

## **FSCS Podcast – Episode 6: What happens if my insurer goes bust?**

00:02 – Caroline Rainbird (Jingle)

Welcome to protect your money with FSCS, the podcast from the Financial Services compensation scheme. I'm Caroline Rainbird FSCS Chief Executive. And in this series, the fantastic FSCS team will help you understand how we can help to protect your money, so you can feel confident that your money is safe. Hope you enjoy the podcast!

00:28 – Jess Spiers

Welcome to episode six of the FSCS podcast, I'm Jess Spiers and I'm Senior Content Manager at FSCS. So FSCS, which is the Financial Services Compensation Scheme, exists to protect customers of authorised financial services firms that have gone bust by paying eligible people compensation. Now, we protect lots of financial products, but not all of them. So, this podcast is designed to help you understand our protection and why it's so important. So, whatever your level of financial knowledge, if it's quite basic, or if you're a bit of a pro, we're here to help you feel confident your money is safe.

Now, in today's episode, we're going to be talking all about what happens when an insurance firm fails and how FSCS can help you. And here to help me explain it all, two of the FSCS insurance team are joining me today. Jenny Eldred and Martin Greetham. Welcome Jenny and Martin.

01:22 – Jenny Eldred

Hello.

01:23 – Martin Greetham

Hi, Jess.

01:24 – Jess Spiers

Hi, guys. Right, just a quick teaser of the question that we asked all our guests at the end of the episode. So, we're all about keeping your money safe at FSCS. But what was the toy that got you breaking open your piggy bank as a child? Okay, so imagine you've got an insurance policy, whether it's insurance for your car, your motorbike, your house, or even your pet, and your insurance provider goes bust. So, you're probably going to be feeling a bit worried, and even a bit panicked about what it all means. And you're probably going to have some questions as well. So, am I still insured? Do I need to buy a new policy? Am I going to lose any of my money? And who can help me? So, Martin, is this something that happens often? And should people be concerned about this?

02:16 – Martin Greetham

Not concerned, Jess, but it does happen. There have been 13 insurance firm failures since 2016, and eight of those have occurred in the last three years. Identifying a single cause of failure for an insurance company is often not possible. Insurance failures occur due to a combination of factors: rapid growth into risky business areas, poor underwriting, extensive under-pricing of premium and inadequate loss reserves can all play a part.

02:45 – Jess Spiers

Okay, so are there any recent examples that you can give us for that?

02:48 – Martin Greetham

Sure. One recent example was MCE Insurance company. MCE was one of the UK biggest motorbike insurers, and it was actually based in Gibraltar. It went into administration in November 2021. It's worth mentioning that as well as motorbike insurance, MCE sold a range of other insurance policies, including private car, van and courier insurance. And when it failed, all of its 105,000 remaining

policies were cancelled. FSCS was there to step in and refund customers most of their money, either by paying them a return of premium, which we'll explain a bit about later on, or by paying people compensation for claims against their policies, also known as indemnity claims.

03:35 – Jess Spiers

Yeah, that's right. And because, and this is actually a really important point, because MCE's customers had what's known as a contract of insurance, which we do protect. Just so you know, a contract of insurance is just another term for an insurance policy, so, if you hear us saying a contract of insurance, we basically just mean insurance policy. And just so everyone listening is aware, early on, not all contracts of insurance fall under our protection.

04:01 – Jenny Eldred

Yeah. And I just want to add here that it's the Prudential Regulation Authority or the PRA that regulates insurance providers, and to be eligible for FSCS protection, the PRA must have regulated the company that you've been dealing with.

04:17 – Jess Spiers

Yeah, that's right. And just to make everyone aware, as well, this podcast won't be covering if you've been mis-sold a policy. Today, we're basically just focusing on what happens if the insurance firm fails.

So, say you've got an insurance policy with a firm, and you hear that they've gone bust. So, you might have heard rumours about it on social media, or you might have seen something on the news. So, as we said, you're obviously going to be feeling quite concerned about what this means for you. So, Jenny, what can people expect to happen next,

04:45 – Jenny Eldred

When an insurance firm goes bust, policyholders usually find out from the insolvency practitioner, and they will have been appointed to sort out the firm's finances. Sometimes they will actually ask the insurance broker to contact their customers. So, it could be them that you hear from, and an insurance broker acts as a go between for the customer and the insurance company.

