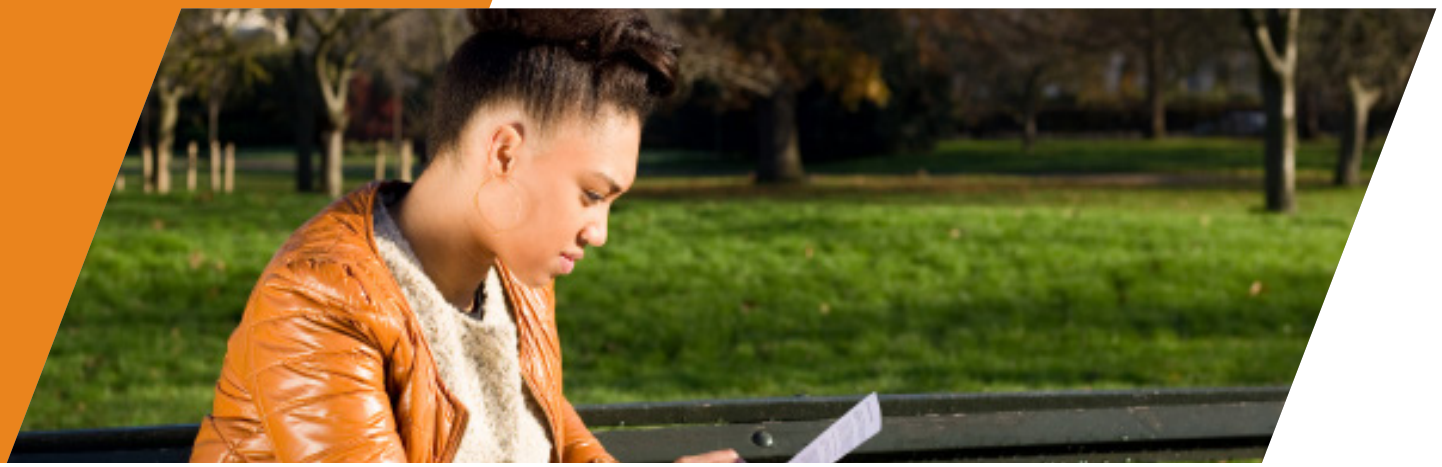
Financial Conduct Authority

August 2025 update:
This review is historical. See What we publish for more information and current views.

Mobile phone insurance: Follow-up review findings

December 2015



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1. Overview

1.1 In our report TR13/2 'Mobile phone insurance – ensuring a fair deal for consumers'[1] ("TR13/2") we identified a number of practices within the mobile phone insurance market that were leading to poor outcomes for consumers.

TR13/2 – Summary of key findings

- Product governance in firms was not always effective, with firms failing to design products that met consumer needs or to identify issues with their products;
- Product terms and conditions were not always clear and fair to consumers, with exclusions being written in broad terms open to interpretation. This led to many consumers having claims rejected when they believed they were covered;
- In some instances claims handling was slow and unfair, with claims being delayed or unfairly declined by firms;
- Some firms were not adhering to complaints handling rules, with customers being forced to complain in writing rather than by any other reasonable means.

As a consequence of these findings we took specific regulatory actions in relation to some firms and engaged with the wider market to drive changes in practices and improve customer outcomes.

1.2 We committed to follow up on TR13/2 to see how well firms had responded to our findings, and to establish whether the mobile phone insurance ("MPI") market has now embedded practices which consistently deliver fair outcomes to customers. This document sets out the findings from our work.

Scope of our review

1.3 In order to see whether customer outcomes in this market had improved, we selected a total of fourteen firms (including both insurers and intermediaries) to participate in this follow-up review. Together, these firms represent the majority of the MPI market. Six of the firms had participated in TR13/2, the others had not.

1 http://www.fca.org.uk/static/documents/thematic-reviews/tr13-02-mobile-phone-insurance.pdf

1.4 MPI policies are distributed through a range of different channels. To ensure that we could get an understanding of the entire market we selected firms which distribute products through high-street retailers, mobile phone networks, packaged bank accounts and standalone online sales.

