

Policy Statement

PS23/9

Finalised insurance guidance
on supporting customers in
financial difficulty

July 2023

This relates to

Consultation Paper 23/1
which is available on our website at
www.fca.org.uk/publications

Email:

cp23-1@fca.org.uk

Contents

1.	Summary	3
2.	The guidance	7
Annex 1		
	List of non-confidential respondents	18
Annex 2		
	Abbreviations used in this paper	19
Appendix 1		
	Made rules (legal instrument)	



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Chapter 1

Summary

- 1.1** In January 2023, we published a consultation paper (CP23/1) on insurance guidance for supporting customers in financial difficulty. This was to replace the insurance aspects of our finalised guidance for insurance and premium finance firms on supporting customers in financial difficulty ('Covid guidance') issued in November 2020. In this paper, we summarise the feedback we received on our proposed measures and our response.
- 1.2** In the consultation, we set out our proposals to introduce guidance in ICOBS 2 to help protect customers who have non-investment insurance policies (including General Insurance and Pure protection) and are in financial difficulty. The guidance would give firms more clarity about our expectations of them in supporting their customers. This will help firms meet their obligations under ICOBS 2.5.-1R (the Customer's Best Interests rule), Principle 12 and PRIN 2A ('the Consumer Duty'); putting customers' needs first and acting to deliver good outcomes for customers experiencing financial difficulty. Following feedback, we are proceeding with finalising our guidance, with some amendments to address points raised by some respondents.
- 1.3** In this Policy Statement we generally use the terms 'customer' and 'consumer' in line with the application of the rules; however, sometimes context dictates that we use the terms in their non-technical sense.

Who this affects

- 1.4** The guidance affects a range of stakeholders including:
- insurers and insurance intermediaries
 - premium finance firms
 - consumers in financial difficulty
 - consumer representative bodies
 - charities and other organisations with a particular interest in insurance and customers in financial difficulty
 - trade bodies representing insurance firms
- 1.5** The guidance will come into effect on 31 July 2023.

The wider context of this policy statement

Our consultation

- 1.6** In our CP we highlighted the increasing challenges that both consumers and firms have faced in recent years, including as a result of increased cost of living pressures which have disproportionately impacted the poorest households. We set out steps we have taken to improve support for customers and make it clearer to firms about how they can support customers, including those in financial difficulty. This included publishing the [Consumer Duty, Business Plan \(2023-2024\)](#) and our strategic plan for the cost of living, as well as our Covid guidance.
- 1.7** In September 2022, we sent a Dear CEO letter setting out our expectations of firms in the insurance sector given increased cost of living pressures. This letter set out how firms should provide appropriate support to customers in financial difficulty, highlighting that low income households already tend to be less insured, are more likely to pay for their insurance on a monthly basis and often pay higher premiums.
- 1.8** In December 2022, we issued a questionnaire to a sample of General Insurance (GI) firms to assess whether they were meeting our Dear CEO letter expectations on supporting customers through the rising cost of living. We have published our [cost of living findings on good and poor practice in the GI market](#). We have seen examples of good practice, but we have also identified areas for improvement, particularly on identifying, recording and subsequently supporting vulnerable customers and claims handling.
- 1.9** In May 2023 we published our Financial Lives Survey recontact report setting out consumers' experiences of increased cost of living pressures. This highlighted that in the 6 months to January 2023, 1 in 8 general insurance or protection policyholders cancelled at least one of their policies or reduced the level of cover on at least one of their policies.
- 1.10** We are continuing to engage with industry around the implementation of changes for the Consumer Duty which comes into force on 31 July 2023 for new and existing products and services (and for closed products and services on 31 July 2024). As part of this we sent a letter to GI firms in February 2023 to help them implement and embed the Consumer Duty effectively.

How it links to our objectives

Consumer protection

- 1.11** Our guidance will help provide better and more consistent protection for insurance customers in financial difficulty across the non-investment insurance market. We expect firms to consider actions to support customers and take into account their circumstances, including any characteristics of vulnerability in line with our [fair treatment of vulnerable customers guidance](#).

- 1.12** Our guidance will bolster our aim, outlined in our [Business Plan](#), of putting consumers' needs first. The guidance sets out our view on what firms should consider to comply with our Customer's best interest rules and Consumer Duty rules. In particular, it reminds firms of Principle 12 which sets out that they must act to deliver good outcomes for consumers. For more information on the Consumer Duty, please see our guidance in [FG22/5](#).

Market integrity

- 1.13** We expect the guidance will improve confidence in the insurance sector.