05:08 – Jess Spiers

Okay, Jenny. So how can FSCS help in this case?

05:12 – Jenny Eldred

So, there are actually three ways FSCS may help when an insurer goes bust, depending on the type of insurance policy or contractive insurance you might have. And we're going to be covering all those three scenarios now. And again, just to mention that, in all cases, the insurance firm that's failed, must have been regulated by the Prudential Regulation Authority, and meet certain PRA conditions for you to be eligible for our protection.

05:39 – Jess Spiers

Okay, so let's get on to the three ways that FSCS can help now. So scenario one, your policy is replaced with a policy with a new insurer. And that means that you have uninterrupted cover.

05:51 – Martin Greetham

So that's right, Jess. The broker who sold you the policy or the insolvency practitioner who has been appointed to deal with the insolvency, they try to find another insurance company to provide you with a new insurance policy to cover you. And in this scenario, your cover should continue uninterrupted. If a new policy can be arranged FSCS can help here by paying compensation towards

the cost of that policy. And the compensation goes towards paying the premium of the replacement insurance policy. This is the payment a customer makes to an insurance company in exchange for their providing insurance cover to them or an insurance policy.

06:35 – Jess Spiers

Okay. And do people have to do anything themselves in this scenario, Martin?

06:39 – Martin Greetham

No, the benefit of this scenario is that there's very little for them to do. They don't have to find a new replacement policy themselves. And they will be given details of the new policy they've received once it is in place. There's no gap in cover. It's uninterrupted, as we mentioned before. It's also worth mentioning that there is always an opt out, there's a cooling off period available. So, if the policyholder isn't happy with their new policy, they can opt out of it.

07:09 – Jess Spiers

Okay, so that's scenario one. Let's move on to scenario two. So, you get a refund based on the cost of the insurance premiums you paid for your insurance policy. Now, Martin, can you explain this one a little bit for us?

07:22 – Martin Greetham

Sure. This is what happened when MCE Insurance company failed, which we mentioned earlier on at the opening. Just to clarify here exactly what insurance premiums are, they're the amount of money you pay for your insurance policy, the amount the insurance company charges you for the insurance cover they're providing. Sometimes you will pay all upfront in one go. And sometimes you'll pay it in regular instalments. The price of your premium depends on a number of things. It can include your age, where you live, the level of coverage you're asking for, the risk level of what's actually being insured. For example, a Ferrari is a lot more expensive to insure than a Volkswagen Golf.

08:04 – Jess Spiers

Yeah. And I think it's important to note here that when you buy your insurance policy, whatever policy that is, the insurance premium is only one part of the total cost that you pay for the policy, isn't it?

08:15 – Martin Greetham

That's absolutely right. Sometimes other things are included in the cost when you buy a policy such as admin fees and broker commission. It's important to note that FSCS can only pay compensation on the insurance premium part of your policy, not for those other things such as administration fees and commissions.

08:36 – Jess Spiers

Jenny, I think you had something to add here.

08:38 – Jenny Eldred

So, what would happen next is you'd get a refund based on the cost of the insurance premiums you paid for your policy if there's no suitable insurer to replace the failed firm's policies. And one of the reasons this might be the case that they haven't been able to find anyone else to take these on is because the insurer that's gone under might have sold a complex range of policies, which no other insurance provider can offer.

09:03 – Jess Spiers

Yeah, and that can have quite a big impact on how much money you get back can't it?

09:07 – Martin Greetham

It absolutely can. And quite recently, we had a case where policyholders had paid a broker a lot of money to buy an insurance policy to cover newly built homes. The initial payment they handed over to the broker not only covered the insurance premium, but it also covered other costs such as administration fees, broker commissions, surveying fees, and FSCS wasn't able to protect those elements when the insurance firm went bust.

