

Draft guidance

Coronavirus and customers in temporary financial difficulty: updated guidance for insurance and premium finance firms

July 2020

About this guidance

- 1.1 This guidance applies in the exceptional circumstances arising out of the coronavirus pandemic (Covid-19) and its impact on the financial situation of insurance and premium finance customers. It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.2 The proposals in this guidance support our consumer protection objective. They are designed to protect consumers by providing them with temporary support in the light of the current exceptional circumstances arising out of coronavirus.

Equality and Diversity

- 1.3 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.
- 1.4 As part of this, we ensure 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.

How to respond

- 1.5 We want to act quickly to protect consumers in these difficult times. We consider that the delay involved in publishing a formal consultation accompanied by a cost benefit analysis would be prejudicial to the interests of consumers. We are therefore not doing so. This is not a statutory consultation. There is no statutory requirement to prepare a cost benefit analysis in relation to guidance.

- 1.6 We would welcome comments from stakeholders on this draft guidance by **5pm on Tuesday 28 July**. Please send your comments to: Sean.Cafferky@fca.org.uk and Ruby.Adesuyi@fca.org.uk.

Coronavirus and customers in temporary financial difficulty: updated guidance for insurance and premium finance

- 1.7 We originally published this [guidance](#) on 14 May 2020. This update to our guidance comes into force on [xxx]. Unless renewed or updated, this guidance, save for paragraphs 1.18, 1.30-1.31, 1.33, 1.40, 1.43-1.44, 1.46, 1.48-1.52, 1.54-1.58, 1.60-1.65, expires on 31 October 2020.
- 1.8 This guidance is relevant to behaviour of firms only to the extent it is current at the time of the behaviour in question. Please check this page for updates to this guidance.
- 1.9 This guidance builds on 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'), and ICOBS 2.5.-1R which requires a firm to act honestly, fairly and professionally in accordance with the best interests of its customer. It sets out our expectations for firms when considering the fair treatment of existing customers, and in particular those customers experiencing or reasonably expecting to experience temporary financial difficulties due to circumstances arising from coronavirus ('qualifying customers').
- 1.10 The aim of the guidance is to prompt firms to help qualifying customers, where possible, to:
- reduce the impact of temporary financial distress.
 - ensure that customers continue to have insurance that meets their demands and needs.
- 1.11 All insurance firms should also consider our guidance on assessing product value in light of coronavirus. However, we do not expect that product-level pricing adjustments alone will address all customer-level financial difficulties. Firms should also consider the measures in this guidance in addition to any actions that may have been taken for whole product lines, for qualifying customers.

Application

- 1.12 This guidance applies to regulated firms operating in the insurance and 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
- 1.13 This guidance applies to all non-investment insurance contracts, ie general insurance and protection contracts. It does not apply to re-insurance products.
- 1.14 The elements of the guidance that apply to insurers and insurance brokers only apply in relation to eligible complainants as defined in DISP 2.7.3R. This includes natural persons and small business customers.
- 1.15 For premium finance credit agreements, this guidance is not intended to capture lending for business purposes. As such, 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 in relation to businesses.
- 1.16 Premium finance refers to the credit that is provided when a regulated credit agreement is entered into with a customer, specifically for the purposes of facilitating the payment by the customer of an insurance premium in instalments. There are other arrangements available to customers which facilitate the payment of an insurance premium in instalments, which do not involve the provision of premium finance. These include where credit is provided under an exempt credit agreement, and where an insurer and customer enter into arrangements whereby the customer pays for their insurance on a pay-as-you-go basis e.g. many pure protection contracts. For the avoidance of doubt, such arrangements are included within the scope of this guidance.
- 1.17 For customers paying by premium finance, this guidance does not apply where a customer was in financial difficulty prior to coronavirus. In these cases, our existing forbearance rules and guidance in our Consumer Credit Sourcebook (CONC) continue to apply. We remind lenders of the obligation under CONC to treat customers in default or arrears difficulties with forbearance and due consideration. This obligation is unaffected by any separate arrangements or security that lenders may have in place relating to the payment of sums due under a credit agreement, such as where a lender has entered into recourse arrangements with a broker. Examples of the types of forbearance a firm might consider include suspending, reducing, waiving or cancelling any further interest or charges, deferring payment of arrears or accepting token payments for a reasonable period.

