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By email: [PureProtectionMS@fca.org.uk](mailto:PureProtectionMS@fca.org.uk)

Dear Sir/Madam,

**Financial Services Consumer Panel Feedback on the Financial Conduct Authority "Market study into the distribution of pure protection products to retail consumers MS24/1.4 – Interim report"**

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to provide feedback on the Financial Conduct Authority Market study into the distribution of pure protection products to retail consumers – interim report. In responding to this paper, the Panel additionally refers the FCA to our response to "Market Study MS24/1.3 Structure of the UK pure protection market for retail customers – interim report".

The panel shares the following general observations.

In terms of the approach and style taken by the FCA to view the issue covered by the Pure Protection Market Study the Panel urges FCA to approach the issues covered from the consumer's perspective and be more directive in approach to product providers and distributors.

The Panel remains concerned by the poor value offered by "Over 50's Plans" and we urge to FCA to prohibit the sale of these products where the product provider's product profitability is dependent on a significant proportion of their book of the plans lapsing with no value returning to the policyholder. In assessing value it is important that we stand in the consumer's shoes, and rather than take comfort from the percentage of premiums used to pay claims, we consider the many people who, having held plans for some time but due to their personal financial circumstances, have little option but to lapse and receive value. This a long standing issue as this press comment evidences <https://www.lovemoney.com/news/47486/royal-london-over-50s-life-insurers-abandoning-financially-vulnerable> . Should the FCA be minded to allow these plans to continue to be marketed and sold, the Panel urges the regulator to require value to be returned to lapsing policyholders.

The focus and priority given by both insurers and intermediaries to the promotion of app and/or online non contractual "added value services" concerns the Panel as increasingly they appear to be the main sale as opposed to an

appropriate protection product following analysis and establishment of the consumers hierarchy of needs.

The Panel hold that the use of the term “added value services” is misleading and should be replaced by “non contractual support services”. To support and aid consumers understand the support services available to them and better compare products, the Panel ask FCA to review their value and description plus, and importantly, that where virtual medical and pharmaceutical services are provided that these are to a standard that is acceptable to the NHS.

As pure protection products are long term insurance contracts the Panel view it essential that given consumer needs change over time, all policyholders should be provided with an Annual Benefit statement to remind them of the cover they have, its purpose, how to claim and/or access available support services plus change the product in response to their changed needs. The commissions that intermediaries receive include an element of payment for the provision of ongoing product suitability reviews and policyholders should receive these as it is a service that they are ultimately paying for.

To provide and support financial resilience to shocks it is imperative that all protection products provide a degree of forbearance to consumers suffering financial hardship and distress. It became apparent both during and following the Covid Pandemic that Protection Providers approach to this issue differed markedly with non-forfeiture periods inconsistent and communicated poorly with product providers’ own staff, intermediaries and consumers. The Panel requests that the FCA review this issue and ensure that insurers and intermediaries are able to ensure that a consistent approach is taken to non-forfeiture support that is consistent with Consumer Duty Outcome and FCA vulnerable customer guidance requirements.

The Panel suggests the FCA gives further consideration to undertaking more detailed consumer research to help aid understanding of consumer experience. We note the reliance on the research with consumers who had purchased relevant products in the preceding 12 months, but are concerned this may be more relevant to customer satisfaction of the sales process than with the underlying product. We think the latter is equally, if not more important to properly understand. We note the FCA refers to other sources of data eg complaints data, but believe there is more the FCA could and should do to understand consumer sentiment.

Chapter comments.

Chapter 1 – The Protection Gap.

The Panel largely shares the FCA’s view of the operation of the market. However, in relation to the Protection Gap, we draw the FCA’s attention to the Government’s recently launched Financial Inclusion Strategy which calls on the insurance industry to embrace “Total Signposting” plus review the design and distribution of protection products, particularly income protection insurance, to enable them to better meet the needs of underserved consumer segments eg the self-employed and renters.

The Panel hold that “Signposting” in addition to being a requirement of the vulnerable customer TEXAS drill ( <https://www.fca.org/publication/occasional-papers/occasional-paper-8-practioners-pack.pdf> ) should be a Consumer Duty requirement for all financial services professionals to ensure that consumer needs, together with understanding, service and support outcome requirements are addressed. Hence, in relation to pure protection need, we advocate that where a financial services firm and/or intermediary is unable to address a customer’s financial protection need then they should signpost that customer to a protection specialist.

The Government’s Financial Inclusion Strategy makes a specific ask of Travel Insurers to review underwriting outcomes for consumers who have experienced poor mental health and the Panel holds that this ask is equally applicable to pure protection products and we request that the FCA consider this.

The Panel welcomes the FCA’s 1.11 comment in relation to the possible future extension of Targeted Support to embrace pure protection solutions. As working age consumers’ ability to accumulate ISA and Pension savings within the proposed Targeted Support regime is largely dependent on their ability to continue to work and earn, the Panel hold that it would be sensible to bring income protection and family income benefit insurances as income replacement covers into Targeted Support scope at the earliest opportunity. The Panel recommends that Protection Insurance solutions that may sit within a Targeted Support regime must be both accessible and flexible to meet the emerging regular income replacement and/or lump sum payment needs that a claimant may have. This will require innovation and a hybrid critical illness/income protection insurance solution to be considered – such a solution was pioneered by Ageas Protect in 2011.

In addition to the barriers to accessing pure protection that the FCA has detailed, a further issue is the lack of consumer financial capability and the Panel requests that the FCA discuss this with Money and Pension Service (MAPS) as at present consumer pure protection need support is not a MAPS/Money Helper priority.

