FINANCIAL CONDUCT AUTHORITY

Annex 1

Pure protection market study: summary of feedback to our Interim Report

September 2026

Contents

Chapter 1

Introduction

1.1 This Annex provides an overview of the feedback received in response to the Interim Report of the market study into the distribution of pure protection products to retail customers. It also sets out our response to that feedback. It should be read alongside the Interim Report, which contains the detailed analysis, evidence and conclusions on which the feedback and our responses are based. Where we consider that particular issues warrant further discussion, we address them in Chapter 4 of the Final Report.

1.2 We received around 50 responses to our Interim Report consultation, including from insurers, intermediaries and consumer groups. Most stakeholders commented on our proposed next steps:

- The most frequently covered topic was the protection gap, which respondents agreed is a key challenge, providing additional insights on the drivers and suggested solutions.
- Around half of the responses also covered the issue of unnecessary switching driven by commissions, highlighting that more visibility would help prevent it but that we need to be proportionate in how we intervene.
- Many stakeholders also agreed that greater uptake of products and services offered at the point of sale that can improve claims experience (such as placing policies in trust, setting up wills, and setting up powers of attorney) would be beneficial.
- Regarding our proposal to update our assessment of the value of income protection products, many respondents provided insights on the factors to consider in our assessment.

1.3 The majority of the feedback on our other findings was also positive and agreed with our assessment of the value of pure protection products, firms' profitability, the role of distributors and that distribution is working well overall. However, around half of the respondents challenged our findings on loaded premiums and restricted panels.

1.4 Other responses included challenges to specific findings, reporting concerns with certain products and services or practices affecting consumer outcomes.

Chapter 2

Consumer outcomes

2.1 In the Interim Report, we said that the distribution of pure protection generally works well for product holders and delivers good outcomes. The market offers a wide range of products via a variety of distributors, claims acceptance rates are high, complaints are low, and our consumer survey found that consumers overall report positive levels of satisfaction.

Stakeholders mostly agreed that outcomes for consumers who purchase protection are generally good

2.2 The most substantive concerns in this area related to access and choice for consumers with more complex needs. Some firms highlighted that complex underwriting journeys, delays in obtaining medical evidence, and wider friction in application processes can limit access to suitable cover, especially for consumers with pre-existing medical conditions.

2.3 Some responses also raised specific concerns about how protection is sold and explained to consumers. For example, one suggested that firms should take care to ensure that added health services or app-based services do not distract from the core policy and that consumers can understand their role and value clearly. A few others suggested that firms could improve ongoing communication with policyholders by providing clear information regularly throughout the life of the policy. A small number of comments also emphasised the value of clearer claims-related information, such as greater transparency on claims statistics or claims processes that may affect consumer understanding and trust. Lastly, a few respondents strongly highlighted the need for firms to carefully consider the risks of economic abuse when recommending single or joint policies to consumers.

Our response

The feedback generally supported our findings on consumer outcomes. It did, however, point to some targeted areas where firms could improve access, communication and transparency, especially for consumers who face greater barriers in accessing protection. We address the issue of access for consumers with pre-existing medical conditions in Chapter 3 of the Final Report.

Economic abuse
Economic abuse is a form of domestic abuse that affects many people. Domestic financial abuse is a form of economic abuse, which can involve the control, exploitation and sabotage of an individual's access to money, financial products or services.

Pure protection policies can be used as tools for domestic financial abuse towards a partner, particularly where policies are held jointly or where one individual remains financially or administratively connected to another after separation. Some advisers may think that they must recommend joint policies because they are cheaper, or are concerned that we might negatively view any recommendations based on factors other than price.

We want firms to be alert to the signs of domestic financial abuse and we work with trade associations, the third sector and Government to improve outcomes for victim-survivors, including those operating in the pure protection market.

Under the Duty, our Guidance for Treatment of Customers in Vulnerable Circumstances and PROD 4, firms are expected to understand customers' needs including those with characteristics of vulnerability. Firms are also expected to design, distribute and recommend products in a way that avoids foreseeable harm and supports good outcomes. This aligns with the Chartered Insurance Institute's (CII) work with the charity Surviving Economic Abuse (SEA) and its latest Good Practice Guide for advisers, in the context of life insurance.