Outcome we are seeking

- 1.14** We want to ensure good outcomes for customers in financial difficulty. Our guidance gives firms clear expectations on actions they should consider to support customers.

Measuring success

- 1.15** As part of our ongoing supervision of firms we will monitor intelligence, feedback, and complaints we receive about how the guidance is being implemented, including from consumers. This could include reviewing the volume of complaints from consumers in financial difficulty about how firms treat them, as well as data from our Financial Lives Survey.

Summary of feedback and our response

- 1.16** We invited comments on our consultation and received 23 responses from stakeholders including firms, trade bodies, charities and consumer groups.
- 1.17** Most respondents supported or broadly supported our proposed extension of the scope to cover all customers in financial difficulty and of keeping the triggers outlined in our Covid guidance.
- 1.18** Many respondents also supported the call for firms to continue to provide appropriate support through signposting. They noted that consumers experiencing financial difficulty will be affected in different ways and would benefit from tailored measures that acknowledge their individual circumstances.
- 1.19** Some firms asked us to clarify how the guidance will apply to commercial customers. They questioned the appropriateness and proportionality of applying the guidance to all commercial customers and sought flexibility about how to support different customers. Others said they needed further information on how to interpret our expectations around 'reasonable steps' a firm should take, to make customers aware of the support available. They also wanted more clarification on the potential need to create new systems, processes, and training to contact customers whom they have identified as potentially experiencing financial difficulty but who have not contacted the firm about their circumstances.

What we are changing

- 1.20** We are now publishing our finalised guidance, subject to a small number of changes. These include amendments to:
- Clarify that the guidance does not set expectations in relation to contracts of large risks distributed to commercial customers.
 - Include a provision setting out that the options available to, and the level of support provided by, firms to achieve the intended outcomes under the guidance will vary. This will depend on the nature of the firm's relationship with the customer, the firm's role in the distribution chain, the type and characteristics of the customer and type of product.
 - Include a provision setting out that firms should consider whether, in the particular circumstances, it would be appropriate to refer the customer to another firm in the distribution chain who is in a better position to support the customer.
- 1.21** In addition to the above, we have also given further explanation about the guidance throughout this Policy Statement (PS).

Equality and diversity considerations

- 1.22** Overall, we do not consider the guidance will materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). Where groups with protected characteristics are more likely to be in financial difficulty, then our guidance should help those customers benefit from better outcomes.

Next steps

- 1.23** The guidance will come into effect on 31 July 2023. Firms affected should consider any changes they need to make to their processes to meet the expectations in this guidance.

Chapter 2

The guidance

- 2.1** This chapter summarises the feedback we received to our proposed guidance, our response to that feedback and clarifications and amendments we are making to the guidance.
- 2.2** The key elements of the guidance, on which we invited feedback, are:
- purpose
 - scope
 - when should firms act?
 - actions firms should consider
 - signposting
 - Cost Benefit Analysis (CBA)

Purpose

- 2.3** In the CP, we explained that the guidance would sit within ICOBS 2 (General Matters), building on ICOBS 2.5.-1R (the Customer's best interests rule) and the Consumer Duty. The purpose of the guidance is to support firms to act to deliver good outcomes for customers experiencing financial difficulty as well as setting out outcomes firms should aim to achieve.
- 2.4** Most respondents supported the purpose of the guidance. However, several questioned whether the guidance was still needed, as the Consumer Duty rules come into force on 31 July 2023 for products and services that are open for sale or renewal.
- 2.5** Some industry respondents commented that support provided to customers will vary depending on the nature of the relationship between firms and their customers. They contrasted, for example, a firm with no direct relationship with a customer (but which forms part of the distribution chain) and a firm with an ongoing relationship with a customer in financial difficulty.
- 2.6** One firm's response suggested that the guidance should differentiate between different types of insurance products, and how they operate.
- 2.7** Another firm asked whether our guidance expectations differed depending on whether the insurance was 'essential' or what they termed 'discretionary'.

Our response

We are finalising our proposals for the purpose of the guidance, following the feedback received. We consider that the guidance complements the firms' implementation of the Consumer Duty. The guidance helps provide clarity to firms about how they can comply with ICOBS 2.5.-1R (the customer's best interests rule) and the Consumer Duty obligations and provide appropriate support to customers in financial difficulty.