- 1.18 This guidance is potentially relevant to enforcement cases and the FCA 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 and CONC.
- 1.19 We expect all firms carrying on regulated activities relating to insurance and premium finance arrangements to have regard to this guidance. The extent to which this guidance is relevant to a firm would depend on its role and the relationship with the customer. Firms should work with other relevant firms in the distribution chain to assist qualifying customers in line with the relevant Handbook requirements and guidance set out below.
- 1.20 If you have any questions or concerns about this guidance, [contact us](#).

When firms should act

- 1.21 There are a number of circumstances in which firms could consider actions to support customers who may be in financial distress as a result of coronavirus. In particular we want to see firms focus on where a customer:
- contacts the firm because they are having difficulty making repayments, wish to reduce cover (whether having paid in-full or on a monthly basis) or have made enquiries about their insurance cover in the light of coronavirus
 - has missed payments during the crisis period, indicating that they may be suffering financial distress, even where those customers have not contacted the firm.
- 1.22 This does not prevent firms from taking additional actions to support other groups of customers where appropriate should they wish to.

Action firms can take

- 1.23 Where a firm has identified a customer in temporary financial difficulties as a result of 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 whether there are steps that can be taken 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, taking into account their information needs:
- Re-assessing the risk profile of the customer. It might be that the risk profile of some customers has changed because of coronavirus. For example, some motor insurance customers might not be using their vehicle at all or might 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. It might be that a customer's needs have changed as a consequence 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 for cancellation of necessary cover such as by considering payment deferrals as set out below. Where customers in these circumstances determine that 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.
- In addition to waiving cancellation fees, firms should waive any fees associated with adjusting a qualifying customer's policy in line with the assessments outlined above.

- 1.24 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 experiencing temporary financial difficulty as a result of coronavirus. Firms should make it as easy as possible 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.
- 1.25 Firms should consider if it is appropriate to take these steps for all products that the customer holds with the firm.
- 1.26 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 increase premiums as a result of any reassessment and this is very unlikely to meet our expectations.
- 1.27 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 for some products, eg pure protection contracts, a reduction or suspension of a customer's cover may not be appropriate. This is particularly the case where a customer seeking to take out new cover later on may need to have their health re-assessed and potentially face more expensive premiums. Where it is not in the customer's best interests to reduce cover, firms should instead consider providing forbearance measures as set out below.
- 1.28 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, this could be done by introducing an expiration date for any changes to a policy, or by inviting customers to contact the firm when their circumstances have changed.

Payment deferrals

- 1.29 If amendments to the insurance cover do not help alleviate the temporary payment difficulties for customers paying their premium in instalments, then we would expect firms to grant customers a payment deferral unless it is obviously not in the customer's interests to do so.
- 1.30 In this guidance, 'payment deferral' means an arrangement made on or after May 14 2020 under which a firm permits a customer that pays their insurance premium in instalments to make no payments under their particular arrangements for a specified period, without being considered in arrears, and without the authorised party exercising the right to cancel the insurance policy unilaterally because of the payment deferral. This applies whether the payments are due under a regulated credit agreement, an exempt credit agreement or a pay-as-you-go arrangement.
- 1.31 For example, where an insurer allows a customer to pay via pay-as you-go arrangements or provides credit under an exempt credit agreement, and grants a payment deferral, the insurer should not cancel the policy solely because of non-payment. 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, the broker should not exercise the right to cancel the policy for non-payment where a payment deferral has been granted.
- 1.32 Where a customer is already experiencing or reasonably expects to experience temporary payment difficulties as a result of circumstances relating to coronavirus, and wishes to receive a payment deferral, a firm should grant the customer a payment deferral unless the firm determines (acting reasonably) that it is obviously not in the customer's interests to do so. There is no expectation under this guidance that the firm makes enquiries with each customer to determine the circumstances surrounding a request for a payment deferral, or whether this is not in the customer's interests. We have disapplied CONC 6.7.18R and 6.7.19R to give effect to this.
- 1.33 Firms do not need to comply with, or follow, CONC 7.3.3G to 7.3.6G and 7.3.8G when acting under this part of this guidance (Payment deferrals) except where the part states or indicates that firms should comply with, or follow, them. We have disapplied those provisions to that extent.
- 1.34 An example of a situation in which a payment deferral may be appropriate is where there is or will be a temporary reduction in household income that would have otherwise been used to make repayments related to the premium.