Likewise, CI Expert has created the 'Single is Best' campaign, which focuses on misconceptions among advisors around joint critical illness policies compared to single policies.

Further to HMT's Financial Inclusion Strategy, which made proposals for the insurance industry to develop guidance to support victim survivors of domestic financial abuse, the Association of British Insurers (ABI) has focused on helping firms better identify and manage risks associated with joint policies where economic or domestic abuse is known or suspected. Its recently published good practice guide includes examples for life protection products, trusts and joint-policy structures to help firms consider whether processes could create unsafe dependency or barriers to separation.

Looking ahead, the ABI plans to continue working with Government, regulators, industry and third sector organisations on a coordinated approach to developing and implementing a legislative solution that is workable for firms and customers while safeguarding victim-survivors of economic abuse.

We will continue to engage with stakeholders and monitor outcomes for consumers, including whether current measures are effective in helping firms identify and address risks associated with economic abuse.

Value-added services

Value-added services are support services offered alongside some pure protection policies, beyond the core insurance benefit. These include digital GP access, mental health support, or second medical opinions. They are most commonly associated with life insurance policies and products with health or morbidity-related features, such as critical illness cover and income protection, where access to health and wellbeing support may form part of the wider customer proposition.

One stakeholder raised concerns that firms may give these services too much prominence in marketing and sales journeys. They highlighted that firms should make clear where services are non-contractual and should not present them in a way that distracts from the core protection policy. We also received positive feedback on the value these services can provide to customers.

Value-added services can support good outcomes, but firms should clearly and accurately explain the nature of these services during the sales process. In accordance with ICOBS 2.2.2, communications, including financial promotions, must be clear, fair and not misleading. This means that the information must be understandable to the target audience, it should not omit material information regarding the services, exaggerate benefits or create a false impression. The value of these services also needs to be included in firms' fair value assessments if these are features of the policy. With respect to the standards of those services, features of the product that are concerning can be referred to our Supervision Hub even if they are communicated in a clear way.

Chapter 3

The protection gap

3.1 In the Interim Report, we reported evidence of a protection gap and identified this as the key long-term challenge in the pure protection market. We considered whether extending targeted support to protection or increasing the use of prompts and trigger points could help to narrow the gap. We proposed working with relevant stakeholders to develop a coordinated programme of work to tackle the gap. As such, we held a workshop in March 2026 with industry stakeholders and consumer groups to gather views on the priority drivers of the gap and facilitate discussions on potential solutions.

Respondents agreed that the protection gap is the key challenge

3.2 Almost all stakeholders agreed with our finding that the protection gap is the key challenge in the pure protection market and were aligned on the assessment of its main drivers. They highlighted low consumer engagement, a lack of timely prompts, and friction in accessing cover, especially where underwriting and medical evidence create barriers. Some also flagged product complexity as a barrier, specifically in relation to income protection. Feedback also reinforced our finding on the groups most likely to be impacted by these drivers, including people with pre-existing medical conditions, renters, lower-income households, and self-employed consumers or gig economy workers.

3.3 The proposed interventions that received the strongest support were those that prompt consumers to consider protection at relevant moments. Many stakeholders said consumers rarely engage with protection proactively and that timely prompts could therefore play an important role in narrowing the gap. Mortgage and renting journeys were most frequently cited, but stakeholders also pointed to other life events, including the birth of a child, relationship breakdown and changes in employment. A common theme was that prompts are more likely to be effective where they are supported by clear signposting and an appropriate route to further support or advice.

3.4 Respondents also emphasised that awareness-raising and financial education, although important, are unlikely on their own to lead to materially higher take-up unless other barriers, such as inertia and process friction, are also addressed. There was also consensus on the benefits of reducing delays in obtaining medical evidence where these deter applications or limit access to cover, particularly for consumers with pre-existing medical conditions.

3.5 Views were more mixed on the role of targeted support. Insurers were generally supportive of extending targeted support to protection as a way of helping consumers who may not seek out full advice, although some insurers did question the commercial viability of targeted support in protection. By contrast, most trade associations and intermediaries expressed greater caution, noting that protection decisions can be complex and that poorly designed interventions could result in incomplete or unsuitable cover, or displace advice where it remains important.