In the CP, we recognised the particularly important role that firms with an ongoing customer relationship have in supporting them in situations of financial difficulty. We recognise that what firms can do to support customers will vary depending on their role in the distribution chain and the nature of their relationship with customers. For example, where an intermediary has sold a policy to a customer (and has an ongoing relationship with that customer) it will probably be the firm most likely to become aware that the customer is, or likely to be, in financial difficulty. However, it could be another firm that becomes aware, for example, if a different firm is responsible for collecting premiums and the customer has missed a premium payment. On the other hand, where a policy was sold by an insurer, the insurer is likely to be in a position to identify a customer in financial difficulty, for example, where the customer contacts the insurer to reduce their premium or has missed premium payments.

We are including an additional provision in the finalised guidance making it clear that there are factors determining the options available to firms and the level of support they can provide when they have reason to believe a customer is or is likely to be in financial difficulty. These include the nature of the relationship with the customer, a firm's role in the distribution chain, type of product and also the type and characteristics of the customer. This additional provision will clarify that the action taken by a firm to support a customer in, or likely to be in, financial difficulty will vary depending on the circumstances.

We recognise that firms with a direct relationship with the customer are likely to be in a better position to identify customers in financial difficulty and provide support. We are adding a provision into the guidance setting out that firms should consider whether, in the particular circumstances, it would be appropriate to refer the customer to another firm in the distribution chain who is in a better position to support the customer. However, we do not expect firms to push the onus to provide support onto other firms where it is not appropriate to do so.

We also remind firms that our Consumer Duty applies to firms that can determine or materially influence retail customer outcomes. It applies proportionally based on what is reasonable in the circumstances depending on factors such as the role of the firm and its influence over customer outcomes. Our guidance complements the Consumer Duty.

We are not making any distinction between essential and discretionary insurance products in our guidance. This is because we recognise customers' individual circumstances and preferences will impact on the importance they place on their insurance or protection products, and the degree of potential hardship they would suffer if they could not maintain the cover. For example, while contents insurance is discretionary, it could be particularly important to a self-employed customer that runs a lot of their business from their home.

Scope

- 2.8** In the CP, we proposed that the guidance would:
- apply to all firms subject to ICOBS
 - cover both retail and commercial customers, and
 - cover all insurance customers in financial difficulty, rather than only those in financial difficulty as a result of Covid
- 2.9** All the respondents who commented supported the scope of the guidance to cover insurance customers in financial difficulty, regardless of the reason for the difficulty.
- 2.10** Some respondents, including trade bodies, asked us to clarify the scope of the guidance and our expectations about commercial customers. Several suggested that we should align the guidance with the scope of the Consumer Duty and exclude some contracts of large risks and some activities in respect of group policies. They noted that including large risks, and to a lesser extent group policies, would create a higher burden on firms. It could mean firms had to introduce new processes to support these customers, and it is unlikely to be appropriate for a smaller firm to offer financial support to a company larger than itself.
- 2.11** In the CP we set out that, when meeting their obligations under our rules, firms should consider any wider obligations or duties that their customers may owe to others that could be relevant to the insurance contract. For example, whether the contract arrangements include others who may gain a benefit from the policy. Two trade bodies questioned this, noting that firms would not necessarily have data on, or knowledge of the ultimate beneficiary, such as individual leaseholders in relation to group leaseholder policies.

Our response

Given the wide support for expanding the guidance to cover customers in financial difficulty, regardless of the reason, we are finalising this approach in the guidance.

In the CP, we proposed that the guidance would also cover commercial customers and to align with the approach in the Consumer Duty to provide protection for a wider range of customers. Whilst ICOBS 2 would usually apply, we are clarifying that the guidance does not set expectations in relation to contracts of large risks distributed to commercial customers. We recognise that, for these types of contracts, these customers are less likely to need support from their insurance firms, and there is not currently a sufficient case for retaining this type of business in scope. This approach also better aligns with the Consumer Duty, and will reduce the burden on firms and ensure the guidance is better targeted at those customers and businesses more likely to benefit from the support that firms can provide.

The Consumer Duty does not apply to certain activities in relation to group policies where they are for the purpose of a person, other than the legal holder of the policy becoming a policyholder and do not involve any direct contact between the firm and that person. In practice, our insurance guidance for supporting customers in financial difficulty is unlikely to be relevant to those activities in relation to group policies that are excluded from the Consumer Duty scope. Commercial customers and group policies as a whole are not excluded from the scope of the Consumer Duty (only in the circumstances set out above), so the guidance may still be applicable in certain specific circumstances involving commercial customers and group policies, as relevant.

In addition to our clarification on scope, and as set out in our response under Q1, we are including an additional provision setting out that options available to firms and the level of support a firm can provide will depend on a number of factors. This approach should mean that support is provided where it is needed most without creating an undue burden on firms.

