



# FCA BI Test Case - the judgment

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## Branko Ltd

### FCA compliance consultants

- \* BIBA/AMII Compliance Manual
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## Today's event

- Thank you to your LI for hosting
- Participation is very much encouraged
- Verbal and chat forum questions welcome
- Please complete the feedback survey
- You will get the slides
- Feel free to connect with me on [LinkedIn](#)



## What I will cover

1. Why does it matter
2. The judgment
3. Insurer Dear CEO
4. Your duties as a broker + ICOBS



## Learning objectives

This talk will give you an insight into:-

- The result of the FCA's test case on Business Interruption Insurance
- Why compliance with ICOBS is more important now more than ever



## Just bear in mind

- There is a lot of detail and I will attempt to highlight some of the **KEY** pieces of information
- Please refer to the FCA BI pages for full information
- Bear in mind this is not formal advice and do take up whatever professional help you need
- Happy to do this talk in-house



# 1<sup>st</sup> Poll

## Who do you work for?



Neutral Citation Number: [2020] EWHC 2448 (Comm)

Case No: FL-2020-000018

IN THE HIGH COURT OF JUSTICE  
BUSINESS AND PROPERTY COURTS  
QUEEN'S BENCH DIVISION  
FINANCIAL LIST

Royal Courts of Justice  
Strand, London, WC2A 2LL

Date: 15/09/2020

Before:

LORD JUSTICE FLAUX  
MR JUSTICE BUTCHER

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INSURANCE NOTES
HOME ABOUT TEAM

## Judgment handed down in FCA's COVID-19 business interruption insurance test case

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**CATEGORIES**

This post is part of the following categories:

MISCELLANEOUS

SEPTEMBER 15, 2020

**1. Headline summary**

The High Court has today handed down [judgment](#) in the COVID-19 Business Interruption insurance test case of *The Financial Conduct Authority v Arch and Others*. Herbert Smith Freehills represented the FCA (who was advancing the claim for policyholders) in the case, which considered 21 lead sample wordings from eight insurers. Following expedited proceedings, the judgment brings highly-anticipated guidance on the proper operation of cover under certain non-damage business interruption insurance extensions.

While different conclusions were reached in respect of each wording, the Court found in favour of the FCA on the majority of the key issues, in particular in respect of coverage triggers under most disease

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# 2<sup>nd</sup> Poll

## Have you had a BI claim accepted?



# 1. Why does this matter?



## My thoughts at the start...

- This has caused shockwaves and the clarity of wordings is paramount
- Intentions must be clearly articulated - you can't say notifiable diseases are covered and then contradict this by saying pandemics are not
- The judgment lays down clarity but insurers have a LOT of work to do:-
  - Assess all wordings against 7 categories of business to determine what they had to do in line with advice or regulations
  - Communicate with insureds and brokers
  - Consider further reputational damage if they appeal as it appears exposure is sustainable



## Result of FCA's Business Interruption test case

Press Releases | First published: 15/09/2020 | Last updated: 15/09/2020

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The High Court has today handed down its judgment in the Financial Conduct Authority's (FCA)'s business interruption insurance test case.

**Media Centre**

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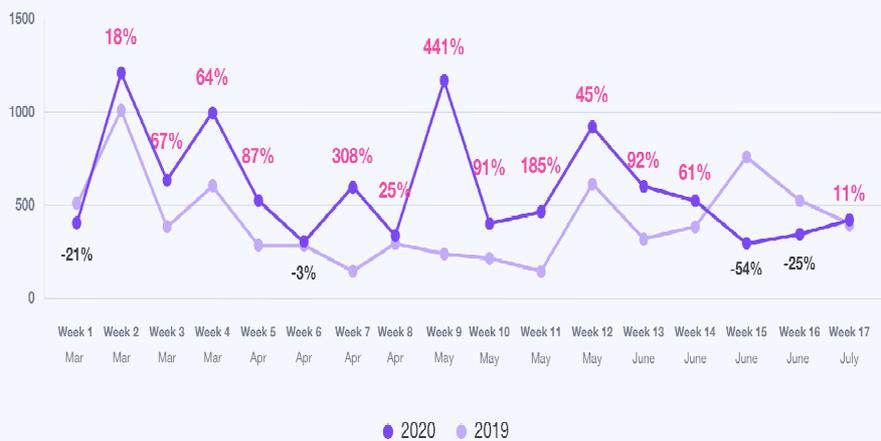
The Court found in favour of the arguments advanced for policyholders by the FCA on the majority of the key issues.

