Insurance policies

Banks sell insurance policies. We outline common complaints about their sale and how we investigate them. We also look at switching policies and common misunderstandings with some policies.

Some banks sell policies provided by their own insurance divisions, and other banks sell policies supplied by separate companies. We can consider all complaints about the selling process by banks, regardless of whether banks sold an internally or externally provided policy.

We can also consider complaints about the way a claim has been assessed, or the fact it has been declined, but only if the bank itself has provided the policy. If the complaint is about a claim on another company's policy, we cannot consider the complaint, but will help you find who can.

Our approach

Bank officers have a duty to take care when giving customers information and advice about financial and insurance products. The exact nature and extent of that duty will depend on each case. We can look at whether they met that obligation.

For instance, one bank might simply give a customer information about a policy, but no advice or recommendation. In that situation, we would look at whether the customer received information that was clear and also sufficient to enable the customer to make an informed decision about whether the policy was the right choice.

In other situations, a bank might assess a customer's insurance needs and then give advice and a recommendation. In that situation, we would look at whether the bank took adequate steps to ensure the recommended policy suited the customer's needs.

We sometimes get complaints from people who say the policy is not what they believe they bought when the time comes to make a claim:

- A bank led a complainant to believe a policy was compulsory, and having learned it was not, the complainant wanted reimbursement of all premiums.
- A bank failed to advise that a policy would not provide cover for the event claimed for, despite being aware of the complainant's circumstances.
- A bank failed to provide a copy of a policy, so the complainant could not check whether it met his or her needs.

We also sometimes get complaints about the failure to disclose information, such as:

- A bank did not record all the details of a complainant's health on a policy application form, and a claim was subsequently declined for either a failure to provide important information or supplying incorrect information.
- A complainant told a bank about a health condition and the bank said it was so minor there was no need to put it on the application.
- A bank declined a complainant's claim because of a pre-existing condition – despite advising that the policy would cover all health matters.

In looking at a complaint about the sales process, we consider:

- the information the bank had about the customer's insurance requirements
- the information or advice the bank gave to the customer about the insurance policy
- whether the customer was eligible for the policy (some travel insurance policies, for example, don't cover those over a certain age)
- whether any policy exclusions or limitations made the policy unsuitable for the customer (such as a pre-existing medical condition)
- what written disclosure was made to the customer about the policy.

To help us make a decision, we will often look at:

- the application form, bank diary notes about the sale (including any records of a needs analysis and any customer notes) and phone recordings
- what the bank officer and complainant remember about the sale
- the bank's policies on insurance products and any sales scripts bank staff use when selling policies
- relevant law, codes of practice and regulatory guidelines.

If we find the sales process was flawed, we may recommend the bank pay the customer's claim, or some proportion of it. In other situations, we may recommend the bank reimburse the premiums, meet the claim, and/or pay compensation for the inconvenience arising from the sales process. Where the bank is also the underwriter of the policy, we can recommend that the policy be reinstated if it has been incorrectly avoided.

Switching policies

Advisers need to take special care when recommending a customer take out a different policy because of the risk the customer may lose some of the cover offered by the existing policy. We use a Financial Markets Authority guide when looking at complaints in this area. The guide says advisers comparing a customer's existing policy with a replacement must:

- be familiar with the terms of the existing product
- make a clear, reasonable and balanced comparison
- point out the disadvantages as well as the advantages of switching policies.

A bank should make clear the limited scope of the service it is providing if it is not giving advice or making a recommendation about a different policy. It should point out that no comparison has been made, and it should explain the risks of changing policies and the nature of these risks, which may include:

- reduced cover (for example, a change to the date from which pre-existing medical conditions will be excluded)
- fees for cancelling a policy
- a specific period of reduced cover (for example, redundancy cover will not be available for the first three months).

Specific policies

Critical care cover

Also known as trauma cover, this is often an option added to life insurance policies. It usually offers a lump sum payment on diagnosis of a terminal illness that will soon end in death. It can also include very specific conditions, such as loss of a limb, certain cancers and certain types of heart disease.

It is commonly believed – including by some bank officers – that critical care cover is a cheap alternative to disability cover. However, it is often so narrowly defined that it excludes most types of disability. Nor is it a substitute for a loan protection or income protection policy. There are clear differences, which banks should explain to customers.

Loan protection policies

Also called mortgage protection policies or loan repayment policies, they offer loan repayments when a borrower cannot meet his or her commitments because of temporary disability or redundancy. Or they repay the loan in full in case of permanent disability or death. Loan protection policies pay out to the lender rather than to the insured (or his or her estate), as happens with life insurance policies.

Loan protection policies are sometimes confused with lender's insurance. The latter protects the bank (for example, if there is a shortfall after a mortgagee sale), not the borrower, even though the borrower pays the premiums – which is why some borrowers assume the policy is in place for their protection. It is not. If the insurer pays out on a claim, it has the right to recover the money from the borrower. Complaints about loan protection policies sometimes stem from this confusion. We check whether the bank properly explained that the premium paid was for the bank's lender's insurance.

Banks don't have to offer customers a loan protection policy when arranging a loan, but it is a good idea for borrowers to think about insurance cover when taking out a loan.

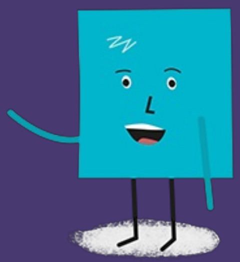
Sometimes, when a customer's borrowing amount is increased, the existing loan will be repaid and a new loan made at the higher amount. In the process, loan protection insurance on the old loan can sometimes be automatically cancelled – a fact missed by customers and sometimes not pointed out by banks. Banks should advise customers of this and check what insurance they may want.

When a customer borrows more money, the cover may continue for the original loan, but not for the extra lending. It is good practice for banks, if they have sold the original policy, to check whether the customer requires insurance cover for all the lending.

A standard loan protection policy may not be of much value to part-time workers or the self-employed. Part-timers may not qualify for disability or redundancy cover, and the self-employed cannot get redundancy cover and may not be covered for loss of contracts.

Buying insurance over the phone

Telemarketing of insurance policies is becoming more common. Legally, an insurance contract doesn't have to be in writing, so acceptance of an offer of insurance over the phone is binding. However, banks should make sure customers are sent a copy of the policy, and are advised to read it, because the full terms and conditions of the policy won't have been disclosed in the phone call.



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