

Newsflash

FCA issues guidance on product value and coronavirus

Overview of FCA guidance

On 3 June 2020, the FCA finalised its guidance for insurers and insurance intermediaries on COVID-19 and the impact it is having on the value customers can derive from their products. The guidance is effective immediately and firms should review their product lines and decide on any resulting actions by 3 December 2020.

The FCA requires firms to consider whether and how COVID-19 may have materially affected the value of its insurance products. The two ways it identifies COVID-19 may impact value are:

- An insurer is no longer able to provide expected contractual benefits. This could be because of social distancing rules. For protection providers this could, for example, impact the provision of additional services which require face to face support.
- There has been a reduction in the chance of underlying insured events happening for any holders of the policy e.g. due to Government lockdown or other circumstances connected with COVID-19. This could result in a fundamental change in risk for the firm and situations where the product provides little or no utility to customers.

It is expected that where firms identify there has been a material change in the value of a product, they should consider the appropriate action to take. This could include delivering benefits in a different way, the provision of alternative, comparable benefits, reducing premiums for the duration of the change in value, or partial refunds of premiums already paid.

The FCA believes firms are best suited in assessing the steps required to review their products, but they should be able to demonstrate that they have met their obligations at a product level and treated customers fairly.

Our view

The guidance follows on from other measures the FCA has recently announced in relation to [customers facing financial difficulty due to COVID-19](#), and looks more broadly at all customers and the value they are getting from products.

Although many of the examples in this new guidance relate to general insurance policies, and those products are likely to see a greater impact on value, it is still important for life insurers to consider the impact on their products.

For protection products, insurers have quickly shifted working practices during the pandemic to ensure that claims processes are still working well even when most or all of their teams are working remotely. In some cases, they have had to change claim application processes or use different means to collect medical evidence required for assessing claims, but anecdotally it certainly seems that protection insurers have been able to continue to provide core contractual cover and pay claims. For those providers that provide additional services, for example annual health checks or second opinion services that require face to face contact, then customers may not have been able to access the benefit expected. Here firms will need to consider if customers have been unable to access these services and whether any alternative digital services implemented during lockdown have provided similar value to the customer.

During lockdown we have seen a reduction in screening programmes and many customers are reluctant to visit their GP, meaning that there has been a reduction in referrals for various urgent cases like cancer. This delay in diagnosis and treatment means that customers will not have been able to claim on their policies. However, it is

not the FCA's intention that firms should reassess the value of policies at a product level where claims are still possible but the likelihood of a customer making a claim may have changed. In this respect, for many protection policies, claims are still possible, albeit the likelihood has been temporarily reduced due to lockdown. In fact, we may see an increase in the likelihood of claims following the easing of social distancing restrictions because some conditions will have deteriorated and symptoms more severe due to the delays in accessing timely treatment.

What next?

Many insurers have already begun reviewing their products, and this guidance reinforces the need for all firms to review their products and consider ways in which customers derive value from them has been affected. It will be important as part of this review to consider all the contractual additional benefits they offer. We believe it will also be important to measure and monitor any changes in value to help demonstrate value has been maintained. This could include looking at the usage of additional services before and after the lockdown measures were put in place. Where there has been a material change in value, insurers will then need to consider how that is best rectified.

An important step for insurers will be to have robust information loops in place to check claims rates over longer periods to assess if the lockdown impacts are smoothed out over time. Although the timeline for completing this review by 6 months (i.e. 3rd December) has been set by the FCA, we feel that the claims patterns for protection policies could take a little longer to settle down and so an ongoing review, into 2021, will be appropriate.

The finalised guidance can be found [here](#).

If you would like to discuss anything mentioned in this newsflash, please do [get in touch](#).



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