3.6 Stakeholders were also cautious about more interventionist approaches to tackling the gap, such as mandating protection. They suggested these could create unintended consequences for some consumers (especially those with pre-existing medical conditions), encourage price-led purchasing, and worsen trust in advice.

3.7 Innovation was also viewed as a way to help narrow the protection gap, particularly by improving consumer engagement and expanding access. Stakeholders supported innovation that could simplify products and consumer journeys, strengthen prompts and digital engagement at relevant life events, and improve access for consumers. Some also emphasised that innovation should remain proportionate and consistent with regulatory expectations.

Our response

Our response to the feedback received on the protection gap is set out in Chapter 3 of the Final Report where we explain the key drivers of the gap, the consumer groups most affected, and how our package of remedies aims to improve access to, and consideration of, pure protection. This includes a focus on prompts and nudges. The feedback received has also informed our overall approach to addressing the protection gap, supporting a proportionate, non-interventionist framework that seeks to improve consumer outcomes while preserving scope for innovation and competition in the market. Chapter 3 of the Final Report also outlines the remedies we do not intend to take forward at this stage, including extending targeted support to protection.

Chapter 4

Claims experience

4.1 In the Interim Report we noted the importance of placing policies in trust, setting up wills and powers of attorney. These practices can significantly improve consumers' experience if or when they eventually come to claim. However, we found that some intermediaries go further than others in recommending them to consumers.

4.2 Stakeholders agree that more widespread services to improve claims experience at the point of sale would be beneficial

4.3 Almost all respondents supported our focus on improving claims experience through better policy set-up and consumer support, particularly at or around the point of sale. Firms and representative bodies agreed that measures such as writing policies in trust, encouraging consideration of wills and powers of attorney, and ensuring clarity over beneficiary arrangements can materially reduce delays and uncertainty at claim stage. Several respondents emphasised that, without these steps, death benefits can be misdirected or delayed by probate.

4.4 A consistent theme across responses was also the existence of a 'beneficiary gap', particularly in non-advised channels. This is the percentage of policies that are not placed in trust or set up without named beneficiary nominations. Some firms highlighted the scale of this issue, while others expressed strong support for contractual beneficiary nomination schemes as a simpler and more accessible alternative or complement to trusts. These respondents considered that wider adoption could significantly improve claims outcomes.

4.5 Respondents also welcomed the FCA's emphasis on claims data and transparency. One firm highlighted that publication of claims data has improved public understanding of protection insurance, with others suggesting that publishing aggregate time-to-pay ranges alongside claims acceptance rates would further build consumer trust.

Our response

We agree with the feedback that wider and more consistent use of preparatory tools can materially improve consumers' claims experience by reducing avoidable delays, uncertainty and the risk that benefits do not reach the intended recipients. The feedback confirmed that there is scope to make services that improve claims experience more widespread. The feedback also helped clarify that the underlying barriers are closely linked to the same drivers we identified in relation to the protection gap ie low awareness, limited understanding, behavioural friction and inconsistent prompts at key moments in the consumer journey. This has informed our approach to the remedies outlined in Chapter 3 of the Final Report.

Chapter 5

Premiums and insurers' margins

5.1 In our Interim Report, we found that there is a high degree of price-dispersion, as many different factors influence premium levels, including a wide range of product features, individual risk-based factors and distribution channels. Despite this, our analysis showed that insurers in our sample appear to earn only modest net cash flow margins (between 3 and 18%), which suggests some competitive pressure on premiums overall. New business premiums remained broadly stable in recent years, and longer-term data showed flat or declining premiums when controlling for key characteristics.

Respondents agreed that premiums are stable and insurers' margins are modest

5.2 Feedback broadly agreed with our core findings relating to premiums and insurer margins. Most respondents agreed that premium dispersion is largely driven by risk-based pricing, product features and customer characteristics rather than structural market issues. Similarly, both insurers and other stakeholders generally agreed that insurer margins are modest and not indicative of systemic consumer harm, which reinforces our understanding that the combination of stable pricing and low margins is consistent with effective price competition in the pure protection market.