Christopher Woolard, Interim Chief Executive of the FCA, commented:

'We brought the test case in order to resolve the lack of clarity and certainty that existed for many policyholders making business interruption claims and the wider market. We are pleased that the Court has substantially found

### Number of Companies in Liquidation or Administration 2019 vs 2020

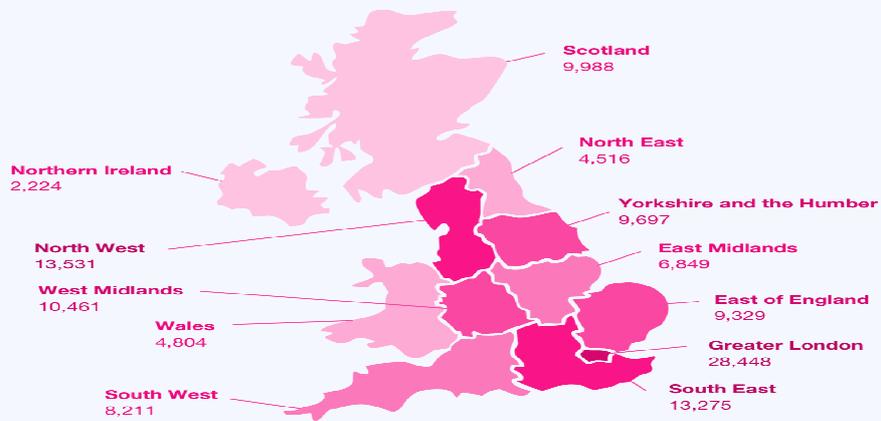
1st Mar - 7th July



Powered by DueDil Business Information Graph™ July 2020

## Restaurants, Pubs and Cafés Affected by the Easing of Lockdown on 4th July

114,484 companies



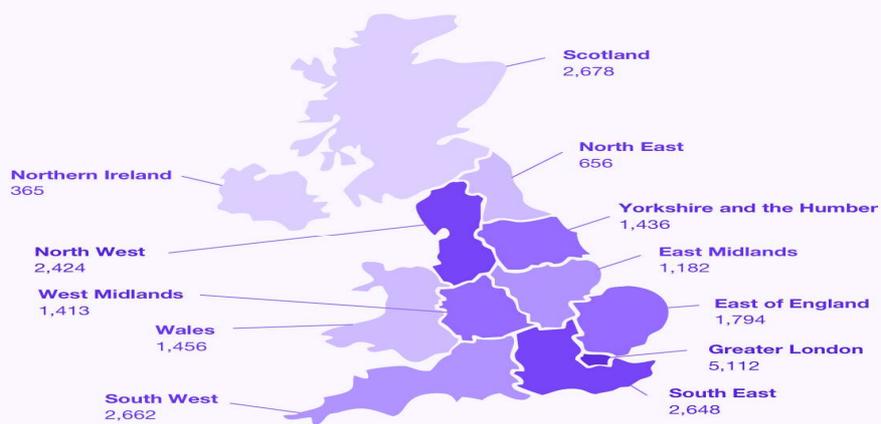
Classifications shown are from SIC 2007 Sections:

- 561: Restaurants And Mobile Food Service Activities
- 56101: Licensed Restaurants
- 56102: Unlicensed Restaurants and Cafés
- 56103: Take Away Food Shops and Mobile Food Stands
- 56302: Public Houses And Bars

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## B&Bs, Hotels and Campsites Reopening

23,826 companies



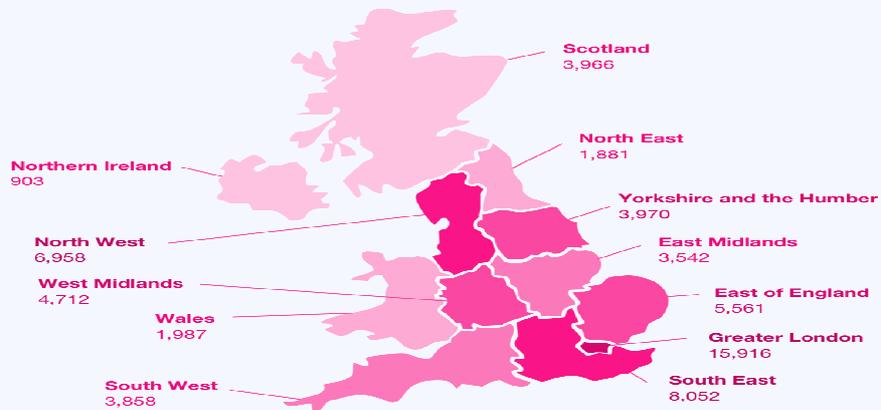
Classifications shown are from SIC 2007 Sections:

- 5510: Hotels and Similar Accommodation
- 5530: Camping Grounds, Recreational Vehicle Parks and Trailer Parks
- 5520: Holiday and other short stay accommodation
- 55201: Holiday Centres and Villages

Powered by DueDil Business Information Graph™ July 2020

## Gyms, Hairdressers, Beauty Salons and Leisure Centres Reopening

61,306 companies



Classifications shown are from SIC 2007 Sections:

9602: Hairdressing And Other Beauty Treatment

9311: Operation Of Sports Facilities

9313: Fitness Facilities

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## Consequential hearing

- Consequential hearing will take place on 2 and 9 October, where the court will hear submissions on the appropriate declarations to be made by the court in the light of the judgment and on any applications for appeal
- FCA and 7 of the insurers have already submitted a request to hear any appeal at the Supreme court



## 2. The judgment



### The judgment

1. Crux
2. Key dates
3. The wordings – disease, prevention of access and hybrid
4. Trends clauses
5. Causation
6. Prevalence



# 1. Crux of judgment

- The court ruled that the majority of businesses who hold NDBI and closed due to the pandemic are entitled to be compensated (21 lead policies + 700 types of policy)
- Insurers should reflect on the clarity provided and, irrespective of any possible appeals, consider the steps they can take now to progress claims of the type that the judgment says should be paid
- They should also communicate directly and quickly with policyholders who have made claims affected by the judgment to explain next steps
- Thousands of small firms and potentially hundreds of thousands of jobs are relying on this



- The judgment says that most, but not all, of the disease clauses provide cover
- Certain denial of access clauses will provide cover but this depends on the detailed wording of the clause and how the business was affected by the Government response to the pandemic
- The test case has also clarified that the covid pandemic and the Government and public response were a single cause of the covered loss, which is a key requirement for claims to be paid even if the policy provides cover
- Insurers did try to say that pandemics were not BI and that policies were never written or priced to cover this
- Each policy needs to be considered against the detailed judgment to work out what it means for that policy. Policyholders with affected claims can expect to hear from their insurer by 22<sup>nd</sup> Sept



## 2. Key dates

- **3 March:** UK covid action plan
- **5 March:** covid becomes a notifiable disease in England/Wales
- **11 March:** WHO declares covid to be a pandemic
- **16 March:** Gov directs people to stay at home, stop non-essential contact and unnecessary travel, work from home where possible, and avoid social venues
- **20 March:** Gov directs various categories of business to close, such as pubs, restaurants, gyms etc (given legal effect by Regulations coming into force on **21 March**)
- **23 March:** Gov announces lock-down involving closure of further businesses including all non-essential shops and restrictions on individual movement (given legal effect by Regulations coming into force on **26 March**)



## What did this mean?

- The court found that the announcements given by the Government on 16, 20 and 23 March 2020 constituted “*advice*” rather than mandatory instructions
- These announcements included: the advice to the public avoid pubs and restaurants; the instruction that restaurants, pubs, cinemas, gyms and theatres must close; and restrictions on people leaving home for anything other than shopping, exercise and essential travel
- In contrast, the regulations issued by the Government on 21 and 26 March 2020 were held as forming mandatory instructions and gave legal force to the requirements for many businesses to close



- This means that policies with the “*advice*” wording may provide cover for loss resulting from the Government announcements on 16, 20 or 23 March 2020
- However, businesses may only be covered for loss resulting from the 21 and 26 March 2020 regulations if their policy requires Government “*action*” or “*restrictions*” to have “*prevented*” access
- Clearly, the time lag between the first government “*advice*” and the mandatory restrictions obtaining legal force (which could be up to 10 days) may be significant for businesses seeking to work out their lost profits over that period



### 3. The wordings

- i. **Disease wordings:** provisions which provide cover for BI in consequence of or following or arising from the occurrence of a notifiable disease within a specified radius of the insured premises
- ii. **Prevention of access/public authority wordings:** provisions which provide cover where there has been a prevention or hindrance of access to or use of the premises as a consequence of government or other authority action or restrictions
- iii. **Hybrid wordings:** provisions which are engaged by restrictions imposed on the premises in relation to a notifiable disease



## Section 2 - Business interruption – optional cover

### Additional covers and limits

### Automatically included?

Bomb hoax £500,000 in total in any one period of insurance.	✓
Unspecified suppliers £250,000 or 10% of the sum insured, whichever is the less, for any one loss	✓
Unspecified customers £250,000 or 10% of the sum insured, whichever is the less, for any one loss	✓
Storage at other locations £100,000 any one loss	✓
Essential personnel £25,000 in total in any one period of insurance	✓
Exhibitions £100,000 in total in any one period of insurance	✓
Failure of utilities supply £250,000 any one loss	✓
Failure of utilities supply – terminal ends - £250,000 any one loss	✓
Fines, penalties and damages £25,000 in total in any one period of insurance	✓
Loss of attraction £250,000 whichever is the lesser for any one loss	✓
Motor vehicles £500,000 in total in any one period of insurance	✓
Notifiable disease, vermin, defective sanitary arrangements, murder and suicide £500,000 in total in any one period of insurance	✓
Prevention of access – non damage	✓
Prevention of access	✓
Rental charges	✓
Transit £25,000 any one loss	✓