1.5 We asked the firms to supply us with complete claims and complaints data for the 18 month period to December 2014. We analysed this data to identify trends, focusing particularly on:

a. The percentage of claims paid;

b. The time taken to handle claims;

c. The number of and reason for claims being declined;

d. The number of complaints received and how many the firms upheld.

1.6 We also reviewed the firms' policy wordings to identify whether the product terms and conditions were clear and fair.

2.
Our findings

Summary

2.1 We found that there was still a significant range of practices and outcomes within the MPI market. Some firms had improved their practices, with evidence that customers were now consistently receiving fair outcomes. However, there were still many firms included in this follow-up review where this was not the case and this is disappointing given our previous work in this area and the clear expectations we set out in TR13/2. We noted that the best performing firms (in terms of the data measures detailed above) had participated in TR13/2, with firms who had participated in this on average providing better customer outcomes than those who had not. However, not all of the firms who participated in TR13/2 were consistently delivering fair outcomes.

2.2 The review found that some improvements had been made since TR13/2:

- All of the firms in the review were able to demonstrate how they had changed their policy terms further to TR13/2 to use clearer terms in relation to loss and theft.
- Most firms now used 'single contact' claims processes.
- Six firms in the review paid out on over 80% of the claims they received.
- Three firms in the review took three days or less on average to process and settle successful claims.
- None of the firms in the sample declined claims solely because of a failure to report loss or theft to the network.
- All of the firms in the review had improved their training and practices around recording complaints and most firms now carry out appropriate review and root cause analysis of complaints.

2.3 However, we also found the following shortcomings:

- Some firms still required claims forms or other submissions which duplicated information already provided.
- Five firms in the review still appeared to operate a two stage claims process where some claims were routinely declined and any customers complaining were then likely to have that decision overturned.
- Three of the firms in the review paid out on less than 60% of the claims they received.

- Three firms in the sample took over 15 days on average to process and settle successful claims.
- Some firms declined claims solely because of breaches of conditions which were unlikely to relate to the circumstances of the claim, and there were other examples of loss and theft claims which appeared to be declined unfairly.
- Five of the firms in the sample settled claims by repairing phones with non-manufacturer parts, potentially voiding the phone warranty.
- In three firms complaints handling was not sufficiently independent of the rest of the business, increasing the risk that complaints were not handled fairly.

2.4 The shortcomings we observed showed that some firms do not appear to have fully taken on board our previous findings and recommendations. When we publish our findings in this way we expect all firms to take note of our work and make appropriate changes, not just those who were included in the review. Where we find evidence that firms have not responded appropriately to our findings, including firms not previously included in our work and new entrants to the market, we will take appropriate action using the full range of regulatory tools available.

2.5 As a result of this follow-up review, a number of firms have already made further improvements to their claims and complaints handling. We have asked all the firms included in this follow-up review to provide us with action plans to ensure they make the necessary improvements. Further to the shortcomings set out above, three of the firms involved in the review have also voluntarily agreed to compensate customers as part of the work being carried out under these action plans. We will continue to work with these firms to ensure that they complete any further actions required of them.

2.6 As a consequence of the poor practice and potential rule breaches we identified in some instances, we are addressing these issues with individual firms using the full range of regulatory tools available to us. This includes one case where we have commissioned a third party review of the firm's practices and controls, and we are also considering the use of Enforcement.

3.
Claims handling processes

3.1 TR13/2 found that in some instances claims handling was slow and unfair. In this review we looked at the outcomes customers received to see if claims were now being handled fairly and promptly[2]. The majority of the firms in the review had enhanced their claims handling since TR13/2, but we still found substantial variances in claims handling practices and customer outcomes across the MPI market.

Claims processes – Findings and examples

a. Most firms used a 'single contact' claims process where claim details are taken when the loss is first notified and (where possible) a decision is made immediately. Other firms required customers to complete claim forms (which often duplicated information already provided over the telephone), and in some cases the same firm varied the process between different product and brands, even where the policy terms were the same.

Some firms also required customers to provide specific documents to support their claim such as requiring the original receipt as proof of purchase or requiring proof of address for customers where they had already verified this information. In some cases it was not clear to us how the claim form or additional documents were used by the firm in assessing the claim, with it appearing to act as a barrier which made the claims process longer and more complex for customers.

