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Sean Cafferky & Ruby Adesuyi
Financial Conduct Authority
12 Endeavour Square
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20 October 2020

Dear Sean and Ruby

I am writing in response to the FCA's additional guidance for insurance and premium finance firms to support customers in financial difficulty due to coronavirus.

We are pleased that the FCA has published this guidance as it recognises the importance of ensuring people continue to be supported in the coming months to mitigate the negative impact and the great uncertainty that lies ahead.

We are disappointed however that the FCA is restricting availability of payment deferrals and resuming normal credit reporting. We are particularly concerned about the lower level of firm engagement with vulnerable consumers.

We disagree with the widespread removal of protections, across all financial products, that have been afforded to consumers during the last six months. Those who may not have needed financial support so far might find themselves in temporary difficulty after the Job Retention Scheme (JRS) ends, but it will no longer be available to them. This seems against the principle of treating customers fairly.

It is highly likely that many consumers' financial situations will worsen due to a loss of employment income after the end of this month, therefore we should expect to see a spike in consumers who will need to access temporary support. Last quarter we saw a record jump in redundancies and an increase in the unemployment rate to 4.5%[1], which is expected to climb to 7.5% by the end of the year. 2.5 million people are still receiving support from the JRS[2].

The crisis is still ongoing, with further lockdowns being introduced, and these unprecedented circumstances should shift what is considered 'temporary'. We are concerned that these protections have come to an end after an arbitrary period of time.

[1] ONS employment data, 13 October 2020
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/october2020
[2] Bank of England, 30 September 2020
https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/avoiding-economic-anxiety-speech-by-andy-haldane.pdf

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Removal of support

While we acknowledge that payment deferrals are not in the best interests of all consumers, the potential harm by removing this option for those who need it the most is significant, thereby outweighing the distributional impact against consumers who may not 'need' a deferral but will be able to access one.

We are disappointed that the FCA has reneged on the principle that temporary forbearance due to the impact of coronavirus should not be marked permanently on credit files. This is particularly unfair for consumers who have not yet needed to access a deferral but may need to after 31 October due to a temporary loss of income. This stark treatment of consumers accessing the same support, and for the same reasons but at different times, shows that the FCA believes that the crisis is over because any financial difficulties that consumers may face after October are considered as permanent. An impaired credit status can have long term negative consequences for consumers in terms of where they access credit and the price they have to pay for it.

When the FCA invited views in July on what support should look like after 31 October, we expressed concerns that the proposals were made assuming that most consumers would be able to resume repayments at the end of their deferral. These expectations were based on the landscape at the time where consumers were still being supported by the Job Retention Scheme. We have also been concerned that the additional support has not gone far enough in mandating firms to provide short-term forbearance for customers identified as needing more support. These concerns are shared by the Money and Pensions Service (MaPS) Strategy challenge group, who last week issued a report[3] with urgent recommendations to address the financial wellbeing impact of the Covid crisis. One of these included a call for firms as a default to offer repayment plans and to waive interest for people who are in serious difficulty.

As highlighted above, a more negative outlook is predicted for the months ahead compared to three months ago, and we urge the FCA to reconsider the support that should be available to consumers.

Communicating with customers

We are very concerned that the FCA is proposing that insurers and premium finance firms will no longer be required to proactively contact customers who miss a payment. This is not consistent with how other firms are expected to treat consumers in financial difficulty. Missing a payment is a strong indicator that a customer is likely to be vulnerable, and firms should be doing everything they can to engage with and support those who need it most.

[3] Building the UK's financial wellbeing in the light of Covid-19, October 2020: a report from the Challenge Chairs who advise the Money and Pensions Service on the UK Strategy for Financial Wellbeing
https://www.ipsos.com/ipsos-mori/en-uk/uks-financial-wellbeing-light-covid-19

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Further, this provision does not fit in with the rest of the proposed guidance, which sets out how the FCA expects firms to identify and support vulnerable consumers, and that considering the current circumstances there is an "increased likelihood that customers in financial difficulty will be particularly vulnerable". We are concerned that even now, many customers may not consider it possible to amend or cancel their insurance policies, or receive other forms of assistance, due to financial difficulties.

Insurance providers should be going further in proactively making the support they offer to customers prominent in their communications, including by writing to their customers rather than just relying on their websites and apps as the FCA has proposed. This would help to ensure that customers get in touch with their provider before they miss a payment, averting unnecessary harm and distress, which is particularly crucial given the expected rise in unemployment following the end of the JRS.

Those who need support (even if these are deemed a "significant minority"[4]) should be at the centre of relief measures, as the potential harm for these consumers is great. It should also be recognised that those who are vulnerable will not only include a greater proportion of the population, but also a diverse demographic.

We believe that the approach to vulnerable consumers that has been taken in these proposals, as well as the financial support for other products after 31 October, is inconsistent with the FCA's commitment to focusing on vulnerability. This has been echoed by the MaPS Strategy challenge group who recommended that the FCA explicitly requires all firms to embed vulnerability strategies that reflect the ways that coronavirus has deepened existing vulnerabilities, and placed new people in vulnerable circumstances.

The new normal

As we have seen the landscape change yet again since the FCA's call for inputs in July, we urge the regulator to review the support that it has put in place across all financial products. We believe the potential harm arising from the surge in consumers needing support will be exacerbated by the capacity of firms.

Given the scale of the impact of the pandemic on people's finances, we cannot see how all firms will be able to adequately provide the tailored support that will be required. Many firms' resources are already stretched, and consumers have experienced difficulties in contacting their lender either to request or extend a payment deferral.

[4] FCA call for input on ongoing support for consumers affected by coronavirus, July 2020 https://www.fca.org.uk/publication/call-for-input/call-for-input-ongoing-support-consumers-affected-coronavirus-mortgages-consumer-credit.pdf

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Our recent consumer research[5] has shown that:

- 22% of mortgage holders had contacted, or attempted to contact, their lender since the start of the pandemic and 61% of those requested a payment holiday.
- Of those who had contacted or attempted to contact their lender:
    - 56% reported having a problem,
    - 29% customers saying they had to wait on the phone for a long time
    - 17% left a phone message but didn't hear back
    - 12% emailed but also never heard back from their provider

With these issues present when firms have been offering deferrals at a book or cohort level, we cannot see how firms will be able to dedicate the extra time that will be needed to investigate individual circumstances. While this research focused on mortgage lenders, our concerns around firms' resources are not limited to this sector. We want to see the FCA take preventative action to mitigate a likely wave of consumers who will not be able to access support from their provider after 31 October.

While we commend the pace at which the FCA has dealt with coronavirus-related issues and its proactive approach, we are concerned about the significantly short periods in which stakeholders have been consulted. We continue to believe that longer-term measures to support consumers impacted by coronavirus should be considered when the impact of the JRS ending will be more known, and with a longer consultation process. Therefore we do not consider it appropriate that the FCA has afforded such little time to comment on the new guidance.

If you have any questions regarding this response, please do not hesitate to contact me.

Yours sincerely,

Aileen Lees

Aileen Lees
Senior Policy Adviser, Money
Which?

[5] Which? survey of 3,625 UK adults between 26th June and 13th July (weighted to be nationally representative) https://press.which.co.uk/whichpressreleases/which-reveals-best-mortgage-lenders-as-coronavirus-hits-customer-service/