In response to the feedback on data and knowledge of financial difficulties of duties owed from the customer to others, such as a property owner to leaseholders, under our insurance guidance we would not expect firms to be aware of financial difficulties for persons to whom their customer may owe duties or obligations. However, when considering the outcome for their customer, we do expect firms to take into account the duties and obligations their customer may owe to others. For example, where actions such as policy cancellation are a possibility. We expect that the information firms have, for example their customer's demands and needs statement and the type and nature of the policy they hold, will indicate the likelihood of these duties and obligations.

When should firms act?

- 2.12** In the CP, we proposed that one trigger point was when a customer contacts the firm because they are in financial difficulty. We also proposed that where customers do not contact the firm, where firms have identified that a customer is, or likely to be in, financial difficulty it should take reasonable steps to inform the customer of the support available. The CP also set out examples of indicators of financial difficulty and proposed that firms should not cancel policies without considering actions to support customers.
- 2.13** All respondents who commented on our proposal around the trigger point where customers contact a firm supported our proposed approach. Most respondents also supported our proposed guidance that, where customers do not contact the firm and where the firm has identified that a customer is, or likely to be in, financial difficulty, it should take reasonable steps to make the customer aware of, and understand, the support available.
- 2.14** Some respondents asked us to clarify our expectations about the respective responsibilities of insurers and other parties (such as intermediaries) in the distribution chain, including where a firm does not have a direct relationship with the end customer. Several respondents asked for further clarification around the reasonable steps to make the customer aware of the support available, where a customer has not contacted the firm. One consumer body said that we should expect firms to make proactive attempts to identify and reach out to customers who may be struggling.
- 2.15** Several respondents agreed with the expectation that firms should not cancel insurance policies solely because of non-payment, without first considering actions to support customers who may be in financial difficulty. However, one trade body asked for clarification about how this would apply where firms may not have a direct relationship with customers and may not be aware of the reasons for a missed payment. Another respondent said that requiring insurers to avoid or delay cancellation of cover could create significant unfunded risk exposures and discourage firms from allowing customers to pay for their insurance in instalments.
- 2.16** One trade body encouraged us to distinguish, for possible indicators of financial difficulty, between requested cancellation of cover mid-term and cancellations at renewal.
- 2.17** One trade body asked us to clarify whether this guidance applies to firms where customers who are, or might be, in financial difficulty may have approached the firm about another product, such as a mortgage, where the customer had also been sold an insurance product by the firm.

Our response

Following the strong support for the trigger point where a customer contacts the firm, we are including it in the finalised guidance.

We are also proceeding with the other trigger around where firms have identified that a customer is, or may be, in financial difficulty. We recognise that it is not possible or proportionate for firms to identify all customers who are experiencing financial difficulty, particularly where there would be little or no after-sales contact or where other firms may have the main ongoing relationship with the customer.

Our guidance does not introduce new requirements on firms to take additional steps, or create new processes and systems, to identify customers who may be in financial difficulty. It clarifies the circumstances and trigger points where we would expect firms to do so. In addition, firms will already be taking steps to implement customer support processes under the Consumer Duty to help meet customers' needs, and this guidance should help them identify the particular circumstances of financial difficulty where this is needed. We remind firms of the indicators noted in the CP, the [2021 guidance on the firm fair treatment of vulnerable customers](#) and customer support requirements under the Consumer Duty.

However, different firms in the distribution chain should work together, when appropriate, to provide support to customers in financial difficulty, as certain firms may be in a better position to provide that support. In some cases, firms might need to engage with each other to consider potential support actions before cancelling insurance cover. However, we do not expect firms to unduly delay cancelling policies where customers do not contact the firm. In the event of non-payment of premiums, if a firm has taken reasonable steps to make the customer aware of the support available and the customer has not responded, then the firm may, as appropriate, cancel the policy.

We know that cancellations at the point of renewal are more likely to be due to the customer changing provider than because of financial difficulty. In some cases, customers cancel or miss direct debit payments for reasons other than financial difficulty, but firms would normally contact them before cancelling cover. We would be concerned if firms cancelled cover without first contacting customers. We expect firms to consider support options to reduce the impact of the financial difficulty, enable the customer to maintain an appropriate level of cover and reduce the risk of them losing cover that is important to them.

