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15 October 2025

By email: PureProtectionMS@fca.org.uk

Dear FCA,

Financial Services Consumer Panel Feedback on the Financial Conduct Authority Market Study MS24/1.3 Structure of the UK pure protection market for retail customers.

The Financial Services Consumer Panel (the Panel) welcomes the inaugural Financial Conduct Authority Pure Protection Market Study and the opportunity to provide feedback on the regulators' initial paper describing the high-level structure of the UK pure protection market for retail consumers. The Panel shares the following observations.

Chapter 2 – Product Overview/ Other Product Features.

Term, Critical Illness and Whole of Life protection policies normally contain contractual Guaranteed Insurability Options (GIO's) which enable the policy sum assured to be increased without further medical underwriting on the occurrence of specified events such as house move, childbirth etc. In theory this should avoid the need for rebroking. However, poor policy benefit communication and review often results in these policy options failing to be exercised, to the detriment of the consumer.

Term and Critical Illness Policies set up on a joint life basis have a contractual clause that can enable the policy to be split into separate policies following relationship breakdown. This, however, requires the agreement of both lives assured and where this cannot be achieved there is a risk of economic abuse and coercive control resulting. The Charity, Surviving Economic Abuse, Chartered Insurance Institute and Personal Finance Society have all issued guidance recommending the taking out of separate individual rather than joint policies.

Several life assurance offices now offer Term and Whole of Life Policies with a Contractual Beneficiary Clause that enables the policy beneficiaries to be specified within the policy and death benefits to be paid to them out of the deceased policy holders' estate, avoiding probate process and delay. This is a simple alternative to placing the policy in a Trust (although policies established on this basis can still be placed in Trust if required).

2.22 The principal benefit of placing a policy in trust is less about the tax benefit and far more about requiring Trustees to ensure that the policy benefits are paid quickly to the correct people plus, avoiding both intestacy law issues and probate delay. These are important given the rapidly increasing number of cohabiting and blended households. The Panel holds that significantly more policies than is currently the case should be either set up on a contractual named beneficiary basis and/or placed in trust. Failing to do so can result in a delay in settling claim benefits, often exacerbating vulnerability.

It is now common for all types of protection policies to feature a range of added value services such as Red Arc Nurses counselling services. Note that these added value services are not a contractual benefit and can be accessed without having to claim on the policy, often by the life assured's family members not simply by the life/lives assured. (The Panel also note that these non-contractual benefits can be removed without policyholder consent).

Chapter 3 - Customer Overview

3.14 Depending on the claims moratorium period applying, Guaranteed Acceptance Over-50s policies often see the risk premium increased by 35 to 50% to cover the cost of the guaranteed acceptance. Underwritten whole of life policies offer better value in the majority of cases. The Panel have long been concerned by the poor value of Guaranteed Acceptance contracts because the "no need for you to have a medical" encourages health fear promotion and because these policies are often marketed as funeral plans. In addition, being largely sold on a non-advised basis they are rarely placed in trust and claims payments can be held up in probate process and potentially subject to IHT.

Chapter 4 – Market Participants

4.5 Consumers can be confused when stock firms feature "mutual" in their brand name: Police Mutual and Forces Mutual are cases in point. Given that the Consumer Duty carries customer understanding objective requirements, the Panel suggests that the Financial Conduct Authority review this.

4.27 – 4.32 Note that "Straight Through Underwriting" in most cases results in the salesperson receiving a sales commission, both capturing and inputting their customers' medical information into insurers' point of sale underwriting systems. This can, and does, result in a conflict of interest, potential non-disclosure and consequential consumer harm. With reinsurers and insurers both voicing concern at increasing non-disclosure rates, the Panel suggest that the Financial Conduct Authority explores the benefits of consumer medical information being captured by a person independent of the sales process.

Note that when a consumer receives acceptance terms that are subject to a restriction, postponement, load premium or declinature, the reason for this underwriting outcome is only made available to them on request. A 2021 Mental Health UK Insurance Study identified that circa 78% of vulnerable customers lacked the confidence to seek information as to why they received non-standard policy acceptance terms. The Panel suggests that the Financial Conduct Authority asks for

improved underwriting-decision transparency as a Consumer Duty understanding, service and support outcomes issue.