## Section 2– Business Interruption

### 12. Notifiable disease, vermin, defective sanitary arrangements, murder and suicide

**consequential loss** following:

- a)
  - i. any occurrence of a **notifiable disease** at the **premises** or due to food or drink supplied from the **premises**;
  - ii. any discovery of an organism at the **premises** likely to result in the event of a **notifiable disease**;
  - iii. any **notifiable disease** within a radius of twenty five miles of the **premises**; 

### 13. Prevention of access

**consequential loss** as a result of **damage** to property within a 1 mile radius of **your premises** which prevents or hinders the use of the **premises** or access to it.  
The maximum **we** will pay in total in any one **period of insurance** is stated in the **schedule**.

### 14. Prevention of access – non damage

**consequential loss** resulting solely and directly from an interruption to **your business** caused by an incident within a 1 mile radius of **your premises** which results in a denial of access or hindrance in access to **your premises** during the **period of insurance**, imposed by any civil or statutory authority or by order of the government or any public authority, for more than 24 hours. 

The maximum **we** will pay in total in any one **period of insurance** is stated in the **schedule**.

**Consequential loss**

Loss resulting from interruption of or interference with the **business** carried on by **you** at the **premises** following **damage** to property used by **you** at the **premises** for the purpose of the **business**.

**Damage(d)**

Physical accidental loss of or destruction of or damage to the property insured.

Provisions refer to and require “DAMAGE”, and though DAMAGE is defined as above, those provisions are intended to be applicable to the non-damage business interruption extensions and must be “made to work” in relation to those covers



## i. Disease wordings

The policies in this category were written by RSA, Argenta, MS Amlin and QBE. Whilst they were all slightly different, they were, with two exceptions, in a form that provided cover for loss resulting from:

- interruption or interference with the business
- following/arising from/as a result of
- any notifiable disease/occurrence of a notifiable diseases/arising from any human infectious or human contagious disease manifested by any person
- within 25 miles/1 mile/the “vicinity” of the premises/insured location



- Two QBE policies specifically required the business interruption to be “*in consequence of*” an “*event*” within a certain radius of the business’ premises
- The court found that this wording did require the loss to result from specific cases of covid occurring within the relevant radius
- Businesses holding policies with such wording will presumably therefore be required to show that local occurrences of covid caused their loss, rather than the national pandemic
- This will be a difficult distinction for businesses forced to close as a result of national government measures rather than local restrictions.



- Insurers argued that cover only applied if the disease only occurred in the relevant locality
- The FCA argued this was incorrect - covid outbreak in the relevant policy area was an indivisible part of the disease + the disease occurring in a very large number of places
- The court agreed with the FCA’s analysis, concluding that the proximate cause of the BI was the notifiable disease + each of the individual occurrences was a separate but effective cause of the national actions
- This is significant for businesses as it means they will not need to point to specific local outbreaks as the cause of their loss before their insurers will pay out under this type of policy



- The key factors leading to this conclusion were:
- The outbreak of disease is the “occurrence” of the disease in the relevant policy area (there only needs to be one instance of the disease within the applicable radius whether or not diagnosed)
- The insured peril is the interruption or interference with the business following the occurrence of the notifiable disease within the defined radius of the premises



- Whilst not central to the judgment, the word “following” where that appears as a causal link denotes a less than proximate causal connection, covering indirect effects of the disease
- Even if the word “following” denotes the requirement of proximate causation, given the nature of the cover this would be satisfied in a case in which there is a national response to the widespread outbreak of a disease



- Critically, cover was not limited to outbreaks wholly within the relevant policy area because:
  - (a) the wordings did not expressly state that the disease should **only** occur within the relevant policy area
  - (b) those diseases which are notifiable include those capable of being widespread and of a nature which will engage a response by national (not just local) bodies
- Cases within the relevant policy area are not therefore independent of, and a separate cause from, cases outside the relevant policy area and that vicinity can include all of England & Wales



## ii. Prevention of access

Written by Arch, Ecclesiastical, Hiscox, MS Amlin, RSA and Zurich and wordings provide cover for loss resulting from:

- Prevention/denial/hindrance of access
- Due to actions/advice/restrictions of/imposed by order
- A government/local authority/police/other body
- Due to an emergency likely to endanger life/neighbouring property/incident within a specified area

The court concluded that these clauses were to be construed more restrictively than the majority of the Disease Clauses (findings provide some cover for some insureds under some wordings)



## Key factors

- The location and nature of the emergency/incident and the causal relationship between it and the relevant authority's action:
- The court considered “emergency in the vicinity”, “danger or disturbance in the vicinity”, “injury in the vicinity” and “incident within 1 mile/the Vicinity” were all requirements that assumed something specific which happens at a particular time and in the local area
- The court therefore concluded that such wordings were intended to provide **narrow localised cover**. As such, for cover to apply, the action of the relevant authority would have to be in response to the **localised occurrence** of the disease and general action taken in response to the pandemic would not suffice



## The nature of the actions/advice/order

- The announcements on 16, 20 and 23 March were characterised as **advice**, rather than **mandatory instructions**, thus potentially engaging clauses with “advice” wordings. Similarly they could amount to an “action” in the context of a clause that contemplated hindrance of use
- An “action” by an authority, which “prevents” access, requires steps which **have the force of law**, since only steps which have the force of law will prevent access. Similarly a restriction “imposed by order” conveys a restriction that is mandatory not merely advisory. As such, the **Regulations** issued by the Government on 21 and 26 March may trigger cover.



The required effect of the authority's action on access to the premises:

- A number of policies required there to have been "prevention" of access. Where that was the case, although physical prevention was not required, there had to have been a closure of the premises for the purposes of carrying on the business

The required effect on the business:

- The court considered that "interruption" did not require a complete cessation of the business but was intended to mean "business interruption" generally
- The exception to this general rule was in relation to MS Amlin 2, where interruption was given its strict meaning of cessation. This is because the reference to "interruption" was *within* the Prevention of Access clause



- Whether cover is available will turn very closely upon the precise terms of the policy
  - The application of the government advice and Regulations to the insured's particular business
  - Whether the business was directly mandated to close or affected as a result of the more general "stay at home" requirements and thus induced to close (less footfall/demand, etc)
- Prevention means it is impossible to carry on the existing business because of some lawful requirement - businesses which entirely changed their nature might be OK but otherwise prevention is required



- The 26 March Regulations required restaurants to close but continued to allow takeaway. So where they only offered sit-in food, the order could amount to a “prevention of access” because it closed the premises for the purposes of its existing business
- By contrast, a restaurant that offered sit-in *and* takeaway services would only have its business partially impaired. As such, there may not be a “prevention of access”
- Two restaurants with the same “prevention of access” wording insurance cover, both of which have had to close their premises to sit in customers, could therefore find themselves with different coverage positions



### iii. Hybrid wordings

- The policies in this category were from Hiscox and RSA and they provided cover for losses resulting from:
  - An interruption to the business
  - Due to an inability to use the premises due to restrictions imposed by a public authority following an occurrence of disease

These clauses are a blend of a disease wording and prevention of access/public authority wording



- The court took a similar approach to the “disease” part of the clause rejecting Insurers’ arguments that the only cover was in respect of losses flowing from a local outbreak
- The court did construe the meanings of “restrictions imposed” and “inability to use” narrowly, finding that “restrictions imposed” requires something mandatory, such as the mandatory requirements of the regulations
- “Inability to use” requires something more than just an impairment of normal use
- Therefore again, close examination of the particular terms of the clause is required to determine policy application



## 4. Trends clauses

- Trends clauses operate to adjust the amount paid out under policies in light of what would have been achieved if the insured peril had not occurred
- Put simply, the starting point is that compensation should put the insured back in to the position it would have been had the insured peril not occurred
- This was a critical issue as the value of any cover could be negated
- How then to measure the loss as the sums paid out would be reduced by the loss caused by the Government restrictions and public response?



- Insurers contended that the insured peril should be narrowly defined - in relation to a disease wording it was argued that the insured peril was the local occurrence of the disease alone
- Other effects of the pandemic + associated government measures could be set up as part of the counterfactual (i.e. the facts once the insured peril is removed) as a business “trend” to reduce the claim (i.e. deducting their contribution to the loss)
- The result in practice may be that the insured’s indemnity is negligible (cover would be illusory so all counterfactuals should be stripped out!)