Options firms should consider

- 2.18** In the CP we proposed a number of options that firms should consider, such as reassessing the risk profile of the customer and considering whether there are other products the firm can offer that would provide appropriate cover at a price the customer can afford. Most respondents who commented agreed, or broadly agreed, with the proposals. Some respondents argued that we should extend the list of

options. Several respondents suggested that we should consider limiting or prohibiting cancellation fees where a policy has been cancelled for affordability reasons. This would make it easier for those customers to shop around for alternative products and incentivise the development of more tiered products. Another respondent suggested that the Insurance Product Information Document (IPID) could be reissued to customers, so they have a chance to consider the benefits from the policy again.

- 2.19** One trade body, while broadly supporting the proposals, identified potential difficulties with certain actions. For example, it was concerned that reassessing the customer's risk could result in intrusive questioning. Requiring the firm to consider all products held with the firm holistically could require a significant amount of work and resources, especially where policies were managed on different systems or have been bought through different distribution channels.
- 2.20** Several respondents suggested the guidance should recognise that the actions will depend on a range of factors. One respondent suggested that, where dealing with larger commercial customers, it should be down to firms to decide what type of support is appropriate.
- 2.21** A few respondents recommended that there should be some recognition of the difference in products such as core GI products (eg motor and home, medical products, and pure protection products) and add-on products such as Key Cover or Guaranteed Asset Protection (GAP) insurance.
- 2.22** One respondent noted that if a customer reduces their cover then this could mean the customer faces increased financial hardship if they need to claim and cover is lower.
- 2.23** Two respondents asked for additional guidance on what our expectations are for the level of support to be provided to customers using advised and non-advised distribution channels. One of these respondents was concerned that, where a customer needs to make difficult choices about what insurance may be more important than others, this could potentially result in the firm making a personal recommendation or in the customer cancelling important cover or keeping insurance they cannot afford.

Our response

Given the broad support for our proposals we are finalising the guidance on our list of actions. The list of options set out in our consultation that firms should consider is not exhaustive and, as we set out in the CP, there may be additional or alternative actions firms could consider depending on the circumstances. We recognise that the level and type of support partly depends on the nature of the relationships between the firm and the customer as well as the type of product. We believe the guidance provides an appropriate balance between setting expectations of actions firms should consider, including guidance around fees, and allowing firms to consider alternative or additional actions that may be more appropriate in the circumstances.

We also recognise that options such as providing the customer with the IPID could give them an opportunity to consider the benefits of keeping the policy.

We know that, in some circumstances, it may not be pragmatic for firms to take into account all the products a customer has with it unless the customer has informed the firm about the different products. We also recognise that, where cover is changed, this could affect claim pay-outs if there is a claim. Similarly, if a policy is cancelled, protection for the customer will be removed.

On the distinction between advised and non-advised, the guidance does not impose new requirements on firms to provide advice or recommendations to customers where to do so would be in conflict with the firm's regulatory status and/or contractual terms. For non-advised channels, it would be appropriate for firms to present the options available to customers without providing a recommendation. Subject to suitability, firms that provide 'tiered' cover or alternatives with fewer optional extras could, for example, offer these to customers.

Signposting to customers

- 2.24** In the CP we proposed that firms should take reasonable steps to make customers aware of, and understand, the support available and to allow those customers to easily contact the firm. We did not propose that firms should make clear available options in their general communications to groups of customers who may be in financial difficulty.
- 2.25** Most respondents supported our signposting proposals and agreed that we should not require firms to list the possible options for support in their general communications. However, several respondents suggested that it may be useful to see the variety of options within general communications, as this can be a driver in encouraging customers to contact firms for help. One of these respondents suggested that firms should also signpost wider financial guidance on sites such as [Money Helper](#).
- 2.26** Some respondents asked whether we expected firms to send communications about financial difficulty to a wider customer base or whether they needed to be tailored to each customer's individual needs, which could significantly increase the burden on firms.
- 2.27** One trade body suggested that including prominent information on firms' telephone recorded messages could make it more difficult for some vulnerable consumers; especially where the speed of messaging is too quick, or too slow, for particular customers.
- 2.28** Another trade body raised concerns that the guidance around channels of communication appears to presuppose that existing options for contacting firms may be inadequate.
- 2.29** One respondent asked if firms could take steps to assess the scale of financial difficulty when they are contacted by a customer in financial difficulty.

Our response

Given the strong support for our signposting proposals, we are finalising these in the guidance.

Our view is that it is more important for firms to help customers identify the support available and how to contact the firm than to give customers a list of options that may not always be feasible, when compared to their needs and/or circumstances. This approach can also help ensure that support is better tailored to the needs of each customer in financial difficulty. However, we acknowledge that it can be helpful for firms to signpost customers to wider support and guidance available independent of the firm.