- 1.35 In determining whether a payment deferral is obviously not in customers' interests, firms should consider both customers' need for immediate temporary support and the longer-term effects of a payment deferral on the customers' situation. For example, a payment deferral would obviously not be in customers' interests if it would give them a greater overall debt burden compared to other solutions, such as reduced or waived premium repayments, that could equally meet customers' needs and if that burden would be clearly unsustainable.
- 1.36 The payment deferral period should be for a period of between 1 and 3 months, though firms can go beyond 3 months should they wish to do so, and it is in the customer's interests.
- 1.37 There is no expectation that firms should make enquiries with each customer to determine if the circumstances surrounding a request for a payment deferral are connected with coronavirus. But firms should have sufficient information and should consult with customers when determining the payment deferral period that is in the customer's interest. The decision as to the payment deferral period that is in a customer's interest can be made at a cohort rather than individual level.
- 1.38 Factors that a firm should consider in determining the payment deferral period that is in a customer's interest include:
- the remaining term of the credit agreement and insurance policy
 - the customer's ability to repay the accrued debt within the remaining term once the payment deferral period ends
 - whether it may be possible to give the customer an extension to the insurance policy and credit agreement
 - the impact of the payment deferral period on the customer's ability to get credit to pay an insurance premium via instalments in the following year
- 1.39 We recognise that due to the nature of premium finance credit agreements, a 3-month payment deferral period may not be in all customers' interests.
- 1.40 Customers who have not yet requested a payment deferral should be able to do so at any point during the period up to 31 October 2020. This means that a payment deferral could go beyond that date.
- 1.41 Where firms do not consider a payment deferral is appropriate they should, without unreasonable delay, offer other ways to provide temporary relief to the customer in accordance with treating the customer fairly. These could potentially include (but not be limited to):
- accepting reduced repayments, or rescheduling the term
 - waiving missed or late payment fees
 - permitting a customer to amend their repayment date without any cost

- 1.42 This guidance does not prevent firms from providing more favourable forms of assistance to customers, if the firm decides this is appropriate, in line with Principle 6, for example by writing off unpaid repayments as well as any associated interest, fees or charges.
- 1.43 A customer should have no liability to pay any charge or fee in connection with the permitting of a payment deferral, or a different solution where a payment deferral has been deemed not in the customer's interests, under this guidance.
- 1.44 Where a payment deferral has been granted in accordance with this guidance, we would not expect any party, including those acting under recourse arrangements, to seek payment from the customer until the end of the payment deferral period. We would encourage all firms in the distribution chain to work together in a joined-up way to ensure that best outcomes are achieved. For example, lenders that have entered into recourse arrangements with brokers may wish to consider whether it is appropriate to rely on the recourse arrangements during the current exceptional circumstances, where a customer is experiencing temporary payment difficulties because of coronavirus.
- 1.45 A firm should give customers adequate information to enable them to understand the implications of a payment deferral. This will include a customer having to make increased repayments or a lump sum to repay the sums owed under the credit agreement within the agreement term. It would also include the potential consequences of the customer's ability to secure credit to fund an insurance policy in the following year, should the sums due not be repaid within the agreement term.
- 1.46 Where a claim is made on a policy during a deferral period or where other forbearance measures are in place, firms can deduct outstanding premium repayments from sums due, in line with current practice. This is provided firms meet obligations to treat customers fairly and act in the customer's best interests. This applies to all insurance types.
- 1.47 Firms should take account of the need to reduce the likelihood, as far as possible, of a customer suffering adverse consequences as a result of accepting a payment deferral or a different solution where a payment deferral has been deemed not in the customer's interests. For example, when considering the credit risk and affordability risk presented by the customer when they seek additional credit to finance a new premium, the fact of the deferral should not itself be a determining factor. The firm can look beyond the stressed circumstances that led to the deferral or other solution, at whether the customer's financial position has improved, or is reasonably likely to improve over the term of the new credit agreement.
- 1.48 We expect 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.
- 1.49 Where a customer continues, or reasonably expects to continue, to face payment difficulties as a result of circumstances relating to coronavirus the firm should work with them to resolve these difficulties in advance of payments being missed.

