

Customers in financial difficulty: Cost of living crisis and the FCA

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< Previous

[The Opioid crisis - how does the rise in Fentanyl overdoses affect insurers?](#)

Next >

The FCA has been tracking the consumer experience of the rising costs of living.

[Insurance industry Consumer Duty update – Fair value, FCA Dear CEO letters and multi-occupancy build](#)

[Financial Lives January 2023: Consumer experience of the rising cost of living – the burden of bills and ways to get support](#)

The group which the FCA describes as being in financial difficulty, on the measure of having missed paying domestic bills or meeting credit commitments in three or more of the previous six months, increased from 8% in May 2022 to 11% in January 2023, an increase of 1.4 million people.

The FCA's data also revealed that 8% of May 2022 insurance or protection policyholders cancelled one or more of their policies and 7% reduced the level of cover on one or more of their policies – in the six months to January 2023, specifically to save money due to the rising cost of living. As some policyholders did both (cancelled and reduced cover), this means that 13% of May 2022 policyholders (or 6.2 million people) cancelled and/ or reduced cover.

The policies with the highest proportions of cancellations by the May 2022 policyholders were:

- Extended warranty – cancelled by 5.0% of extended warranty policyholders
- Separate home contents insurance – cancelled by 3.8% of separate home contents policyholders
- Pet insurance – cancelled by 3.8% of pet insurance policyholders
- Gadget insurance – cancelled by 3.1% of gadget insurance policyholders
- Mobile phone insurance – cancelled by 2.5% of mobile phone policyholders.

With the increase in inflation in the United Kingdom over recent years, the FCA has said that the [financial services industry](#) plays a vital role in supporting people during these challenging times. Sheldon Mills, FCA Executive Director of Consumers and Competition, has said:

Sheldon Mills, Executive Director of Consumers and Competition

FCA

“The current economic climate means it’s more important than ever that consumers are able to make good financial decisions. The financial services industry needs to give people the support and information they need and put their customers first.”

Low income households have been impacted the most by rising prices ([Rising cost of living in the UK - House of Commons Library](#), [parliament.uk](#)). Households with the lowest incomes experience a higher than average inflation rate ([Provisional CPIH and CPI-consistent](#)

[inflation rate estimates for UK household groups: January to June 2023 \(Office for National Statistics\)](#)). Research by the Money Advice Trust reveals that price rises in 'basics' such as food, rent and energy have a disproportionately high impact on lower income households.

Consumer vulnerability

The Consumer Duty includes a requirement for firms to focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction. Firms are required to consider if a consumer is in a vulnerable situation when dealing with them. Financial trouble is an example, given by the FCA, of a vulnerable situation.

With the cost of living crisis, the number of people in financial trouble is large and rising. A consumer's state of mind can have a major impact on behaviour and decisions. The FCA's data has revealed that the rising cost of living has had a considerable toll on the mental wellbeing of consumers, finding that just over 1 in 2 UK adults (or 28.4 million people) are more anxious or stressed due to the rising cost of living.

Financial trouble often combines with other areas of vulnerability. For example, over a third of people diagnosed with cancer are of working age, with the diagnosis presenting a risk to their income (Macmillan Cancer Support, 2014). People calling the support line of Macmillan Cancer Support are 25 times more likely to seek help with financial issues than with death or dying ([Occasional Paper No.8: Consumer Vulnerability \(fca.org.uk\)](#)).

Although it is not a necessary condition of vulnerability, being on a low income plays an important role, particularly when combined with other vulnerabilities. It is important to appreciate the role and impact of low income on people's coping abilities. The number of people struggling to make ends meet in the UK is rising. Many people are driven into arrears by basic household bills, as the increased cost of essential items outstrips their income. This leads to people being increasingly vulnerable to a shock to their finances, such as separating from a partner, health issues or a change in salary or hours. The number of people who have characteristics that could make them vulnerable due to financial trouble, is large and is growing. Occasional Paper No.8: Consumer Vulnerability (fca.org.uk)

The FCA's finalised guidance on supporting customers in financial difficulty

In July 2023 the FCA finalised guidance on supporting customers in financial difficulty ([PS23/9: Finalised insurance guidance on supporting customers in financial difficulty \(fca.org.uk\)](#)). It clarifies the circumstances and trigger points where the FCA expects firms to act to deliver good outcomes for customers experiencing financial difficulty and to meet customer needs.