Example 1

We saw one firm which required c.40% of customers to complete a manual claim form although they accepted claims information over the phone from other customers. When we examined the claim form it became clear that it simply duplicated information the customer had already supplied when they first made their claim.

b. We also found substantial differences in the approach taken to detecting fraud. Approximately half of the firms used targeted fraud checks and explained to us that they conduct regular analysis on their fraud referral rules to make sure they are effective and do not adversely affect genuine claimants. The remaining firms followed an approach which captured larger numbers of claims in a less targeted manner and had not reviewed their approach to fraud detection to assess if it was effective or whether it created a barrier to fair treatment of customers. In some cases it appeared that the fraud prevention measures in place were adversely affecting outcomes for customers with valid claims, by creating barriers or delays within the claims process.

2 As required by ICOBS 8.1.1R

Example 2

Four of the firms had a process as part of their fraud prevention measures whereby customers who made a claim in the first year of their insurance policy were required to pay not only an excess but also the full year's insurance premiums in one lump sum before a claim would be paid. This was despite the policies being sold as 'monthly' policies. This meant that a customer could be required to pay over £150 in order to receive a claim payment.

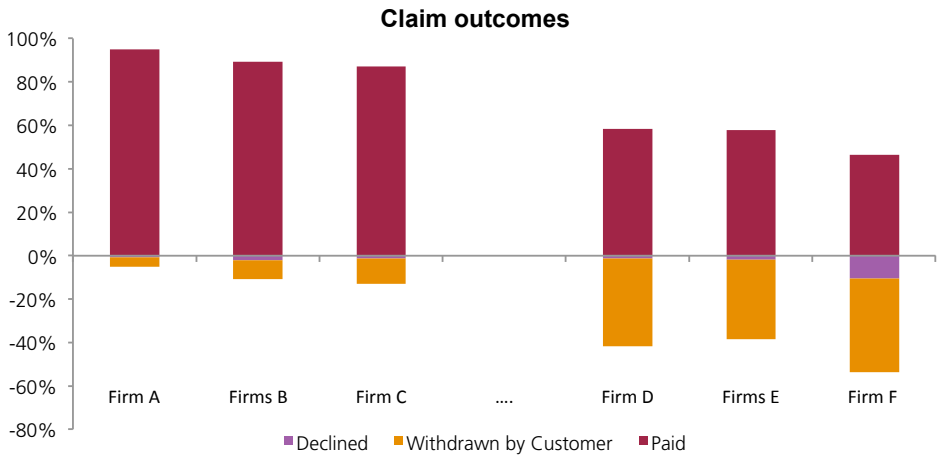
c. Many of the firms in the review provide MPI through different brands and four firms were delivering better service and outcomes on some brands than others, even though the product terms and conditions (and in some cases the underwriter) were the same.

Example 3

One firm in the review had two different branded products with identical terms and conditions. We found that identical claims for accidental damage would be processed very differently between the two products. Claims on the first product were generally completed by customers giving the claim circumstances over the phone and being told immediately whether the claim was authorised. Customers on the second product had to call the firm (or go to their website) to be sent a paper claim form to complete and post back, along with other supporting documentation. These different processes meant that 77.8% of claims for damage on the first product were being paid but on the other it was 55.8%, with the majority of the differential relating to customers who abandoned or withdrew their claim.