5.3 Firms also emphasised that premiums can be influenced by factors such as distribution channels, underwriting complexity, the long-term nature of the product commission structures and product-specific dynamics (for example, more limited provider competition and reinsurance constraints in income protection). These points provide important context for interpreting premium dispersion and value, including caution against inappropriate comparisons with general insurance benchmarks.

Our response

Overall, the feedback supported our interim findings and reinforced the importance of considering the nature and features of each product when assessing fair value for the target market.

Chapter 6

Income protection claims ratios and value

6.1 In the Interim Report, we reported that income protection had the lowest claims ratio among pure protection products (40%) and the second-highest margin for insurers (12%). Claims ratios are a commonly used metric across insurance products and provide an indicator of value to customers, although they are not an all-encompassing measure. We also found that income protection had the lowest rate of claims accepted across pure protection products at 86%. We noted that certain factors specific to income protection products, such as more complex underwriting and unknown claim durations, likely explain these results.

6.2 We also found that income protection premiums have been falling over recent years and some insurers said this continued in 2025. We therefore decided to refresh our assessment of income protection products using 2025 premium and cost data from a sample of insurers. We discuss the additional findings from our analysis in Chapter 4 of the Final Report.

Stakeholders agreed that the characteristics of income protection need to be considered in assessing value

6.3 Feedback agreed that income protection's characteristics are the reason for its comparatively lower claims ratio and higher margin, while some respondents raised points regarding the claims acceptance rates for income protection.

Claims ratios and value

6.4 Respondents consistently agreed with the factors cited in the Interim Report explaining why the claims ratio and margin for income protection differed. Some respondents highlighted that focusing on certain metrics (eg claims ratios, premiums and profitability) risks not fully capturing the product's nuances and the benefits of income protection to customers. Others suggested additional differences with other pure protection products that affect margins and claims ratios:

- As income protection policies can generate multiple claims over their lifetime, this can contribute to the uncertainty in forecasting claim costs, which means a higher margin is required to compensate for this higher risk.
- There are fewer income protection providers, compared to other pure protection products, meaning there is a more concentrated and less diverse pool of insurers, which may weaken an insurer's ability to obtain favourable reinsurance terms. This can increase reinsurance costs and lower the claims ratio.
- Income protection attracts higher capital requirements compared to other pure protection products, with a higher margin required to cover the additional cost of capital. Income protection was suggested to attract a 5 to 8 times higher capital requirement than term assurance and 1.5 to 2 times higher compared to

critical illness. Differences are driven by other products having simpler and more defined risks such as a lump sum payment made on a defined event and lower uncertainty in timing or claims persistence.

- The provision of rehabilitation services and other support services benefit policyholders by supporting their return to work, which is a positive outcome for customers, but may lower the claims ratio due to having fewer and shorter claims.

6.5 Some stakeholders commented on why income protection's claims acceptance is lower than other pure protection products. Feedback suggested that relatively minor medical conditions are important for income protection underwriting, but their importance can result in higher levels of misrepresentation. This means more claims are declined due to information not being disclosed, or their benefits are reduced given non-disclosed conditions may have impacted underwriting outcomes. Claims acceptance rates for income protection and critical illness can be affected by the prescriptive illness and diagnosis policy definitions that must be met before a claim is paid, especially when compared to mortality-based products (eg term assurance or whole of life products).

6.6 There was also concern that reported claims acceptance rates can vary by firm depending on whether this is calculated based on new claims received in the year or claims already in force that continue to be paid. This can cause difficulty for advisers in comparing claims acceptance rates across providers. A few respondents suggested there is a need for greater transparency and consistency in the reporting of service metrics, including claims acceptance rates.

Our response

Stakeholder feedback supported our view that income protection's characteristics help explain its lower claims ratio and higher margin compared with other pure protection products. This is consistent with our conclusion that these findings do not point to widespread concerns of customers in the target market not receiving fair value. We consider the feedback regarding the value of income protection alongside the evidence and findings from our assessment of 2025 premium and cost data in Chapter 4 of the Final Report.