- 1.50 Where a customer, at the end of a payment deferral is entitled to forbearance under our forbearance rules, the firm should treat the customer in accordance with our rules. Examples of forbearance set out in CONC include considering suspending, reducing, waiving or cancelling any further interest or charges, allowing deferment of payment of arrears or accepting token payments for a reasonable period of time (to allow a customer to recover from an unexpected income shock).
- 1.51 A firm adopting a blanket solution for all customers requiring further support at the end of a deferral period, is likely to contravene Principle 6.
- 1.52 In considering what is in the customer's interests, a firm should not have regard to its own commercial interests.

Expectations in relation to rates of interest (for firms providing premium finance)

- 1.53 Firms should consider reviewing any interest rates associated with instalments to ascertain whether they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of coronavirus.

Training, monitoring, record keeping and Credit Reference Agency reporting

- 1.54 Firms should ensure that staff are adequately trained to enable them to implement the firm's process for following this guidance.
- 1.55 Firms should keep records of how any process was designed sufficient to demonstrate that the support provided was consistent with customers' interests and of decisions why any support under this guidance was not considered appropriate.
- 1.56 Firms should record and monitor the support provided, including the measures offered where customers require further support at the end of the deferral period, as well as any issues which might impede customers' ability to access the assistance required under this guidance. Firms should use this information to keep their processes for following this guidance under review to ensure that customers' interests are being met and to refine their approach.
- 1.57 Firm supervisors may request access to a firm's records and the outcomes of a firm's customer monitoring.

- 1.58 The payment deferrals, described above, should be regarded as being offered in exceptional circumstances outside of the customer's control. In accordance with the relevant Coronavirus Data Reporting Guidance published by the Credit Reference Agencies in consultation with SCOR, firms should not report a worsening status on the customer's credit file during the payment deferral period.
- 1.59 Where customers have been unable to reach timely agreement with firms for a payment deferral because of firms' operational difficulties and subsequently miss a payment which is reported to their credit file, we would expect firms to work with customers and Credit Reference Agencies to ensure that any necessary rectifications are made to credit files to ensure no worsening status is recorded in respect of the payment deferral period. Firms should also ensure no default or arrears charges are levied in relation to payments missed in these circumstances.
- 1.60 Where at the end of a payment deferral period a mechanism to repay accrued amounts is agreed we would not expect this to result in any negative reporting (subject to subsequent payment performance being reported in the usual manner).
- 1.61 We expect firms to be clear about the credit file implications of other forms of support offered to customers, including at the end of payment deferral periods. We also expect firms to ensure that a reasonable period of time is afforded to determine an appropriate solution with customers before reporting any new arrears or arrangements to credit files.

Debt help and money guidance

- 1.62 We are providing this guidance on debt help and money guidance to help firms to help their customers in financial difficulty during coronavirus.
- 1.63 Firms should have regard to Principle 7 in any communication with their customers. They should also have regard to relevant parts in CONC, in particular, CONC 7.3.7A G.
- 1.64 Customers who are considering whether a payment deferral is right for them may benefit from firms referring them to the [Money Advice Service's Money Navigator tool](#).
- 1.65 When, at the end of the deferral period, a firm identifies that a customer continues, or reasonably expects to continue, to face payment difficulties, firms should alert customers to the availability of free and impartial debt advice, provide contact details for not-for-profit debt advice bodies and encourage the customer to seek advice.
- 1.66 Firms may also provide the customer with a link to our information page '[Dealing with financial difficulties during the coronavirus pandemic](#)' and signpost them to the Money Advice Service's Money Navigator tool.
- 1.67 If customers need help to work out what they can afford firms should aim to provide this information in time to allow that.