Claims processes – Outcomes and process time

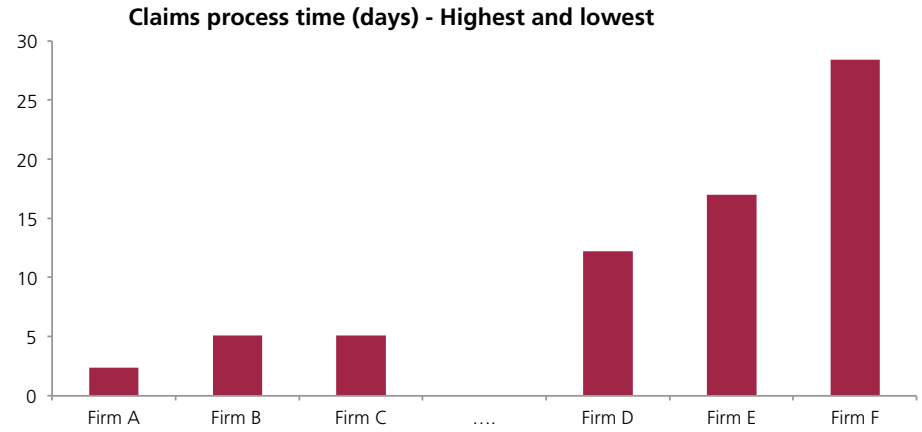
3.2 The differences in the claims handling processes, including those detailed above, meant that customer outcomes varied across firms. The chart below shows overall claims outcome for the three firms with the highest and lowest percentage of claims paid, across broadly comparable MPI products. It shows that one firm paid out on less than 50% of claims received, whilst one firm was paying out on over 90% of claims received:



3.3 Overall, there were three firms in the sample who paid out on less than 60% of the claims they received, whilst six firms paid out on over 80% of their claims.

3.4 Several firms had introduced processes where they proactively contacted customers who had not completed their claims, to find out whether they wished to continue the claim.

3.5 We found that claims handling was still much slower at some firms, with a substantial difference between the quickest and slowest. This chart shows how quickly on average completed claims were paid at the three quickest and slowest firms in our sample:



3.6 We also found that approximately a third of the firms in the review were not monitoring the entire time taken to process a claim. For example by:

a. Only starting the clock when the customer returned all the information they were asked to provide, rather than when the customer notified the claim;

b. Only measuring the time taken to repair a phone from when they received it, rather than measuring the total time taken including the time their courier took to collect and return the phone.

Example 4

One firm in the review did not record any information about the time taken to settle a claim once it had been accepted, and had no systems in place to control and monitor how quickly a replacement phone was sent to the customer.

4.
Claims decisions and settlement

4.1 TR13/2 found that claims were sometimes being declined unfairly. In this follow-up review, we found that the overall proportion of claims being declined had reduced, but that claims were sometimes still being declined unfairly.

Claims decisions – Findings and examples

4.2 By December 2014, all of the firms in the review had stopped declining claims solely on the basis that the customer had failed to report the loss or theft to their network.

4.3 We found that some firms were still declining claims solely for breaches of conditions which were unlikely to relate to the circumstances of the claim[3] without any further investigation. Examples included:

a. Declining a claim solely because there was no SIM card in the phone at the time of the incident or because an application ("app") had not been installed;

b. Declining a claim solely because the customer failed to report the incident within a specified timescale, where the failure had no impact on the firm's ability to assess the veracity of the claim or mitigate the loss. We saw instances where the failure to meet specified timescales as limited as 72 hours or 7 days were used as the sole basis for rejecting claims.

Example 5

One firm had a condition that the customer must install an app on their phone in order to be insured for loss or theft. During the period from July 2013 to December 2014 the firm declined over 4,000 claims solely on the basis that the customer had failed to install this app. There was no connection between the app and the circumstances of the claims being rejected (and this also had no impact on the ability of the insurer to mitigate the claim as the app was of no use to the firm in locating the phone or taking any other actions to mitigate the loss).

3 Contrary to ICOBS 8.1.2R (3)

4.4 We found that almost half of the firms in the review had declined a number of claims for reasons which showed that the customer would never be covered; for example, where the phone was too old to insure at the time the policy was sold. This indicated that these firms may have been failing to take appropriate steps when selling the product to check the customer was eligible for cover[4].

4.5 All the firms in the review explained to us that, following TR13/2, they had changed their policy terms to remove vague phrases such as 'public place' 'easily accessible place' and 'unattended loss'. This was evidenced by revised policy wordings providing clearer definitions. Whilst firms had changed these definitions to make them fairer to customers, we still saw examples of claims which appeared to be declined unfairly.

Example 6

In one case a phone was stolen from a changing room while the customer was swimming. The firm declined the claim without establishing whether there were lockers or other secure storage available, or whether the phone had been locked in one of these.

4.6 We also saw two of the firms in the sample declining some claims as fraudulent with limited evidence to support this initial assessment of the claim and without further investigation.

