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Financial Conduct Authority
12 Endeavour Square
London E20 1JN

20 October 2020

Dear Sean and Ruby,

AFM Response to FCA guidance on coronavirus and customers in financial difficulty, October 2020

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:

    - Comment on the additional guidance, from the perspective of mutual insurers.

2. 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[1].

3. 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 businesses[2] and to take account of corporate diversity[3].

[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

4. The comments we would like to make on the draft revised guidance are:

- AFM members actively supported the guidance issued in May, and indeed most of our GI members had produced clear messages to members seeking to take a payment deferrals well before then. See our response to the first guidance consultation in May, for specific examples of action taken in recent months, see: https://financialmutuals.org/wp-content/uploads/2020/05/AFM-response-to-FCA-guidance-consultation-on-payment-deferment.pdf
- As mutuals are owned by their customers, AFM members are committed to best supporting their customers' needs. As well as supporting options relating to premiums, we have also seen other action to support customers, such as increased helpline support or hardship payments.
- Our experience of offering financial support has been positive, backed by making it easy for customers to contact us by the most appropriate means, including phone, email, website etc.
- Customers have continued to recognise the value of relevant insurance, and the level of lapsed or cancelled policies, or arrangements to reduce payment has been relatively low. Compared to other regular bills (such as mortgages or energy costs), insurance in most cases is a relatively small portion of most people's income, and this, combined with the government assistance offered to date, has contributed to a relatively low level of requests for assistance. There may be some variances though, for example by occupation.
- Customers recognise that a reduced premium may be followed at a future time by the need to make up the reduction, or with a lower level of benefit. AFM members have sought to work proactively and in support of customers to make sure current and future arrangements are affordable; in some cases this includes the waiving of premiums.
- Insurance is often sold via intermediaries, and insurers have therefore sought to engage with financial advisers on temporary arrangements, as well as on changes to the commission structure.

- We support FCA's proposals to extend the temporary arrangements further, and we recognise both the haste in revising this guidance as well as the need to be flexible about how long they will last. It is some weeks since the Chancellor announced continued arrangements for financial support after the end of October though, and it is disappointing FCA did not seek to canvass views with AFM before issuing another consultation with minimal time to respond: as a result, and as per our response in May, we have not been able to engage all members in responding.

- We consider that the wording in paragraph 3.1 is not sufficiently accurate. The general aims need to be clear that at no time would any firm be able to ensure customers' demands and needs are met, where they do not give advice. The words "where possible" should be removed, and an unambiguous statement is needed that there is no change in status or regulatory expectation presumed for insurers who do not have regulatory approval to meet this test.
- We agree that GI and protection insurers should be actively monitoring whether customers have missed premiums, and where this is the case, should avoid cancelling a contract if non-payment is likely to be a result of coronavirus, and should consider proactively contacting the customer to offer support or to assess vulnerability.
- We agree that under the Treating Customers Fairly principle, firms should consider a range of options to re-establish fairness if a customer's circumstances have changed due to coronavirus. This may include modifying a policy, reducing price, or waiving any relevant charges for modifying or cancelling a policy. We agree that given the prolonged risk to some individuals those solutions will help ensure that escalation of outstanding payments is avoided.
- The modifying of furlough arrangements and business support may change the degree to which customers seek financial assistance, and the extended period of uncertainty means that people who may have hoped to avoid action in the short-term, are now more likely to seek assistance. Previous arrangements to either repay any unpaid premiums, or to reduce cover, may therefore need to be revised.
- There are also complications to annual renewable policies: including how long arrangements are maintained, whether unpaid premiums can be collected after the end of the term, how easily the customers can renew their policy with the same or a different provider etc.
- We are separately aware that PRA has written to accident and health insurers to suggest that they 'should consider delaying action until the full extent of the financial impact of Covid-19 are understood'. By necessity that means firms having to take a cautious approach to maintaining their prudential position over time, whilst also looking to offer meaningful support to customers now.
- In this regard therefore, we are concerned that the guidance is too broad. The lingering effects of the pandemic will be felt for a very long time, and actions taken by insurers must be achievable over that whole period. Paragraph 4.50 offers a useful reminder in this respect, and would be usefully replicated in chapter 3.
- To illustrate how the guidance is too broad, the final sentence in paragraph 3.6 talks about customers in financial difficulty, but does not make it clear that the locus of the guidance focuses solely on financial

difficulty as a direct result of the pandemic: for example, where a business is told by the Government to close its doors. This is different from the wider economic situation, where the general effects of a recession may be distinct, and forcing firms to respond on this could material impact on their own viability. Some clarification about what is a direct COVID hardship, versus a result of the recession, is necessary.

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

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals