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Financial Conduct Authority

5 May 2020

Dear Terence and Ruby,

AFM Response to FCA guidance consultation

“Coronavirus and customers in temporary financial difficulty: draft guidance for insurance and premium finance firms”

1. I am writing in response to this consultation, on behalf of the Association of Financial Mutuals. The guidance provides some significant departures from normal working practice for insurers, and we support the general policy direction, in the exceptional times we currently live in. It is vital that consumers have confidence in the financial system, and that the financial services industry, and insurance specifically, finds appropriate ways to support people who may be in temporary difficulty as a result of the pandemic.
2. We were however disappointed that FCA did not make greater effort to alert AFM- as a significant trade body in the sector- on its proposals, particularly given the short deadline for response. As a result, we have not been able to reflect the wide range of members and their interests that we represent, or the wide diversity of consumers that they support.
3. The consultation appears largely focused on the provision of mass market products, such as motor or home cover. In our view, less attention has been given to how the guidance might apply in other products, such as healthcare or protection (including life, income protection and critical illness). We have therefore highlighted in our response some of the practical consequences which have not been covered in the draft guidance, to support FCA in ensuring its policy intent is effectively carried forward across all relevant product lines.

AFM Response to “Coronavirus and customers in temporary financial difficulty”

4. A key practical issue for our members is the proposals around *premium deferrals*. In most cases, products and providers have pre-existing, contractual arrangements for *premium holidays*. These typically specify relevant circumstances for which a policyholder can cease payment for a short period, subject to satisfactory evidence (for example due to pregnancy or being out of work). The contract will also specify the consequences for cover: for example, typically cover also ceases during the period of a premium holiday, and for a mutual organisation, membership may also be suspended. Where the customer was introduced by an intermediary, commission payments may also be withheld.
5. In the current, exceptional circumstances, FCA has indicated that a different approach should be applied, which we think follows the national appetite for ensuring people are shielded wherever possible from the worst effects of the pandemic. As a result though, existing contractual arrangements, and IT programming, cannot be adopted by a provider seeking to comply with the guidance. Manual intervention, where possible, may provide a solution to introducing the type of deferrals envisaged by FCA.
6. Indeed, we see many examples of AFM members providing flexibility and greater customer support already during these exceptional times. This includes: providing hardship funds to support customers with ad-hoc payments; agreements to share with policyholders any excess surplus generated during the lockdown, as a result of inability to provide some services ([The Exeter](#)); extension of GP24 hour services to customers who can't visit their own GP; and simplified processes for claims handling. We have also seen some member organisations provide premium holidays on general insurance policies in a form that closely mirrors that envisaged by FCA; for example, see [Activities Industry Mutual](#).
7. The guidance states a payment deferral refers to a period where no payments are made, "without the authorised party exercising the right to cancel the insurance policy unilaterally because of the payment deferral". We infer from this statement that FCA presumes cover will be maintained unaffected during a temporary period of between one month and three months. This would be a reasonable presumption for short-term policies like motor and home insurance, as clearly these are quasi-compulsory products and there must be no risk that cover on a motor vehicle is withdrawn during the term of the contract.
8. However, the form of premium deferral proposed is a less natural position for protection or healthcare, where cover is not compulsory and the policy terms vary significantly by contract. To illustrate, if a

furloughed employee seeks a premium deferment on an income protection policy, they would be likely to be receiving 80% of pay in any event via government assistance, compared to a typical maximum cover for most income protection policies of 60/ 65% of pay. In respect of life assurance, the contract is usually written on the basis that each monthly premium provides life cover for the next period; so ceasing payments would mean cover ceases. Further, most health cash plans are written on a monthly renewal basis, and cover does not renew if a premium is not paid. In these cases, the normal pattern of premium holiday does not provide a fit with policy deferment proposals, and organisations will have to consider how they can adopt the principles without affecting the contract. We would request that FCA is more explicit in the final guidance to clarify its expectation on whether and how cover should be maintained for all products in scope.

9. In addition, if the provider is also exploring how to alter cover in light of FCA's accompanying guidance on 'product value and coronavirus', it may be that a saving in the cost of cover may be achieved, by suspending certain product features, which can then be used to offset the deferred premiums. For example, a customer with a health cash plan policy may find they are temporarily unable to visit the dentist and therefore currently unable to claim for this element of their cover; albeit in most cases this will be a timing issue and the claim may proceed later in the year.
10. The guidance does not prevent the provider from charging interest on the deferred premium, unless there are reasonable grounds for forbearance. The term 'deferred' also indicates the insurer may seek to collect the missed premiums after the deferred period. Given the nature of the pandemic and the policy response, it is very difficult for insurers to make informed judgments about the possible impact of the FCA guidance, and the capacity of customers to repay within the contractual period.
11. At the extreme, some mutual insurers who, for example, support a narrow and specific affinity group, which has been severely affected by the pandemic, may find the requests for deferments are very significant, to the extent that they lack the capacity to process them and/ or create significant risks to their cashflow position or solvency.
12. Providing a premium deferral is likely to be particularly problematic if the policy was taken out for a set, short, term, of 12 months for example, and the renewal date is imminent:

- a. In some cases, the insurer risks not being able to collect the premiums, such that the deferral has the potential to create a crystallised debt, where none existing previously.
- b. In other cases, the customer is at risk of not being able to renew with the same or an alternative provider (even where as FCA states, the policyholder should not be considered as being in arrears), and particularly where the contract is controlled by a broker, with the debt potentially transferring from one insurer to another.
- c. As insurance contracts are written annually (and in many cases for short periods), and not as a loan arrangement, the same approach FCA has applied to mortgages is not workable for insurance policies.

13. Amongst the other issues we consider need greater clarity for the policy to work unambiguously in supporting customers in temporary financial difficulty are:

- a. We consider these provisions in this guidance should be limited to individuals only, and therefore exclude legal entities such as partnerships or limited companies. We do not consider those organisations are the focus of FCA's policy intent, and for small insurers, having to include business insurances would intensify the risk of becoming a creditor and of not being paid.
- b. With regard to eligibility, we note there is "no expectation... that the firm makes enquiries with each customer to determine if the circumstances surrounding a request for a payment deferral are connected with coronavirus." We infer from this that the deferral should be granted without assessing eligibility, but would appreciate greater clarity.
- c. This being the case, we also suggest FCA should add to its guidance to indicate that reinsurers should be bound by the same expectation, as otherwise the insurer would be in default of their contractually obligations. In addition, if reinsurers continue to demand the same level of premium, where the insurer is not collecting funds, the insurer may find themselves under financial strain. For a mutual insurer, where there is no recourse to shareholders for any shortfall in capital, it would be all policyholders that would suffer the financial implications.

14. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Martin Shaw'.

Martin Shaw
Chief Executive
Association of Financial Mutuals

About AFM and its members

The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff.

The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses² and to take account of corporate diversity³.

¹ ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

³ <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>