Although we acknowledge the feedback on income protection claims acceptance rates, we do not consider that comparisons with other pure protection products or differences in reporting bases provide clear evidence of consistently poor customer outcomes. Accordingly, we do not intend to take forward any regulatory interventions at this stage. We will, however, continue to monitor outcomes for income protection customers through our supervisory work and review of market data. If this evidence indicates that income protection products may not be providing fair value to consumers, we may launch a further phase of work to gather more evidence and take action where appropriate. We provide further detail in Chapter 4 of the Final Report.

Chapter 7

Guaranteed acceptance over 50s claims ratios

7.1 In the Interim Report we found that, at a product level, the claims ratios and margins for guaranteed acceptance over 50s products were not outliers when compared to other pure protection products. Although points had been raised regarding the comparative value of these products, our analysis did not suggest that guaranteed acceptance over 50s products failed to provide fair value for customers in the target market.

7.2 We also noted that guaranteed acceptance over 50s products particularly serve those consumers who may not be able to, or choose not to, access underwritten insurance. This includes social renters, low-income households and those with characteristics of vulnerability. We also found that for some customers, other products, such as underwritten whole of life insurance or funeral plans, may offer better value or better suit their needs than guaranteed acceptance over 50s policies.

Stakeholders agree that guaranteed acceptance over 50s products are of value, but not for all customers

7.3 There were mixed views from respondents on our interim findings. Some feedback agreed that guaranteed acceptance over 50s products fill a particular niche in the market, whereas others raised concerns about the value and suitability of these products, particularly in comparison to funeral plans.

Value of guaranteed acceptance over 50s

7.4 The majority of respondents acknowledged the role of guaranteed acceptance over 50s products in the market; agreeing that they have an important role in serving consumers with pre-existing medical conditions, in lower socioeconomic groups, and those with characteristics of vulnerability.

7.5 A few stakeholders agreed that the claims ratios demonstrate the value customers receive and noted that insurers have taken steps to improve the product's design and limit poor consumer outcomes.

7.6 However, we received challenge on our assessment of guaranteed acceptance over 50s claims ratios, with feedback questioning whether a single claims ratio reflected the potential harm to those customers who could receive better value by purchasing an underwritten product. Specifically, they suggested that the product is failing to provide fair value for 'healthy lives' customers. They also raised concern about the impact of non-advised distribution arrangements on the product's fair value for the target market.

7.7 Amongst the feedback that challenged our findings, one stakeholder expressed concern that the profitability of guaranteed acceptance over 50s is dependent on a significant proportion of customers lapsing.

Guaranteed acceptance over 50s policies and funeral plans

7.8 Some stakeholders also compared guaranteed acceptance over 50 policies with funeral plans and questioned whether they offer comparable value for some customers. Respondents suggested that customers of these products often share the same financial objective, covering funeral costs. However, the partial coverage of funeral costs and nil surrender value of guaranteed acceptance over 50s policies are resulting in poorer outcomes and value for consumers compared to funeral plans.

7.9 Feedback also raised potential consumer harm from firms overstating the average cost of a funeral which may steer consumers towards policies with higher sums assured. This is said to cause policyholders to lapse due to affordability issues.

7.10 Concerns were also raised about distortions created by commission being permissible for guaranteed acceptance over 50s policies and not for funeral plans. It was said that this incentivises aggressive and misleading sales within telephony-based distribution and promotion of these products over funeral plans on comparison sites.

Our response

We agree with the feedback acknowledging the role of guaranteed acceptance over 50s products in serving specific cohorts of consumers. However, we note the point raised in feedback regarding the value provided to some customers in the product's target market. In light of this, we undertook further value analysis to assess the potential harm to consumers of guaranteed acceptance over 50s products. This feedback, combined with our further analysis, informed our decision to provide positive examples of firms' behaviour as well as areas for improvement that may help firms meet their existing obligations and support good consumer outcomes. Our analysis is set out in Chapter 4 of the Final Report and examples in Annex 2.

Although funeral plans are not included in the scope of this market study, we recognise why some feedback made value and suitability comparisons between guaranteed acceptance over 50s products and funeral plans, particularly given differing commission arrangements in these markets. This is because some customers purchase guaranteed acceptance over 50s policies to contribute to funeral costs, although there are important differences in their designs and objectives which needs to be accounted for when comparing their value. In particular, different preferences and objectives for customers in their respective target markets.

