Association of Mortgage Intermediaries' response to FCA CP 23/1 Insurance guidance for the support of customers in financial difficulty

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI) and the Association of Finance Brokers (AFB). AMI is the trade association representing over 80% of UK mortgage intermediaries. AFB sits within AMI and represents second charge (formerly secured loan) brokers.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product to meet the individual consumer's mortgage requirements. AMI members also provide access to associated protection products. AFB members also provide access to unsecured products.

Our members are authorised and regulated by the Financial Conduct Authority (FCA) to carry out mortgage, insurance mediation and consumer credit activities. Firms range from sole traders through to national firms and networks, with thousands of advisers.

Introduction

We ask the FCA to consider our comments in this section, alongside our answers to the set consultation questions.

Our view

AMI welcomes this consultation and agrees there is a need to support customers in financial difficulty, regardless of the circumstances. The rising cost in living continues to affect consumers differently and therefore it's important for firms to respond flexibly and for consumers to make informed decisions.

This is particularly important with insurance products, as actions taken by consumers could have significant consequences. For example, a customer cancelling their income protection policy due to financial pressures could leave them unprotected and less resilient, at a time when a loss in income due to the inability to work will likely exacerbate their existing financial struggles.

It has been positive to see many insurers maintain measures put in place during the Covid-19 pandemic, such as payment deferrals. We feel by extending the scope of the guidance and placing it within the FCA Handbook, it should encourage firms to think more broadly about how they can support vulnerable customers.

Areas of clarification needed

Whilst we are supportive of the aims of this consultation, we feel clarification is required on how the guidance applies where an insurance policy was originally distributed/arranged via a mortgage intermediary firm (referred to throughout our response as the 'introducing intermediary firm'). We feel it is important for the FCA to take a proportionate and pragmatic approach to application of the guidance and for this to be reflected in its positioning and messaging to industry.

We also ask the FCA for clarity on the extent of expectations where an intermediary firm identifies that a customer is in or likely to be in financial difficulty.

We explore these areas further in our answers to the main consultation questions.

Effective date

We are aware the proposed effective date is 31 July 2023 given the draft guidance complements Consumer Duty rules. However, in the current economic climate we feel this is a considerable length of time between consultation stage and when the guidance comes into force.

We are concerned that with interest rates at current levels, some mortgage customers with protection and/or GI products will be unable to benefit from the proposed guidance at a time when they may need the support. For example, a customer with life insurance, critical illness and income protection coming off a two year fixed rate mortgage arranged in May 2021 may see in May 2023 an increase to their monthly mortgages re-payments.

As a result, a customer may decide to review their monthly expenditure which could include a review of their insurance payments. If the customer contacted their insurer(s) in May 2023 to, as an example, advise they are struggling with their monthly insurance payment, the insurer may not offer the same support as it would have done if the customer found themselves experiencing financial difficulty in August, when the guidance is proposed to come into force.

The reason we are raising this as a concern is that some mortgage intermediary firms have seen a slight increase in mortgage customers cancelling their protection (i.e. non-investment insurance) related direct debits. Where this occurs, customers may be unprotected.

We therefore ask the FCA to re-consider the effective date of the guidance and whether an iteration of the guidance could be brought in earlier than proposed. We feel this is realistic and achievable given that similar guidance is already in force to support customers in financial difficulty due to Covid-19.

Questions

Q1: Do you agree with our proposed purpose of the guidance? If not, how should we change it?

We agree. The rising cost in living is affecting consumers in different ways and therefore a flexible approach is welcomed to ensure customers are equipped with information and are aware of the options before deciding next steps.

Whilst the FCA refers to the rising cost in living as a driver behind the proposals, we assume as the guidance will sit within the FCA Handbook this is not a temporary measure and will be adopted permanently. It would be helpful for the FCA to confirm.

Q2: Do you agree with our proposed scope? If not, how should we change it?

We feel the FCA should be clearer on scope where a customer originally arranged insurance via an intermediary. Insurers and intermediary firms should be expected to take a proportionate approach but we feel the guidance as drafted lacks this message.

To give an example of a situation where clarity is needed, insurers monitor direct debit cancellations and some will also provide regular updates to intermediary firms. We would expect the insurer to lead on applying the guidance, not the intermediary firm, regardless of whether the intermediary firm has also been notified of the direct debit cancellation. Insurers can act quickly given they are notified about a direct debit cancellation at an early stage; however, if there is blurred responsibility between insurer and intermediary firm, this could cause unnecessary delays in consumers receiving the support they need.

There may be some intermediary firms that feel they wish to engage with the customer to provide additional support but this should be at the intermediary firm's discretion based on its existing relationship and/or scope of services.

In addition, it is unrealistic for intermediary firms, particularly smaller firms with one or two members of staff, to be responsible for acting on cancelled direct debits. Insurers are larger, have more resources and are likely to be the first party to know about a direct debit cancellation.

Where the customer notifies the intermediary firm that they are in financial difficulty, we believe intermediary firms should signpost the customer towards the relevant insurer in the first instance. For example, by explaining to the customer the benefits of engaging with the insurer early and providing them with the insurer's contact details.

We wouldn't expect intermediary firms to have to provide details on specific support the insurer provides, as this should be the insurer's responsibility to discuss with the customer once they have made contact but we recognise intermediary firms have a valuable role to play in educating consumers that the industry is here to help and support them and that they shouldn't suffer in silence.

