Claims handling lessons learned from business interruption insurance

We set out the findings from our review assessing how firms handled business interruption (BI) insurance claims following the Supreme Court's judgment on the BI test case, including examples of good practices and areas where firms have fallen short of expectations. We also set out next steps for firms to take.

The judgment from the Supreme Court on 15 January 2021 provided policyholders and insurers with clarity about whether customers had cover and could make valid claims on their BI policies. We closely monitored firms' handling of BI claims following this judgment and we have published data on firms' BI claims progress.

In 2022, we reviewed a sample of firms' processes for handling BI claims to understand the extent to which BI claims were handled promptly and fairly and to identify lessons learned for the market. We are publishing our key findings to help the market develop in line with our expectations.

Firms must handle claims promptly and fairly, treat their customers fairly and act in their best interests in accordance with our rules ICOBS 8.1.1R, and PRIN 2.1.1R. We acknowledge that firms received an unprecedented volume of BI claims. To help them progress these claims as quickly as possible, we set out our expectations of firms in handling BI claims in our Dear CEO letters of 15 April 2020, 18 September 2020 and 22 January 2021.

While our review identified good practices which we encourage firms to follow, it also found areas where firms fell short of our expectations of treating customers fairly in the end-to-end claims journey.

Who should read this

These findings are relevant to all firms in their approach to handling all claims, irrespective of product line.

1. Key findings

1.1. Examples of good practices

We observed areas of good practice that demonstrated that some firms are putting the customer, and good customer outcomes, at the forefront of their claims processes. We observed that these firms:

- Issued preliminary interim payments using basic information received, with more detailed assessments of further information to determine full and final settlements.
- Some firms ensured that financial information requests were tailored to the size and complexity of the business and allowed a degree of flexibility that was consistent across businesses of a similar size or customer type.
- Mobilised existing internal resource in response to priority business need and employed technical external resource where necessary such as forensic accountants.
- Issued proactive communications to encourage policyholders to provide information to progress their claims, including increased engagement with brokers where relevant.

- Operated a range of different customer contact channels, for example increased telephone access and new web-based forms, to gather information from brokers and customers quickly and easily.
- Created new working groups, project teams and key committees with Subject Matter Experts to provide increased oversight of the BI claims journey.

We encourage other firms to consider and, if relevant, incorporate these areas of good practices into their handling of claims across all product lines.

1.2. Areas for improvement

We also identified areas where firms did not meet FCA expectations of fair treatment of customers throughout their BI claims journey.

Governance and oversight

- Firms did not produce clear and robust conduct-focused management information (MI). This meant that key decision makers (such as Accountable Executives or Senior Management Function holders) were not able to have effective oversight of customer outcomes, such as the end-to end customer claims experience. For example, firms did not create effective MI to identify where delays were occurring in the claims journey and were therefore unable to modify processes to mitigate this risk. This resulted in some customers suffering harm in not receiving interim or final settlements in a reasonable time frame. Our expectations for establishing and maintaining internal controls and MI are set out in SYSC 3.2.11AG, SYSC 14.1.27R and 14.1.28G.
- Firms' oversight of delegated partners lacked relevant conduct-focused metrics. The quality of MI provided by the firms' delegated partners and used by the firm to oversee claims handling tend to focus mainly on operational efficiency and often lacking metrics for customer outcome. Our thematic review on Delegated Authority: Outsourcing in the general insurance market (TR15/7) sets out our expectations on appropriate monitoring of outsourced relationships.
- Some firms did not have records of all their policy wordings stored in a way that was easy for claims handlers (including their delegated third parties) to access or retrieve, which led to delays in claims handling. We expect firms to maintain adequate records of all policy wordings.
- Quality Assurance (QA) processes were primarily focused on reviewing the quantum decision / settlement amount paid to the customer instead of adequately reviewing the entire customer claims journey. This meant that QA reviews were focused on the outcome of the claim rather than the full customer experience and did not identify where additional payments may need to be made where customers experienced unreasonable delays.

Dealing with customers

- Customer communications were not tailored to the recipient in all cases, with the same communication style and language used for both brokers and direct customers with different levels of technical understanding. We expect firms to provide appropriate information in their communications by considering the type of customer as set out in ICOBS 6.1.6BR.
- The financial information requested by insurers from small and medium-sized enterprises (SMEs) on their business during the claims process did not always consider the size and complexity of the policyholders' business and in some cases, information requested by the firm, or external loss adjustors, was overly burdensome and excessive.

- Firms did not identify their vulnerable customers accurately in line with FG21/1 or took an inconsistent approach in dealing with those vulnerable customers' individual needs throughout their claims journey.
- Although we acknowledge that some delays experienced were due to receipt of information from policyholders, those customers also experienced unnecessary delays in the handling of their claims due to the claims service provided by firms. Customer delays were made worse by operational, technological and oversight issues throughout the claims journey.

2. Expectations around Cost of Living and New Consumer Duty

As consumers across the country – both SMEs and retail customers – are affected by inflationary pressures and the rising cost of living, it is critical that firms are handling claims promptly and fairly, treating their customers fairly, and acting in their best interests. Firms will see wider groups of consumers in financial difficulty, some of whom will be in vulnerable circumstances or may be experiencing financial difficulties for the first time. Firms need to remain alert to the changing situation of their customers and their frontline staff (including claims staff) will have to deal with more customers presenting with a complex range of vulnerable circumstances and non-financial knock-on effects of the rising cost of living.

Our New Consumer Duty (Policy Statement 22/9, effective from 31 July 2023) explains that firms should make sure their customers are adequately supported throughout the lifecycle of a product, including where they need to make a claim. This means that firms should make sure their system and controls processes avoid causing foreseeable harm. Firms should already have considered to what extent our Guidance for firms on the fair treatment of vulnerable customers applies to their business across different product lines and what they needed to do to make sure they are treating customers in vulnerable circumstances fairly.

3. Actions for firms

We expect all regulated firms to conduct business in line with our rules and regulatory requirements. It is evident from our work on BI claims handling that some firms have fallen short in meeting those requirements or have not met those requirements consistently.

We have seen several significant issues through our BI work and where necessary, we will consider using all regulatory tools to rectify these issues. Claims handling is an important part of the insurance lifecycle and is an area of focus in our supervisory strategy for all firms.

We expect Senior Managers to have a clear understanding of our rules and demonstrate that they are putting the customers at the centre of the claims process through robust conduct oversight to ensure fair treatment to customers. We encourage firms to undertake a review of their own claims processes and procedures, and where applicable, outsourcing arrangements (see SYSC 13.9) to make sure these remain effective in mitigating the risk of customer harm.