How can firms identify customers experiencing financial difficulty, other than a customer contacting them and informing them that they are in financial difficulty? The FCA has said that when identifying customers experiencing financial difficulty, the firm's should in particular consider:

1. Where customers contact the firm and want to reduce their insurance cover or are asking about their insurance cover or premium payments in a manner that indicates they may have financial difficulties.
2. Where customers have missed payments, even if they have not contacted the firm about 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. Whether there are other indications that the customer is experiencing financial difficulty, for example they are requesting cancellation of an insurance cover which is important to them.

Practical takeaways from the FCA guidance

- [Insurance firms](#) should enable the customer to maintain an appropriate level of insurance that the customer can afford and reduce as far as reasonably possible, the risk of the customer losing appropriate insurance cover that is important to the customer.
- Customers need to receive an appropriate level of information about the options available to them in good time and in an understandable form.
- Different firms in the distribution chain should work together, when appropriate, to provide support to customers in financial difficulty. 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.
- The FCA has said that it would be concerned if a firm does not first contact a customer before cancelling cover. This includes cancellations at the point of renewal, although the FCA acknowledges that cancellations at this point are more likely to be due to a

customer changing provider. The FCA does not expect firms to unduly delay cancelling policies where customers do not contact the firm. However, it expects that where customers do not contact the firm and the customer is likely to be in financial difficulty, reasonable steps should be taken to inform the customer of the support available.

- Signposting – customers should be made aware of the support available to them. This does not include expectations that messaging is tailored to the individual. However, 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.
- The FCA has said that it recognises that options such as providing the customer with the IPID could give them an opportunity to consider the benefits of keeping a policy.
- Firms should consider what information should be prioritised on telephone recorded messaging to help customers who may be in financial difficulty seek help. Firms may decide that alternative communications - for example, contractual documents, website or advertising may be more suitable.
- Firms should consider the different communication needs of customers to make it easier for customers to contact them.

Considerations for insurers

With the cost of living crisis, the number of customers in financial difficulty has risen. Putting a vulnerable customers strategy in place is important. Clear and effective [insurance policies](#) and procedures need to be implemented to identify particularly vulnerable customers and to deal with such customers appropriately. A consumer's state of mind can have a major impact on behaviour and decisions. A risk factor approach can be used to help firms spot vulnerability - a change in circumstances, and multi-layered risk factors, are particular flags for potential vulnerability.

Firms need to be careful about cancelling policies, even at renewal. The FCA has said that it would be concerned if a firm does not first contact a customer before cancelling cover. If payments are missed, options to support the customer should be considered.

It is important that customers receive information about cover and options available to them in an understandable form. The FCA recognises the importance that IPIDs and other documents have in giving vulnerable customers the opportunity to consider the benefits of their policies.

Please contact us to find out more about how we can assist your financial services business with clear customer communications.

Contents

[The Word, October 2023](#) →

[Simplifying sanctions clauses - LMA3100A and LMA3200 released](#) →

[The Luton Airport car park fire – implications for insurers](#) →

[Are amendments to be expected for the Arbitration Act 1996?](#) →

[The Opioid crisis - how does the rise in Fentanyl overdoses affect insurers?](#) →

[Customers in financial difficulty: Cost of living crisis and the FCA](#) →

[Insurance industry Consumer Duty update – Fair value, FCA Dear CEO letters and multi-occupancy build](#) →

[Insurable interest: Quadra Commodities S.A v XL Insurance Co SE and Others](#) →

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