Our proposals for communication to customers to make them aware of the support available do not include expectations that messaging is tailored to the individual. Rather, messaging could be targeted at groups of customers, including those that may be vulnerable, explaining the available support and encouraging them to contact the firm if they are in financial difficulty.

Our guidance does not create new requirements for firms to speak to all customers individually who may be in financial difficulty. If customers do contact the firm in response to these communications, we expect firms' consideration of options and their subsequent communications to reflect the customers' circumstances. Firms could include messaging about financial difficulty and ways to contact the firm in standardised letters sent to customers that have missed a payment.

Firms should consider what, if any, information should be included or prioritised on telephone recorded messaging to help customers who may be in financial difficulty seek help. It may decide that alternative communication – for instance, contractual documents, website, or advertising – may be more suitable.

Our guidance sets expectations for firms to consider the different communication needs of customers to make it easier for customers to contact them. In practice, existing channels of communication may be adequate. There may be customers that are contacted by email but would prefer to speak to the firm by phone.

Lastly, where firms are contacted by customers in financial difficulty, firms may, choose to take additional steps to understand the nature and severity of the challenges facing the customer.

Feedback on our Cost Benefit Analysis (CBA)

- 2.30** In our CBA, we set out that we expected costs to be of minimal significance.
- 2.31** Most firms and trade associations responding to this question felt that we had significantly underestimated the time and resources required to successfully implement the guidance, with costs potentially being passed on to customers in higher premiums. Some respondents had concerns about the extension of scope covering all commercial customers which would require an expansion of support processes. In responses to other questions in our CP, respondents highlighted potential challenges from the guidance, including where they have no direct contact with the customers, having to consider all products a customer has holistically, the burden of taking some actions and tailoring signposting communications to individuals.
- 2.32** A couple of firms supported the CBA, with one noting that, as the guidance largely reflects the expectations of the 'Covid guidance' and the Consumer Duty, it would not incur significant additional implementation costs.

Our response

As we said in our CP, our guidance keeps many of the provisions in our existing 'Covid guidance'. It is consistent with the expectations in our September 2022 [Dear CEO letter](#), and with those of the Consumer Duty. So firms that are currently following our existing guidance and expectations, and implementing the Consumer Duty requirements, should not incur material additional implementation costs beyond familiarisation costs. Firms not doing so would incur higher costs, but not directly as a result of the new guidance, which does not introduce new rules, but rather is guidance on existing rules (including rules coming into force on 31 July 2023).

In this PS, we have included additional clarification around our guidance in response to the feedback we have received. We believe that, in some of the areas, firms may have assumed we were expecting greater adjustments – and therefore costs – than is the case.

Firstly, we have clarified that the guidance does not set expectations in relation to contracts of large risks distributed to commercial customers. We would expect this will address the concerns expressed. This will mean that firms will not need to extend processes to a wider range of customers and avoid some of the additional costs firms had reported.

We are also including an additional provision setting out that options available to and the level of support a firm can provide to customers in financial difficulty will depend on a number of factors, such as the role of the firm. This will help ensure that any expectations on firms are not disproportionate.

Finally, we have included a number of additional points of clarification in the PS, which should help alleviate concern about the potential burden of the guidance. For example, we recognised it may not be pragmatic for firms to take into account all the products and confirmed that the guidance does not create new requirements for firms to speak to all individual customers who may be in financial difficulty. We also recognised that there may be alternative or other actions that firms should consider in providing support to customers in financial difficulty.

Premium Finance

- 2.33** Several respondents asked about the premium finance guidance. On 25 May we launched a [consultation \(CP23/13\)](#) on how standards set out in the Tailored Support Guidance (TSG) for credit and mortgage firms will be brought into our Handbook on a permanent basis. If introduced, these proposals would apply to premium finance firms subject to our Consumer Credit (CONC) sourcebook and replace those for premium finance in our Covid insurance and premium finance guidance for customers in financial difficulty. During the consultation we expect firms to continue to provide appropriate support and to consider our Covid guidance, as set out in the [Dear CEO letter](#) we published in September 2022.

Annex 1

List of non-confidential respondents

Age Partnership Ltd.

