Browne Jacobson

Premium finance – a poverty premium

26 January 2024

In a recent interview with **Insurance Post, Matt Brewis**, the Financial Conduct Authority's Head of Insurance referred to premium finance as a "poor product" and "poverty premium".

With insurance costs and premiums rising and issues with the cost of living continuing, premium finance is growing in popularity with both consumers and SME's.

Reports show that this trend is likely continue, with more than a third of consumers expecting their standard of living and ability to pay bills to decrease in the next year and 12% of businesses expressing concerns that they may miss payments in the year ahead.

These factors may result in insurance distributors continuing to offer premium finance to a wider number of customers. However, firms should be mindful that merely allowing customers to choose between paying monthly or annually does not sufficiently demonstrate that the customer has actively elected to obtain premium finance, as required by ICOBS 6A.5.

Matt Brewis
Financial Conduct Authority

"It is a tax on being poor. Those who are paying monthly are subsidising those who can afford to pay annually"

Premium Credit has also reported that 24% of individuals that experienced premium increases have raised their excess, a 14% increase from the year before. As to SME's, nearly 59% reported a £1,000 a year or greater increase in borrowing to pay for insurance, and 13% stated that the amount of credit they use has increased by £5,000 or more.

Whilst charges for premium finance are generally easing, customers inevitably continue to pay materially more for their insurance where they pay in instalments.

In September 2022's Dear CEO Letter, the FCA discussed how premium finance could lead to consumers cancelling their necessary insurance, due to struggling to meet payments or opting for cover based on price, rather than their needs. The FCA requires firms to be clear about the costs of premium finance and provided the following guidance as to how firms are to support vulnerable customers or those in financial difficulty with 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."

For further information on supporting vulnerable customers and those in financial difficulty, please see our article from October 2023:

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

In previous editions of The Word, we discussed the FCA Consumer Duty and the requirement on firms to include the cost of premium in their fair value assessments. Firms must be able to address whether the price is reasonable and justifiable in comparison to the benefits of the product. However, the FCA has warned that "premium finance products with high APRs and typically lower associated credit risk" could find firms in breach of FCA rules.

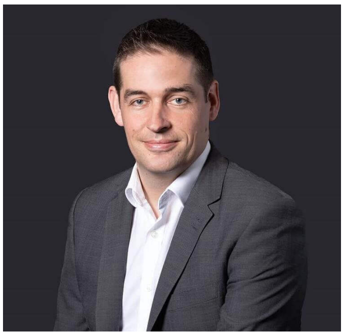
Speaking on fair value in the interview, Brewis was "slightly concerned that firms have undertaken more of a compliance exercise than actually getting to grips with ensuring their products really are providing customers with fair value.", which may point to further action by the FCA surrounding premium finance shortly. Only time will tell.

‹ Previous
Follow the leader: Insurers using algorithmic underwriting

Next ›
'Clear and unambiguous' exclusions: Cameron Soule v Woodward Design + Build LLC

Contents

Key contact



Tim Johnson

Partner

tim.johnson@brownejacobson.com

+44 (0)115 976 6557

Related expertise

Sectors

Consumer credit

Insurers and reinsurers

Insurance

Lloyd's and London market