## 5. Causation

- Insurers argued that in reality there were multiple causes of loss, such as the virus itself, its impact on public confidence and economic activity, and the other measures imposed by the UK Government aside from its order to close premises
- Insurers therefore argued that it cannot be shown that a business would not have suffered loss but for the occurrence of covid near the premises or, alternatively, but for the Government restrictions
- They suggested that businesses may still have been adversely impacted by, for example, consumer concerns about entering into shops



- The Court dismissed the insurers' arguments and agreed with the FCA's construction of causation. It held that covid + the actions, measures and advice of the Government + the reaction of the public in response to the disease should all be treated as one composite cause
- Businesses pursuing claims through their insurers should keep full records and be prepared to demonstrate how their business activities were affected by the pandemic itself, the resulting government measures and the public reaction
- As well as lost revenue figures, information demonstrating how consumers and suppliers were adversely affected by covid, and the resulting impact this had on the business, will help show that covid caused the loss



## 6. Prevalence

- The court did not make any findings of fact as to where covid has occurred or manifested
- Insurers conceded that the categories of evidence put forward by the FCA - specific evidence, NHS Deaths Data, ONS Deaths Data and reported cases - are in principle capable of demonstrating the presence of covid
- Insurers did not suggest that absolute precision is required and that otherwise claims will fail



## Implications?

- The judgment will bring welcome news to a large number of policyholders, particularly those with Disease or Hybrid wordings
- Those with Prevention of Access may also find themselves with cover if the facts of their particular circumstances satisfy the requirements of their wordings
- Clearly time will be needed to fully digest the judgment but none of this will be quick as insurers need to consider if any of the findings apply to their wordings and what else needs to be considered for the insured to establish and prove a valid claim (aside from quantum!)
- Insurers have stated that they now have less of a financial exposure as a result



## 3. Insurer Dear CEO





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18 September 2020

Dear CEO,

**Business Interruption (BI) Insurance**

On Tuesday, the High Court handed down its judgment on the BI test case. The objectives of the BI test case have and continue to be to achieve clarity as quickly as possible for policyholders and insurers on whether certain BI policies and wordings respond to the Covid-19 pandemic. This judgment is a critical step in obtaining that clarity.

Claims handling

We believe that insurers should reflect on the clarity the judgment provides and, irrespective of any possible appeals, consider the steps they can take now to progress claims of the type that the judgment says should be paid. This should include taking all reasonable steps to ensure that all those claims are ready to be paid and settled at the earliest possible opportunity after any relevant appeals.

Insurers should analyse the scope of any appeal. They should then, under Chapter 5 of our [Guidance](#), consider the implications for their relevant non-damage BI policy wordings where they have determined that the test case may affect the outcome on claims generally, including questions of causation.

Where insurers have policy wordings which were:

- affected by the test case, but
- where the relevant questions in the test case are not subject to any appeal,

then they should, in accordance with Chapter 7 of our [Guidance](#) (and the Financial Ombudsman Service's (FOS) expectations for complaints accepted by them), reassess all potentially affected claims/complaints, unless the claim or complaint has been properly settled on a full and final settlement basis. If the FOS has accepted the complaint, the insurer should keep the FOS fully informed.

Where insurers have policy wordings which were:

- affected by the test case, and
- the relevant questions in the test case are the subject of an appeal,

then we expect insurers to continue to progress claims of the type that the judgment says should be paid, as described above, so that they are as progressed as possible when any appeal judgment is handed down.

### Government support

Insurers should consider our August 2020 [statement](#) on the deductions that some insurers have been making from claims payments for some types of Government support policyholders have received during the pandemic. This statement highlighted particularly that insurers need to consider the appropriateness of such deductions on a case by case basis in the context of their policy, and treat their customers fairly in accordance with [Principle 6](#). It set out the need for insurers to consider individually the precise terms of the policy, the claim and how the policyholder applied any government support they received.

We also noted that the treatment of any forms of Government support as income for tax purposes may well differ from how the support should be assessed under a BI policy. Tax considerations typically do not form any part of the calculation of losses for business interruption policies. We therefore do not consider the Government's treatment of the Small Business, Retail, Hospitality and Leisure or Local Authority Discretionary grants for tax purposes is a proper basis for insurers treating those payments as turnover under the policies. Nor do we see that insurers can apply these amounts as savings against fixed business expenses. This is because the amounts received are not attributable to any particular business expense and policyholders will have used the grants in any number of ways. We expect firms to have explicitly considered the treatment of the various forms of government support

### Insurance **POST** Government hits out at insurers over grant deductions from BI claims



Emmanuel Kenning

[@InsPostbod](#)

28 Sep 2020

Indicative reading time: **1 minute**

**John Glen MP, economic secretary to HM Treasury, has rebuked insurers deducting government grants from business interruption claims payments and warned of further action.**

"It is the government's firm expectation that grant funds intended to provide emergency support to businesses at this time of crisis are not to be deducted from business interruption insurance claims," he stated.

