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Dear CEO

Our expectations on cost of living and insurance

Consumers across the country continue to be significantly affected by the rising cost of living, with households with the lowest levels of income impacted the most. The Government have announced further support for consumers and businesses on energy costs and through other measures. This will help alleviate some financial pressure, although we set out here some continuing challenges. 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. In July we published the Consumer Duty, with rules coming into force next July, to help deliver good outcomes for consumers.

We also know firms are facing challenges, including many small and medium sized enterprises (SMEs), including higher costs (such as energy costs) and staffing issues.

We are now setting out our expectations of firms in the insurance sector, following the Dear CEO letter we published for lenders on 16 June 2022. These include:

- **Customers in vulnerable circumstances:** Providing appropriate support to customers in financial difficulty. This should include consideration of our Covid insurance and premium finance guidance.
- **Fair Value:** Ensuring consumers get access to fair value products.
- **Premium finance:** Considering premium finance as part of fair value assessments, with price (APR) likely to be the most significant factor in determining whether the premium finance provides fair value.
- **Underinsurance:** Firms must provide customers with appropriate product information and only propose policies that meet customers' demands and needs.
- **Claims:** Handle claims promptly and fairly.
- **Multi occupancy buildings:** Include leaseholders when determining what might constitute fair value or be in the customer's best interests and meet their needs, or in the future deliver good outcomes for consumers under the Consumer Duty.

We work quickly to take appropriate action where we see that firms are not meeting our expectations. Examples include revoking permissions, restricting business and asking firms to hold more capital. We will be undertaking multi-firm reviews, alongside acting on firm specific intelligence to check that firms are meeting our rules and guidance.

Trends and risks in insurance

We use data and information from a number of sources, including firms' returns and third party data, to analyse trends and risks. While many households are looking to reduce spending, they do not yet appear to be particularly targeting their insurance costs to save money. This may be in part due to 2022 premiums for core products such as motor or home insurance being similar or lower than 2021 prices. In May, the ABI reported that average prices for home buildings and contents insurance dropped 7% and 11% respectively. In August, it reported that average motor premiums were lower in Q2 than in the equivalent quarter in 2021. We may see this lower premium trend reverse, as costs to firms increase, including as a result of supply chain issues, inflationary pressures, higher claim costs, as well as firms removing unsustainable introductory discounts.

Consumer and SME Impact
Rising pressure on consumers in the insurance space could manifest in different ways. Customers paying by premium finance could find it difficult to make the required regular payments and cancel their insurance, while customers paying their premiums annually may face difficult choices at renewal. Consumers approaching renewal or searching for a new product may look to select products solely based on price (rather than considering demands and needs), opt to pay by premium finance due to affordability issues or decide not to buy insurance at all, even where they need cover.

Residential leaseholders and other affected property owners across the UK have already seen rising insurance costs in the wake of the Grenfell tragedy. SMEs can also be affected by cost of living factors in similar ways to consumers. SMEs could be priced out of certain types of insurance (like cyber, professional indemnity or trade credit insurance) due to rising premiums.

Underinsurance and the uninsured
Many consumers and SMEs will have to consider difficult trade-offs about where to reduce spending. This could include balanced decisions to reduce or cancel insurance cover. However, some consumers may opt to self-insure against risks without fully understanding the potential consequences. For example, a consumer who doesn't understand the medical element of their travel insurance policy may choose to travel uninsured and then face unaffordable medical costs.

SMEs may also look to cut costs and reduce overheads. Some may never have held cyber insurance policies, and some may cancel these policies altogether. This could happen during a time when we believe the risks of hacking and cyber attacks are higher, due to the ongoing effects of the global pandemic and geopolitical and economic instability following Russia's invasion of Ukraine.

Some consumers may increasingly focus on the price of insurance without considering demands, needs or baseline expectations and we have seen an increase in the number of providers offering 'basic' products. These products typically offer lower cover with higher excesses than more comprehensive products. For example, for motor insurance we have seen reduced features that were typically included as standard, such as windscreen cover and personal belongings.

Premium finance
Our Financial Lives survey data shows that while overall proportions of consumers paying monthly for their motor and combined buildings and contents home insurance were 33% and 36% respectively in 2022, more than half of consumers with low financial resilience pay for

their home and motor insurance through monthly instalments. While these consumers are typically aware it costs them more, they are often unable to afford the single annual payment. At the same time, they are likely to be the most affected by high APRs and be less likely to be able to make the payments.

Service levels and claims
Some firms may seek to cut costs in response to financial pressures, which could have an impact on the level of customer service. This could affect a firm's ability to handle claims in an efficient and timely way, and delays in paying claims can cause significant financial hardship, both for consumers and SMEs. This could be exacerbated by higher levels of fraudulent claims and increased claims investigation costs.

Our expectations of firms

A key part of our work is ensuring that firms treat all customers fairly and that consumers get access to fair value products that meet their demands and needs.

The Consumer Duty
The Consumer Duty sets high expectations for the standard of care we expect firms to provide for consumers in the future to deliver good outcomes for consumers. The Consumer Duty policy statement provides further detail on the rules and guidance.