The Panel agree with “other findings we want to tackle” points listed in 1.13, particularly in relation to commission and incentives to switch consumers and we urge FCA to pay particular attention in this regard to the conduct and behaviours of telephone sales firms (especially where advice is not being provided), mortgage brokers and network appointed representatives. We additionally welcome FCA’s comments regarding claims experience and the need to ensure that all pure protection intermediaries operating on a advised and non-advised basis put far greater emphasis on ensuring that the need for Trusts, Contractual Beneficiary Nominations, Occupational Benefits Expression of Wish Letters, Wills, Children’s Guardianships and Lasting Powers of Attorney are addressed. We also suggest that FCA review the Protection Distributors Group Claims Charter and Funeral Pledge – see <https://www.protectiondistributorsgroup.org.uk/campaigns/>

Tackling economic and financial abuse is a cross-cutting issue within the Government’s HM Treasury led Financial Inclusion Strategy. The Panel urges FCA to bring this into the scope of its Pure Protection Market Study and recommendations. This, and the need to set up protection insurance policies

appropriately, is a longstanding issue. The Surviving Economic Abuse Charity and Chartered Insurance Institute professional body have both issued guidance on it, see [https://survivingeconomicabuse.org/wp-content/uploads/2023/Life\\_insurance\\_briefing-SEA-2023-1.pdf](https://survivingeconomicabuse.org/wp-content/uploads/2023/Life_insurance_briefing-SEA-2023-1.pdf) and <https://www.thepfs.org/news-insight/news/articles/economic-abuse-and-life-insurance-good-practise-guide/f19ffe82-96bd-4918-a305-088d2454c618>

## Chapter 2 – Design of distribution agreements and commissions.

The Panel notes that the vast majority of protection intermediaries receive commission on an indemnified upfront basis and this remuneration model is largely unchanged since its introduction in 1981. The Panel is aware that competition law requirements can make it difficult for product manufacturers to discuss commission policy and practice hence we urge the FCA to use its convening powers to bring stakeholders together to review the shape of current commission models to ensure that they encourage good behaviour and support the provision of ongoing advice/guidance plus improve alignment with Consumer Duty intent and outcomes.

## Chapter 3 – Consumer outcomes

Re point 3.13, claims payment times, consumer experience and perceived value. The 2022 UK Commission on Bereavement Principles for Change spoke to the need for financial services firms to deliver better outcomes on bereavement and improve support with this particularly relevant to pure protection insurances. The Panel hold that whilst the Protection Distribution Group Funeral Pledge and Claims Charter that we reference in our Chapter 1 comments highlight what insurance firms can do to improve claims outcomes, distributors also have a key role to play – This by ensuring that insurance policies are appropriate to their clients need and placed in trust / contractual beneficiary nomination where required plus occupational expression of wish letter, Wills, Child Guardianship and Lasting Power of Attorney needs are addressed. As protection intermediaries do not currently have a professional qualification requirement, the Panel suggests that the FCA urgently discusses the need to improve pure protection intermediary professional development support with the Chartered Insurance Institute together with the merits of the professional body establishing a dedicated society for protection insurance professionals to do just this.

## Chapter 4 – Profitability

The Panel largely agrees with the FCA's analysis of pure protection market inclusion and profitability plus support for the Financial Inclusion Strategy action to review the accessibility and performance of income protection insurance. Whilst we accept that guaranteed acceptance whole of life policies have a place for those consumers with life changing and/or limiting health conditions, we continue to hold that they represent poor value as funeral payment solutions and that their marketing and sale for this purpose should be prohibited.

## Chapter 5 – Intermediaries and Commission

The Panel does not agree with the FCA's findings and comments in relation to loaded premiums being used to increase levels of commissions paid. Our position on this issue is, and remains, that the Panel are supportive of

commission being paid to pure protection intermediaries where the amount of remuneration at intermediary firm and individual seller level represents a fair and transparent exchange of value relative to the work undertaken by firms and intermediary together with the service delivered and costs incurred.

The Panel hold that where the loading of a premium is related to the increased underwriting risk that a proposer presents due to health, lifestyle and/or occupational factors, then this loading should be made transparently clear to the proposer and their protection intermediary to enable them to make an informed decision on the merits of applying to another insurer. The Panel note that the Protection Distribution Group, which represents a number of the largest independent protection intermediary firms in the UK, has adopted a similar position to the Panel on this issue in their response to the FCA's interim Market study into the distribution of pure protection products to retail consumers' paper.

The Panel notes the FCA's comments in relation to the level of intermediary commission debt, and as this ultimately impacts consumer premiums, we urge the FCA as a data led regulator to request that the FCA's supervisory and conduct teams use the elixir commission debt system data available to them and work closely with the insurance provider and distributor firms concerned to ensure that poor behaviour and conduct is addressed.

#### Chapter 6 – Protection gap and innovation

The Panel both welcomes and agrees with the FCA's findings and comments and reiterates that in terms of a potential Targeted Support protection proposition, innovation and particularly in relation to access, underwriting, product simplification and addressing both income replacement and lump sum capital replacement need within the one plan will be required.

#### Chapter 7 – Potential remedies and next steps

The Panel agrees with the FCA's comments and whilst we welcome the regulators' support for the Government's Financial Inclusion Strategy, we ask the FCA to use its convening powers to bring all stakeholders together to equally focus on improving consumer financial capability and ability to make better informed decisions.

Yours sincerely,

Chris Pond

Chair, Financial Services Consumer Panel