We feel insurers should be encouraged to provide relevant information to the introducing intermediary firm. For example, insurers should provide to the intermediary firm an overview of the solutions discussed with the customer. An intermediary firm, at its discretion, may wish to engage with the customer where relationships are still in place and/or where this forms part of its scope of service.

Q3: Do you agree with our proposals about when firms should act? If not, what should the trigger points be?

We agree that the main trigger point should be where a customer contacts the firm because they are in financial difficulty. However, we ask the FCA to provide clarification on where insurer and intermediary responsibilities lie if the original policy was arranged via an intermediary.

Where a customer contacts an intermediary firm because they are in financial difficulty or if the intermediary firm has identified the customer is in or likely to be in financial difficulty, we believe the intermediary firm should signpost the customer to the insurer in the first instance. This is because the insurer has the authority to propose and agree solutions whereas most intermediary firms, unless operating under a delegated authority agreement, would not.

However, as highlighted in our response to question two, insurers should be encouraged to share relevant information with intermediary firms on the solutions discussed with the customer. In addition, if the customer has said they would like to review their insurance options more holistically an insurer should be encouraged to signpost the customer to the introducing intermediary firm.

Some customers may have multiple products with multiple insurers which were all arranged via one intermediary firm. Each insurer will provide different support options – is the expectation that, where the guidance is triggered, intermediary firms should signpost the customer to each of the insurers to discuss the support available on each of their policies? This is particularly relevant in relation to section 2.7.11 of the proposed guidance.

We also ask for clarification on the extent of responsibility where a customer does not contact the intermediary firm but the firm has identified that a customer is in or likely to be in financial difficulty. For example, a mortgage intermediary firm arranging a re-mortgage for a customer with existing protection products may be aware through income and expenditure conversations that, as an example, they are struggling with the rising cost in energy bills.

We wouldn't expect a mortgage intermediary firm to highlight the potential support available on the customer's insurance products, whether the intermediary firm arranged them or not, given the focus of the customer interaction is the mortgage and the adviser is following MCOB and not ICOB rules. We would appreciate FCA confirmation that this interpretation is correct.

Another example would be where an intermediary firm is discussing protection products with a mortgage customer and the customer already holds protection, arranged either directly with an insurer or via a different intermediary. If the customer said, as an example, that the reason they approached the intermediary firm to discuss their needs is because they are finding their current premiums expensive, would the intermediary firm be required to apply the guidance? We believe not, as the intermediary firm has no connection to the protection products in question. However, this is another type of scenario where clarification is required from the FCA on scope of application.

Q4: Do you agree with our proposals covering actions firms should consider? If not, what actions or types of actions should be in the guidance?

We agree with the suggestions but think there are additional areas that the FCA may wish to add to the guidance:

- Re-issuing key facts/insurance product information disclosure document (as appropriate, dependent on the type of insurance product). We feel this is a useful first step to remind customers of the benefits of the product, which they may have forgotten about.
- A wording (prescribed by the FCA) for firms to use in communications to insurance customers where the customer has said they want to cancel cover. This should highlight to consumers factors such as the need to consider that cancelling an insurance policy and replacing it in the future could mean the insurance is more costly due to their age, or they may find it more difficult to obtain cover due to future changes, such as changes to health. This example is relevant to the protection market but could be amended to apply to GI products, as appropriate.

There are certain actions that intermediary firms will be unable to take as it goes beyond their FCA permissions and role and remit. This further underlines the need for the FCA to provide clarity on responsibilities between insurers and the introducing intermediary.

Q5: Do you agree with our proposals for firms' signposting with customers in financial difficulty? If not, what expectations around communications should we be setting?

Again, it is unclear what the expectations are for intermediary firms. The examples in 2.7.6 G feel suitable for an insurer with a set number of products but are unrealistic for an intermediary firm. For example, it would be difficult, if not impossible, for an intermediary firm, particularly if it is a smaller firm, to display and keep up to date on its website the support provided by each of the insurers on its panel.

Some intermediary firms may decide to communicate more broadly with their customers on the types of support available from insurers. For example, some may send an e-mail to their existing customer base to highlight, at a high-level, the ways insurers can support customers in financial difficulty. However, we wouldn't expect this type of action to sit within the proposed guidance as we believe this should be at the intermediary firm's discretion based on their protection proposition and scope of service.

In contrast, an insurer is able to make decisions at an individual customer level (such as granting a customer a three month payment deferral) and therefore FCA guidance relating to signposting customers to support feels more applicable to insurers rather than intermediary firms. As noted previously, we recognise there are some exceptions to this such as intermediary firms that act within a delegated authority agreement.

As highlighted already in our response, we also suggest the FCA considers circumstances where insurers may need to pass on information to the intermediary and/or signpost the customer to the intermediary firm.

For example, it would be beneficial for an insurer to notify the introducing intermediary firm as early as possible following initial customer 'triage' to highlight the options that are being considered. An intermediary firm may wish to, at its discretion, engage the customer where relationships are still place and/or the scope of service sets this expectation.

Another example is that some customers may want to review their options more holistically, such as switching insurance provider. Where a customer has expressed this, an insurer should signpost the customer to the introducing intermediary firm where, at its discretion, it can consider the ways it can support the customer.

Q6: Do you have any comments on our cost benefit analysis?

We feel unable to answer this question until the FCA provides clarity on scope of application by mortgage intermediary firms.