Glen, *pictured*, noted that the effect of making the deductions – [an issue previously reported on by Post](#) – was that rather than supporting businesses and protecting jobs during the pandemic "taxpayer funds are being channelled into savings for insurers".

He called on providers making deductions to "respect the spirit" of the

#### Communicating with policyholders

Insurers should communicate directly and as soon as possible with policyholders who have made claims/complaints potentially affected by the judgment to explain the next steps. Under Chapter 6 of our [Guidance](#), insurers should provide at least an initial update on the implications of the judgment by 22 September 2020. We know the level of detail that insurers can provide at this stage, when the scope of any appeal is known, and how quickly they can communicate the full implications for each policyholder will depend on their particular policy wordings and the implications of the judgment for those wordings. We expect insurers to provide the clearest information that they are able to at the earliest opportunity.

#### Providing us with information on affected policies

Under Chapter 5 of our [Guidance](#), insurers should update the information they previously provided to us. We will give further details on how they should do that once we know the scope of any appeal.

#### Summary

The High Court judgment on the test case has brought greater clarity and certainty for all parties. It is critical that this results in insurers paying valid and successful claims in full at the earliest possible date to support business and consumers during the current situation. Where we see that insurers are not meeting the expectations set out here, we will use the full range of our regulatory tools and powers to ensure they do so. We will also continue to co-ordinate closely with the Financial Ombudsman Service.

## **Finalised guidance**

### **Business interruption insurance test case: Finalised guidance for firms**

June 2020

- 6.3 Insurers should publish sufficient details with appropriate prominence and signposting to keep all policyholders with relevant non-damage business interruption policies updated about the test case and its implications for potential claims under their policies. Insurers may publish this information on the firm's website or by other general means. This information should be published promptly after 17 June 2020.

## 4. ICOBS



### Broker's duties

- **Assessing the insured's needs**
- Not obtaining insurance
- Not obtaining the insurance the insured wanted
- **Not obtaining insurance meeting the insured's needs**
- Not exercising discretion in a reasonable way
- Failing to act with reasonable speed
- Liabilities associated with Non-Disclosure
- Liabilities associated with Misrepresentation
- **Not advising adequately on the existence of and terms of cover**
- **Other failure to give competent advice**
- Liabilities during the currency of the policy
- Failure in respect of notification and in respect of claims

Based on Jackson & Powell Professional Liability Chapter 10.



## Demands and needs



ICOB5 5.2.2

R

01/10/2018



(1) Prior to the conclusion of a *contract of insurance* a *firm* must specify, on the basis of information obtained from the *customer*, the demands and the needs of that *customer*.

(2) The details must be modulated according to the complexity of the *contract of insurance* proposed and the type of *customer*.

(3) A statement of the demands and needs must be communicated to the *customer* prior to the conclusion of a *contract of insurance*.

[Note: articles 20(1) and 20(2) of the *IDD*]

ICOB5 5.2.2A

G

01/10/2018

A *firm* may obtain information from the *customer* in a number of ways including, for example, by asking the *customer* questions in person or by way of a questionnaire prior to any *contract of insurance* being proposed.

ICOB5 5.2.2B

R

01/10/2018

When proposing a *contract of insurance* a *firm* must ensure it is consistent with the *customer's* insurance demands and needs.

[Note: recital 44 to, and article 20(1) of, the *IDD*]

ICOB5 5.2.2C

G

01/10/2018

*ICOB5 5.2.2BR* applies whether or not advice is given and in the same way regardless of whether that contract is sold on its own, in connection with another *contract of insurance*, or in connection with other goods or services.

## ICOB5 5.3 Advised sales

### Suitability

ICOB5 5.3.1

R

01/10/2018



A *firm* must take reasonable care to ensure the suitability of its advice for any *customer* who is entitled to rely upon its judgement.

### Advice on the basis of a fair analysis

ICOB5 5.3.3

R

01/10/2018



If an *insurance intermediary* informs a *customer* that it gives:

(1) advice on the basis of a fair analysis, it must give that advice on the basis of an analysis of a sufficiently large number of *contracts of insurance* available on the market to enable it to make a recommendation; or

(2) a *personal recommendation* on the basis of a fair and personal analysis, it must give that *personal recommendation* on the basis of an analysis of a sufficiently large number of insurance contracts available on the market to enable it to make a *personal recommendation*;

and in each case, it must be in accordance with professional criteria, regarding which contract of insurance would be adequate to meet the customer's needs. [Note: article 20(1) third paragraph of the *IDD*]

### Personalised explanation

ICOB5 5.3.4

R

01/10/2018

Where a *firm* provides a *personal recommendation* (other than in relation to a *connected travel insurance contract*) the *firm* must, in addition to the statement of demands and needs, provide the *customer* with a personalised explanation of why a particular *contract of insurance* would best meet the *customer's* demands and needs.