Association of British Insurers

Association of Financial Mutuals

Association of Mortgage Intermediaries

Atradius Crédito y Caución S.A De Seguros Y Reaseguros

British Insurance Brokers' Association

Consumer Council of Northern Ireland

Consumer Panel

Fair4All Finance

London Market Association

Money Helper

The Association of Consumer Support Organisations

Annex 2

Abbreviations used in this paper

Abbreviation	Description
CBA	Cost Benefit Analysis
CEO	Chief Executive Officer
CONC	Consumer Credit Sourcebook
CP	Consultation Paper
FG	Finalised Guidance
GAP	Guaranteed Asset Protection
GI	General Insurance
ICOBS	Insurance Conduct of Business Sourcebook
IPID	Insurance Product Information Document
PRIN	Principles for Businesses
PS	Policy Statement
UK	United Kingdom

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Appendix 1

Made rules (legal instrument)

INSURANCE: CONDUCT OF BUSINESS SOURCEBOOK (CUSTOMERS IN FINANCIAL DIFFICULTY) INSTRUMENT 2023

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137T (General supplementary powers); and
 - (2) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 July 2023, immediately after the commencement of the Consumer Duty Instrument 2022 (FCA 2022/31).

Amendments to the Handbook

- D. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Insurance: Conduct of Business Sourcebook (Customers in Financial Difficulty) Instrument 2023.

By order of the Board
29 June 2023

Annex

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this annex, all of the text is new and is not underlined.

Insert the following new section, ICOBS 2.7, after ICOBS 2.6 (Distribution of connected contracts through exempt persons).

2.7 Customers in financial difficulty

Purpose

2.7.1 G The purpose of the *guidance* in this section is to give the *FCA*'s view on the outcomes *firms* should aim to achieve and actions they should take to deliver good outcomes for *customers* experiencing financial difficulties.

2.7.2 G The *guidance* complements:

- (1) *Principle* 12, which requires *firms* to act to deliver good outcomes for *retail customers*;
- (2) the obligations in *PRIN* 2A (the Consumer Duty), including in particular the *rules* in *PRIN* 2A.2 (cross-cutting obligations), *PRIN* 2A.5 relating to communication, interacting on a one-to-one basis and adapting communication, *PRIN* 2A.6 (Consumer Duty: retail customer outcome on consumer support) and expected standards in *PRIN* 2A.7; and
- (3) the *customer's best interests rule*.

However, it is not, and does not seek to be, a complete exposition of all of a *firm's* responsibilities to *customers* experiencing financial difficulties, nor does it alter, replace or substitute applicable *rules*, *guidance* or law, including those in relation to credit agreements.

2.7.3 G The *guidance* does not set expectations in relation to *contracts of large risks* distributed to *commercial customers*. However, *firms* distributing *contracts of large risks* to *commercial customers* continue to be subject to *FCA rules* (including the *principles*) referred to in *ICOBS* 2.7.2G in relation to that business, and will need to continue to consider what those *rules* may require of those *firms* in their particular circumstances.

Outcomes firms should aim to achieve

2.7.4 G Where a *firm* identifies a *customer* in financial difficulty, the *firm* should:

- (1) provide or ensure that the *customer* is provided with good outcomes-focused support that is appropriate given the needs and characteristics of the *customer* to:

- (a) reduce the impact of the financial difficulty on the *customer*;
 - (b) enable the *customer* to maintain an appropriate level of insurance that the *customer* can afford; and
 - (c) reduce, as far as reasonably possible, the risk of the *customer* losing appropriate insurance cover that is important to the *customer*; and
- (2) ensure the *customer* has an appropriate level of information about the option or options available to them in good time and in an understandable format to enable the *customer* to make an informed decision.
- 2.7.5 G The options available to, and the level of support reasonably expected to be provided by, *firms* to achieve the outcomes in *ICOBS* 2.7.4G will vary, depending on the nature of the *firm*'s relationship with the *customer*, the *firm*'s role in the distribution chain, the type of and characteristics of the *customer* and the type of product.
- 2.7.6 G *Firms* are reminded that the level of support needed for *customers* who have characteristics of vulnerability may be different from that for others; *firms* should take particular care to ensure they act to deliver good outcomes for those *customers*.
- 2.7.7 G In relation to *Principle 12* and *PRIN 2A* (the Consumer Duty), *firms* are reminded of their responsibilities as a *firm* in a product's distribution chain, including in *PRIN 2A.1.14G*, *PRIN 2A.1.15G* and *PRIN 3.2.7R*.
- 2.7.8 G When considering outcomes, *firms* should also consider:
- (1) the purpose of the *policy* and the interests of all *policyholders*; and
 - (2) whether there are any relevant duties or obligations the *customers* may owe to others in connection with the *policy* that should be taken into account. For example, where a property owner may be subject to a duty to leaseholders and others around adequate insurance cover being in place for the property.

