, for most people, it makes sense to pay essential expenses and priority debts before any discretionary expenses or non-priority debts. To see if this is right for them customers can use online guides such as the Money Advice Service '[How to prioritise your debts](#)' page.
  - Recommend the customer contacts all their creditors to discuss their repayments.
- 6.10 Firms should have regard to [chapter 17 of PERG](#) in our Handbook which provides guidance on the regulated activity of debt counselling.