Note that the Panel has been asking, for the past three years, that consumers have easy access to the list of data fields used in making any decision relating to underwriting or pricing.

Chapter 5 – Market Practices – Distributor Remuneration.

5.25 The Panel welcomes the Financial Conduct Authority referencing loaded premiums and we additionally highlight that there is no limit on the level of commission that can be paid on a case. We hold that the level of commission paid should reflect the amount of work, cost and risk undertaken by the distributor, however this should be subject to a decency limit. In addition, where an increased or loaded premium is being applied for the purposes of paying increased commission, this should be transparent to the consumer and should be explicitly agreed by the customer alongside a description of the additional value being provided to them in exchange.

Market Practices – Non-Disclosure.

The Panel suggests that the Financial Conduct Authority specifically references the market policy and practice in relation to non-disclosure within this paper¹ and references insurance law in relation to the increased responsibilities that insurers have when they are members of distributor restricted panels².

Market Practices – Missed Premiums.

The Panel suggests that the Financial Conduct Authority references the approach that insurers take to missed premiums and the application of nonforfeiture clauses that enables cover to remain in place for a period should a premium be missed, this period and cover reinstatement requirements varies by provider.

Chapter 6 – Relevant Regulation and Market Developments.

In addition to the regulatory and market developments listed the Panel welcomes the fact that since 2005 life insurance offices have annually released claims payment statistics for all retail protection insurance types. The Panel asks the Financial Conduct Authority to seek similar for all retail and commercial general insurance lines. We additionally ask the Financial Conduct Authority Protection Market Study to have regard to the following:

Claims service and support -

The UK Commission on Bereavement 2022 Report, “Bereavement Is Everyone’s Business”, and financial services workstream led by the Marie Curie Charity made a number of bereavement experience and support asks of insurers that have thus far not been picked up and progressed. The Pure Protection Market Study alongside the

¹ <https://www.abi.org.uk/globalassets/sirecore/files/documents/publications/public/migrated/health/abi-guidance-on-non-disclosure-and-treating-customers-fairly.pdf>

² https://www.scotlawcom.gov.uk/files/5913/4064/8703/CP_3.pdf

service and support dimensions of the Consumer Duty give an opportunity to do this now.

So concerned are a number of financial advisers by declining protection claims standards that they have developed an industry Funeral Pledge and Claims Charter³. The Panel asks the Financial Conduct Authority to review and consider these within the scope of the Pure Protection Market Study.

Access to insurance –

In 2020 the British Insurance Brokers Association facilitated the development and introduction of a voluntary industry protection insurance signposting agreement to assist consumers with disabilities and health conditions to better access insurance. A number of major insurers and distributors have signed up to it⁴. This agreement has just been renewed and formed part of the Signposting ask made of the Government's Financial Inclusion Strategy currently being worked on by HM Treasury. The Panel asks the Financial Conduct Authority to review and consider this agreement and protection insurance signposting within the scope of the Pure Protection Market Study.

Economic and Financial Abuse –

General and Term Insurance policies can be, and sadly sometimes are, used for the purposes of economic abuse and coercive control. The Surviving Economic Abuse Charity have produced guidance on this which itself informs guidance issued by the insurance professional body⁵. The Panel asks the Financial Conduct Authority to review and consider this agreement and protection insurance signposting within the scope of the Pure Protection Market Study.

The Panel look forward to the next Pure Protection Market Study paper.

Yours sincerely,

Chris Pond
Chair of the Financial Services Consumer Panel

³ <https://www.protectiondistributorsgroup.org.uk/campaigns/>

⁴ <https://www.biba.org.uk/wp-content/uploads/2023/09/Signposting-2020-01-21-Agreement-on-access-to-protection-insurance-FINAL-2023.pdf>.

⁵ https://survivingeconomicabuse.org/wp-content/uploads/2023/11/Life_insurance_briefing-SEA-2023-1.pdf