Customers with vulnerable characteristics and customers in financial difficulty
We have previously set out expectations on firms to identify customers in vulnerable circumstances and provide them with products and tools to help them manage their finances. Our vulnerability guidance remains relevant, and under the Consumer Duty firms will be required to consider the needs, characteristics and objectives of customers – including those who are vulnerable - at every stage of the customer journey, and ensure they are delivering good consumer outcomes.

Where insurance customers are in financial difficulty, firms should give them appropriate support. Firms considering how to support these customers should check our Covid insurance and premium finance guidance which sets out how firms should support consumers in financial difficulties as a result of Covid. As this guidance builds on existing Principles and rules, including treating customers fairly and acting in the best interests of customers, some actions under the guidance may also be relevant for the treatment of consumers in financial difficulty due to cost of living pressures. These include:

- reassessing the risk profile of customers
- considering whether other products better meet the customer's needs
- working with customers to avoid the need to cancel necessary cover
- waiving fees for adjusting a customer's policy in line with the assessments above
- waiving the cancellation fees where it needs to do so to ensure it is treating its customers fairly.
- for premium finance;
    - suspending, reducing, waiving or cancelling further interest or charges
    - permitting the customer to make no or reduced payments
    - allowing the customer a reasonable time and opportunity to repay the debt, including by deferment of payment of arrears
    - accepting token payments for a reasonable period
    - agreeing a repayment plan, and
    - rescheduling the term

Underinsurance and uninsured
Given the increased risks around underinsurance and increased prevalence of 'basic' or 'essential' products, it is important that firms ensure that when proposing contracts of insurance they meet customer's demands and needs, and that appropriate information is given to customers about products. The information given must contain a range of information including a summary of the insurance cover and the main exclusions where claims cannot be made.

Premium finance
Firms must consider whether non-investment insurance products (including when sold with premium finance) represent fair value for customers. Firms need to consider premium finance as part of their fair value assessments. Firms should be able to demonstrate how they have considered this additional cost, including the relationship between the price and the quality (such as the benefit of spreading the cost). The combination of premium finance products with high APRs and typically lower associated credit risk for these types of products (as policies can be cancelled in the event of non-payment) could potentially mean some products may be in breach of our Rules.

Firms must also give consumers clear information about the cost of any premium finance arrangement and make it clear that this makes the contract more expensive. Firms are not permitted to increase the price of an insurance product based on the customer's vulnerability or any protected characteristic (unless permitted under the Equality Act 2010) or where customers buy the policy using retail premium finance unless the firm has an objective and reasonable basis for making any such change.

Firms providing premium finance were sent a Dear CEO letter in June setting out expectations for lenders in supporting customers.

Service levels
We expect firms to consider the impact on customers when taking steps to reduce costs in customer support functions. Under the Consumer Duty firms will need to design and deliver support to retail customers, such that it meets the needs of retail customers and ensures they do not face unreasonable barriers during the lifecycle of the product, including when customers submit a claim or switch their product. Where consumers seek to make savings through switching, we expect firms not to engage in 'sludge practices', introducing excessive friction in processes that prevent consumers from making decisions in their interests. Firms must provide consumers with easy and accessible options for cancelling auto-renewal on their policy.

Claims
We remind firms of our requirements to handle claims promptly and fairly. While firms may see an increase in fraud, it is important that firms do not introduce additional processes which unreasonably delay or potentially decline payments for valid claims.

Multi-Occupancy Buildings Insurance
We sent a Dear CEO letter in January to firms that provide insurance for multi-occupancy buildings, asking them to consider what action they could take to help leaseholders and others facing difficulties. While many freehold property owners will be commercial customers, firms should take into account the obligations owed also to leaseholders who are more likely to be retail consumers. Many leaseholders pay for buildings insurance through service charges and cannot shop around to find better deals. This makes it more important that firms keep leaseholders in mind when determining what might constitute fair value or be in the customer's best interests and meet their needs.

We have published our report into multi-occupancy building insurance setting out our expectations and the areas where we are going to undertake further work.

Business Interruption (BI) Insurance – Test Case
During the Covid pandemic, there was concern about the lack of clarity and certainty for some customers making BI insurance claims, and the basis on which some firms were making decisions. We sought clarification from the High Court (and ultimately Supreme Court) through our 'BI Test case' to resolve the uncertainty around such claims and will shortly be issuing a publication on lessons learned.

Next steps
Please consider the content of this letter and take action where necessary to ensure your firm is well placed to support your customers. We continue to monitor and scrutinise firms using our powers where necessary.

We are considering options for adapting our insurance Covid guidance for customers in financial difficulty. This could potentially include a consultation later this year.

In PS22/9, setting out our final rules for the Consumer Duty, we set an expectation that by the end of October 2022, firms' boards should agree their implementation plans and maintain oversight of delivery. We do not expect all firms to have fully scoped all work required by the end of October, but we do expect firms to have a plan for this. Firms should be mindful of work that needs to be undertaken with other parties to prepare for the Duty.

We look forward to working together to promote good consumer outcomes. If you have any questions, please contact your usual firm supervisor or the FCA Supervision Hub.

Yours faithfully

Sheldon Mills
Executive Director