09:36 – Jenny Eldred

Yes, this often means that you get less back than you paid for your original policy. It's only the cost of the premiums that we can pay compensation for. And also, just need to mention here that the policy premium refund only covers any unused portion of the policy. So, if you've got one year left on a 10-year policy, you're only going to get roughly 10% back. For most types of general insurance policy, we also pay 90% of the value of the remaining premium. And that's even if it's a type of insurance where the claims made under the policy may actually be covered by FSCS, up to 100%. And we're going to talk a bit more about that later, and our compensation limits. It's actually the insolvency practitioner who determines the amount of the policy premium refund. They pass the information to us, we do our eligibility checks, and then we are able to pay the policyholder refunds via cheque or bank transfer.

10:36 – Martin Greetham

That's absolutely right. We can't guarantee that you'll be eligible. It depends on each person's circumstances. And we have to look at each claim on a case-by-case basis. FSCS is essentially geared towards protecting individuals and small businesses. So, most UK customers have failed insurance firms that are regulated by the PRA will be eligible for compensation. And more details on this area are on our website. It can take a while to determine whether customers cover will be replaced or refunded. We work with the insolvency practitioner and insurance broker on this. When the broker, the insolvency practitioner, or indeed FSCS have an update that affects customers, we will contact those customers directly, if at all possible, and we'll also publish an update on our website.

11:27 – Jess Spiers

Yeah, that's right, Martin, we also publish progress updates on our website. And you can also sign up for email updates. So, you'll basically get the latest news straight to your inbox. Easiest way to do that is just to search for the firm's name on our website to find out more, and that's [www.fscs.org.uk](http://www.fscs.org.uk).

Okay, I think that wraps up scenario two. So, we'll move on to scenario three now. So, scenario three is that you would be eligible for FSCS compensation. So, your insurance firms gone bust and you've got a valid insurance claim. So, for example, you have a car accident, and you need to claim on your insurance, or your dog suddenly needs surgery that's covered on their pet insurance. So, Jenny, could you tell us a bit more about what happens here?

12:13 – Jenny Eldred

Absolutely. So just want to start by saying that we don't handle the claims ourselves here at FSCS. The insolvency practitioner will have appointed a company to handle them on behalf of the insurance company that's gone under. But when it's time to pay these claims, that's when we step in, and fund that compensation. So, we can pay the 90% or 100% of the claim depending on the type of insurance policy it is. So, some examples of where we pay 90% are things like pet, travel, home or property insurance, and some examples where we pay 100% are third party motor claims, employers' liability or whole of life insurance. And as we've already said, as with all claims, it will depend on each person's individual circumstances and their eligibility as set out by the PRA.

13:06 – Jess Spiers

That's great. Thanks, guys. So, we're talking today about what happens when an insurance firm fails and how FSCS can help you. So, we're just going to go through some common questions that we get from people now. So first one, if my insurance firm's failed, has my policy ended. So, for example, could I accidentally be driving around with no car insurance?

13:34 – Martin Greetham

It's always best to check with the insurance broker who sold you the policy, or the insolvency practitioner who's been appointed to deal with the insolvency. You could still be insured, but it's always best to check.

13:45 – Jess Spiers

Yeah, definitely. Okay, what happens if my insurer fails, and I need to make an insurance claim? Or they fail while I've got a claim with them in progress, what would happen then?

13:56 – Jenny Eldred

So, if you're a UK customer of a regulated insurance company that's gone under, unless you've been told otherwise, claims against the policy will normally proceed as they would have done if the insurer hadn't failed.

14:08 – Jess Spiers

Okay, and following on from this, then what happens if I need to make a new insurance claim?

14:14 – Martin Greetham

It's best to follow the instructions set out in your policy documentation unless you've received instructions telling you otherwise from your broker or the insolvency practitioner. If you aren't sure who's handling the claim, check the insurance company's website and use the contact information that's provided there. If you have no luck there, your broker should be able to help. You can also usually find this information on our website. As we said earlier, search for the name of the failed insurer in the box at the top of any page to be directed to a dedicated page for the firm. Here you can also sign up for email updates that we'll send as the insolvency process progresses.

14:53 – Jess Spiers

Great. And then what happens if I already had a claim in progress when my insurer failed?

14:59 – Jenny Eldred

So, as we don't deal with the claims here, at FSCS, you'll need to contact the claims handling company or runoff agent that are dealing with the claims. And a runoff agent will have been appointed, as we said, to deal with the claims by the insolvency practitioner. And again, it's worth mentioning that contacts for these people should be available on our dedicated failed firm pages on our website.