Example 7

We saw a claim declined where there was a difference of one day between the date of loss the customer gave and the date of loss shown with the customer's phone network. When challenged, the customer explained that he had initially reported the date and time of the loss to the network based on the time of his last call to his girlfriend (as shown on her phone), and she had accidentally told him the wrong date while he was providing these details. The claim handler involved accepted that the customer had made a genuine mistake. However, the firm then declined the claim without further investigation solely on the basis of this 'inconsistent information' because the customer had made this error when initially reporting the loss to the network.

Claims settlement – Findings

4.7 Firms told us that it is sometimes difficult for them to obtain sufficient stock of replacement phones or parts to use in repairs. Some firms managed this by paying for the customer to arrange a repair directly with the phone manufacturer. However approximately a third of the firms in the sample settled claims by repairing phones with non-manufacturer parts, which may mean that:

a. The manufacturer's warranty was voided;

b. The customer was not being indemnified by being put back in the position they were in before the claim.

4 Contrary to ICOBS 5.1.1G

5.
Complaints handling

Findings and examples

5.1 We found substantial improvements in complaints handling compared to TR13/2. All firms set out how they record all complaints, including those which they are not required to report to us (although in practice not all firms were doing this consistently and comprehensively). Many firms also showed us that complaints are now a standing agenda item at senior management meetings.

5.2 All of the firms in the review explained how they have trained their call centre staff to record all complaints, and have quality assurance measures – such as call monitoring – in place to ensure that staff follow this training. This provided increased confidence that all complaints made to their call centres were being recorded.

5.3 We found that most firms were conducting full and independent reviews of complaints, and robust root cause analysis. However, we did see three firms where complaints handling was not sufficiently independent from other areas of the business, increasing the risk that complaints were not handled fairly in accordance with our DISP rules. We saw instances where this resulted in complaints handlers simply re-iterating the original reasons for the claim declinature rather than investigating and addressing the substance of the complaint.

Example 8

In one firm a number of complaints relating to claims were rejected on the basis that the initial claims were deemed to be fraudulent. The letters sent to customers included phrases such as the claim being declined "due to systems used" and the customer having provided "misleading information". No additional work was performed and no further explanation was given to the customer. This is not consistent with their obligations as set out in DISP1.4.1.

5.4 We found evidence indicating that five firms still operated a two-stage claims process where claims are routinely declined and customers who complain are then likely to have that decision overturned. This was specifically raised in TR13/2 as a barrier to claims being handled promptly and fairly (as required by ICOBS8.1).

Example 9

We saw one firm where around 80% of complaints relating to declined claims resulted in that decision being overturned and the claim being paid.

5.5 We also saw a minority of the firms in the sample having insufficient oversight of all customer contact points, to ensure that complaints made by any reasonable means are recorded and handled appropriately and consistently.

6.
Conclusion and next steps

6.1 Our follow-up review to TR13/2 has evidenced that some improvements have been made, with some firms now delivering fair outcomes to customers more frequently and consistently, based on the measures we reviewed. However, there remain many firms whose conduct still falls below our expectations, with further improvements required.

6.2 The shortcomings we observed showed that some firms do not appear to have fully taken on board our previous findings and recommendations. When we publish our findings in this way we expect all firms to take note of our work and make appropriate changes, not just those who were included in the initial thematic review work. Where we find evidence that firms have not responded appropriately to our findings, including firms not previously included in our work and new entrants to the market, we will take appropriate action using the full range of regulatory tools available.

6.3 Following our intervention, a number of firms have already made further improvements to their claims and complaints handling. We have asked all the firms included in this follow-up review to provide us with action plans to ensure they make the necessary improvements. Further to the shortcomings identified, three of the firms involved in the review have also voluntarily agreed to compensate customers as part of the work being carried out under these action plans

6.4 We will continue to work with the firms included in the review to ensure that they complete any further actions required of them.

6.5 As a consequence of the poor practice and potential rule breaches we identified in some instances, we are addressing these issues with individual firms using the full range of regulatory tools available to us. This includes one case where we have commissioned a third party review of the firm's practices and controls, and we are also considering the use of Enforcement.

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