Signposting to customers

- 2.7.9 G *Firms* should take reasonable steps to make *customers* aware of, and help them to understand, the support available to them in the event that they experience financial difficulty, and also to enable those *customers* to easily contact the *firm*. This includes, but is not limited to:
- (1) including sufficiently prominent information:

- (a) in the *firm's* general communications, including the *firm's* website, software applications, letters, telephone recorded messages and other channels of communication;
 - (b) in communications to *customers* which could be relevant to potential financial difficulties experienced by the *customers* – for example, in communications to *customers* about missed payments;
- (2) making it easier for *customers* to contact them when they need help by considering the different communication needs of *customers* (for example, those needing to communicate through channels other than electronic means, such as websites, webchats and email).
- 2.7.10 G Where the *firm* has reason to believe that the *customer* is, or is likely to be, experiencing financial difficulty, the *firm* should take reasonable steps to make the *customer* aware of, and help them to understand, the support available (whether or not a *customer* has contacted the *firm* in relation to their financial difficulty).

Identifying customers experiencing financial difficulty

- 2.7.11 G There are a number of circumstances in which *firms* may have reason to believe that a *customer* is, or is likely to be, experiencing financial difficulty. In particular, *firms* should include consideration of circumstances where:
- (1) *customers* contact the *firm*:
 - (a) wanting to reduce their insurance cover (whether having paid in full or on a monthly basis); and/or
 - (b) asking about their insurance cover in a manner that indicates they may have financial difficulties, or about *premium* payments, including where they have difficulty paying the *premium*;
 - (2) *customers* have missed payments, even where they have not contacted the *firm* about possible financial difficulties. A *firm* should not cancel a *customer's* *policy* solely because of missed payments without first considering options to support the *customer*;
 - (3) there are other indications (whether the *customer* has contacted the *firm* directly or not) that the *customer* is, or is likely to be, experiencing financial difficulty (for example, where the *customer* has requested cancellation of insurance cover that is important to the *customer*).

Options firms should consider

- 2.7.12 G Options which *firms* should consider to ensure they meet the relevant obligations under the *rules*, including to act to deliver good outcomes (which may be used in combination with each other), include but are not limited to:
- (1) whether there are other products that provide an appropriate level of insurance cover for the *customer* at a price the *customer* can afford and revise the existing cover accordingly;
 - (2) adjusting cover to take account of the change in the *customer's* financial circumstances. This could be done on a short-term basis (affecting a period within the *policy* cover period) or for the longer term (affecting the entirety of the remainder of the *policy* cover period);
 - (3) working with *customers* to help them avoid the need to cancel cover that is important to them;
 - (4) re-assessing the risk profile of the *customer*. It might be that some *customers' risk profiles* have changed since purchasing the *policy* and *customers* could potentially be offered lower *premiums*; and
 - (5) considering whether it is appropriate to require the *customer* to pay all contractual fees or charges in circumstances where the *firm* not relying on these contractual provisions would be needed to provide fair treatment in the *customer's* best interests.
 - (6) considering whether in the particular circumstances (see *ICOBS 2.7.5G*) it would be appropriate to refer the *customer* to another *firm* in the distribution chain who is in a better position to support the *customer*.
- 2.7.13 G For shorter-term adjustments, *firms* should take reasonable steps to ensure that they re-assess the *customer's* situation when that short-term period comes to an end to ensure the *customer* continues to have an appropriate level of insurance. For example, by introducing an expiry date for any changes to a *policy* and reviewing the situation on expiry, or by inviting *customers* to contact the *firm* when their financial circumstances have improved sufficiently.
- 2.7.14 G Depending on the circumstances, options could range from consideration of a single *policy* to a more holistic approach considering all the *policies* a *customer* has with the *firm*. *Firms* should consider if it is appropriate to take steps for all *policies* that the *customer* holds with the *firm*.
- 2.7.15 G When setting out the options available to a *customer*, *firms* should include an appropriate level of information about each option, including:
- (1) where the option includes possible changes to insurance cover or to a different *policy*, what the possible changes are, the effect of the changes on the *customer*, the period of time the changes

might apply for, the main exclusions where claims would no longer be able to be made, and the change in the costs to the *customer* or to their payment plan;

- (2) the effect on *premiums* paid and still due, and on any interest owed; and
- (3) any cancellation or adjustment fees and charges associated with the options.

2.7.16 G *Firms* are reminded that other *rules* in *ICOBS* – for example, those relating to specifying the demands and needs of the *customer* (*ICOBS* 5.2.1R), the appropriate information *rule* which applies at all of the different stages of a contract (*ICOBS* 6.1.5R), and renewal (*ICOBS* 6.5) – may also be relevant to the *firm* in relation to the options available to the *customer*.