15:25 – Jess Spiers

Thanks, Jenny. So just finally, we're going to go through a few things to bear in mind. So, at FSCS, we can't give financial advice. It's outside our remit. But we definitely want people to choose an insurance policy that's right for them. So, we're just going to run through a few things to bear in mind when choosing your policy. And Martin, I think you're going to kick us off.

15:45 – Martin Greetham

Absolutely. A few points to consider are, make sure you know what cover you're buying. Cheapest isn't always best. And a lot of the recent insurance failures we've seen are from insurers selling cheap policies that people have found through price comparison websites, people often choose the top result on those price comparison websites without actually checking the details underneath. It can also often be the broker that's named on the price comparison website and not the actual insurer. So, it's important that you know who the insurer is, and what coverage is included, and what is excluded.

To do this, it's best to read the small print, and this will inform you as to which insurance company is underwriting the policy. And it should also clearly state who your insurer is and where they are based. Don't just assume it's a UK insurer. If the insurer isn't UK based FSCS protection can vary. So, make sure you know who the insurer is, and let that inform your decision. If you're not sure, if you're covered by FSCS, ask your insurer or your broker. To this point, the majority of recent insurance failures we have seen are in connection to overseas insurance. Insurers based in Denmark, Iceland, Liechtenstein, and Gibraltar, have all occurred recently. And with the advent of Brexit, it means there's even more reason to check where your insurer is based.

17:28 – Jenny Eldred

Yeah. And it's completely easy to see why people don't necessarily check the details of their policy before, you know, signing up. It's really tempting to choose a cheap policy, especially at the moment with cost of living increases and inflation.

17:42 – Jess Spiers

Yeah, that's right. And you know, let's be honest, it's hardly exciting choosing insurance, is it? And it can feel like a bit of a chore. But it is crucial that you pick the right policy for you, isn't it?

17:52 – Jenny Eldred

Absolutely. And I think yeah, we appreciate it's not the most exciting product, but it is there for you when things go wrong. So, you need to make sure that you've got the right policy in place that would help you if the worst happens, and you're in that crisis. And I guess what we're saying here is that there are, as Martin went through them, there are some basic checks that can give you some peace of mind about our protection if a firm does go under.

18:19 – Martin Greetham

That's absolutely right Jen and a couple of places to go for help when choosing an insurance policy are the British Insurance Brokers Association website, or BIBA which has some help available there, and MoneyHelper which also have some useful information on their website.

18:43 – Jess Spiers

Okay, so we've covered a lot today. But hopefully you now understand a little bit more about what happens when an insurer fails and how FSCS can help you when that does happen. I think we're ready to move on to the question that we asked all our guests now. So, we're all about keeping your money safe. What was a toy that would have got you breaking open your piggy bank as a child? And Martin, I'm going to go to you first for that one.

19:08 – Martin Greetham

So, I had quite a serious Panini football sticker addiction. So, I've spent a lot of money on those. I think at one point, my dad went to the news agents to tell him to stop selling me Panini stickers. So that's probably mine.

19:20 – Jess Spiers

Perfect, I love it. What about you Jenny?

19:23 – Jenny Eldred

So, mine would be a Mr. Frosty ice crusher machine, which was on my Christmas list for many years. And I was always very disappointed that I didn't get it until one year I did. And within an hour of using it, it completely broke and was never used again. So that would have been what I would have got earlier if I could have got my piggy bank open.

19:47 – Jess Spiers

Jenny that's really sad that you finally got your heart's desire and then it broke on the same day, I'm gutted for you. And actually, that's the second time we've had Mr. Frosty as an answer to that question. So, it's obviously a popular choice.

So, thank you so much Jenny and Martin. We hope that everyone listening has enjoyed the podcast. Now you can find the podcast on our website, which is [www.fscs.org.uk](http://www.fscs.org.uk) and all the usual places that you find your other podcasts. We would love to hear what you think. So please do rate and review us and you can also let us know on our social channels. If you just search for FSCS you'll find us. Thank you for listening.