[Note: article 20(1) third paragraph of the *IDD*]

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## IC OBS 6.1 Providing product information to customers: general ↗

**Ensuring customers can make an informed decision: the appropriate information rule**

**IC OBS 6.1.5**  
R  
01/10/2018

(1) A *firm* must ensure that a *customer* is given appropriate information about a policy in good time and in a comprehensible form so that the *customer* can make an informed decision about the arrangements proposed.

(2) The information must be provided to the *customer*:

(a) whether or not a *personal recommendation* is given; and

(b) irrespective of whether a *policy* is offered as part of a package with:

(i) a non-insurance product or service (see IC OBS 6A.3 (Cross-selling)); or

(ii) another *policy*.

(3) Appropriate information is both objective and relevant information, and includes *IPID information*.

**What level of information needs to be provided?**

A *firm* must ensure that the level of appropriate information provided takes into account the complexity of the *policy* and the type of *customer*.

[Note: article 20(4) of the *IDD*]

**IC OBS 6.1.6B**  
R  
01/10/2018

The level of information required will vary according to matters such as:

(1) the knowledge, experience and ability of a typical *customer* for the *policy*;

(2) the *policy* terms, including its main benefits, exclusions, limitations, conditions and its duration;

(3) the *policy's* overall complexity;

(4) whether the *policy* is bought in connection with other goods and services including another *policy* (also see IC OBS 6A.3 (cross selling));

(5) distance communication information requirements (for example, under the distance communication *rules* less information can be given during certain telephone sales than in a sale made purely by written correspondence (see IC OBS 3.1.14 R)); and

(6) whether the same information has been provided to the *customer* previously and, if so, when.

**IC OBS 6.1.7**  
G  
01/10/2018

### Appropriate information for commercial customers

**IC OBS 6.1.7A**  
G  
01/10/2018

A *firm* dealing with a *commercial customer*:

(1) may choose to provide some of or all of the appropriate information in an *IPID* (see IC OBS 6.1.10AR), a *policy summary* or a similar summary if it considers this to be a comprehensible form in which to provide that information; and

(2) should include the *IPID information* (regardless of whether an *IPID* itself is provided).

**IC OBS 6.1.9**  
G  
06/01/2008

Cancellation rights do not affect what information it is appropriate to give to a *customer* in order to enable him to make an informed purchasing decision.



## Concerns for brokers

- **Mis-selling** - did you assess fully the client's requirements (with no better wordings being available and pandemics being hypothetical and of very low probability)?
- **Poor advice** - was the standard level of cover adequate (plus any optional extensions) and on what basis was the policy recommended as suitable?
- Have wordings changed since March and how does this judgment affect the policies sold recently and future lockdowns?
- Unclear, misleading and misinterpreted **policy wordings** – brokers should be blameless?



## Practical steps for brokers?

- Update your risk register
- Have clients' solicitors already been in touch with you intimating claims?
- **PI insurance is harder to get covering covid and is much more expensive**
- If you have an exposure how much is your excess and consider this part of TC2.4 (bear in mind the onerous financial resilience surveys)
- Ensure advice to clients over this becomes clearer (i.e. state pandemics will not be covered) and staff trained and up to speed (esp as WFH)



More Resources:



Handbook Publications



Consultation papers,

Discussion papers, Policy statements



Derivations & destinations



### Terms to be incorporated in the insurance

MIPRU 3.2.4



01/10/2018



The contract of professional indemnity insurance must incorporate terms which make provision for:

- (1) cover in respect of claims for which a *firm* may be liable as a result of the conduct of itself, its *employees* and its *appointed representatives* (acting within the scope of their appointment);
- (2) the minimum *limits of indemnity* per year set out in this section;
- (3) an excess as set out in this section;
- (4) appropriate cover in respect of legal defence costs;
- (5) continuous cover in respect of claims arising from work carried out from the date on which the *firm* was given *Part 4A permission* for the *insurance distribution activity* or *home finance mediation activity* concerned; and
- (6) cover in respect of *Ombudsman* awards made against the *firm*.



## 3<sup>rd</sup> Poll

What are you  
going to do  
now?



## Learning objectives

This talk will give you an insight into:-

- The result of the FCA's test case on Business Interruption Insurance
- Why compliance with ICOBS is more important now more than ever



## Other events?

- FCA's New Supervision Strategy for GI
- Culture and behaviour
- Financial resilience incl client money
- SMCR - have you done it all?



**Thank you for listening**

**Questions and debate please**

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