Overall, we do not consider that the feedback received provides sufficient evidence to support a change in our position or warrants any regulatory interventions at this time. Further detail on this and our review of the evidence on the relationship between guaranteed acceptance over 50s lapsing and its profitability can be found in Chapter 4 and Annex 2 of the Final Report.

Although our study did not identify evidence of harm associated with guaranteed acceptance over 50s commission arrangements that would justify restrictions similar to those introduced in the funeral plans market, we recognise stakeholders' interest in the relationship between the two markets. We will consider any potential market distortions caused by the differing commission arrangements between guaranteed acceptance over 50s products and funeral plans in the upcoming funeral plans post-implementation rule review. This review will examine evidence on firms' adaptation to the new regime, outcomes for consumers and other relevant factors to determine whether the regime is delivering good outcomes.

Chapter 8

Intermediated distribution

8.1 Intermediaries play a key role in the distribution of pure protection products and there are a wide range of business models. In the Interim Report, we noted the growing use of price comparison websites (PCWs) and portals among consumers and intermediaries, although we had observed a relatively small number of policies bought directly via PCWs (1%). We also outlined that portals make underwriting more efficient and help advisers find suitable products for consumers, but their standardised formats may limit how insurers differentiate and design products.

8.2 Although we found intermediated distribution works well at a market level, we noted that some firms might engage in poor practices. For example, Elixir, an industry group representing insurers, reported concerns that some firms accumulate clawback debt[1] and enter a cycle of selling new policies to cover it, eventually failing to repay insurers. These sales can then be poorer quality (ie with higher lapse rates) leading to increased clawbacks (ie a vicious cycle) until the intermediary eventually exits the market, leaving insurers to write off outstanding commission clawback debt. This may indicate a greater risk of consumers receiving less suitable recommendations or experiencing poorer outcomes than would be expected from sustainable, high-quality distribution practices. Most of the outstanding debt was attributed to firms specialising in non-advised telephone-based sales.

Respondents agreed intermediaries play a key role in helping consumers buy pure protection products, but that some poor practice takes place

8.3 Stakeholders generally agreed with our assessment that intermediated distribution plays a key role in the pure protection market and that intermediaries help consumers navigate the complexity of these products.

8.4 Some stakeholders highlighted the growing importance of portals and PCWs and noted that our data might underestimate the share of policies bought through PCWs. Portals highlighted the efficiency benefits of standardisation in underwriting and that portals allow advisers to compare products based on more value measures than just price, but noted that they can have very different business models.

8.5 Several respondents also agreed with our Interim Report finding that, among the wide range of intermediaries, some might adopt poor practices. For example, a few stakeholders noted the issue of written-off clawback debt, but one firm highlighted that this should not be interpreted as meaning that all telephone-based sales firms might be more likely to undertake this practice.

1 Clawback periods are tied to commission agreements: if a customer lapses during the clawback period, the intermediary has to repay a proportion of the commission. Clawback debt is the amount of commission that an intermediary owes back to an insurer when a policy lapses or is cancelled during the clawback period.

Our response

The feedback received supports our finding that pure protection intermediation is complex with many different actors and business models.

The feedback on portals and PCWs further reinforces our interim finding that these firms play an increasingly important role in the market. As part of our request for information (RFI) pre-Interim Report, we gathered information from insurers, intermediaries and PCWs about the role of other firms active in the pure protection market, including portals, reinsurers and lead generators. We have continued to engage with representatives of these firms in designing our remedies package.

We did not find evidence of widespread poor practice undertaken by intermediaries resulting in market-wide harm. As noted in the Interim Report, Elixir identified a small number of firms specialising in non-advised telephone-based sales who had large outstanding and written-off clawback debt, but there are many other firms who do not engage in poor practices. We also found that insurers generally have appropriate controls to assess and monitor the quality of services provided by individual distributors, including lapse rates, which mitigate these concerns. We do not consider any new intervention is necessary at this stage and will continue to address poor practices through our existing supervisory action and enforcement powers.

Chapter 9

Commission rates and intermediaries' profitability

9.1 We found profitability varies by business model, with pure protection specialists typically showing operating margins of around 10% and lower overall profit retention once commissions paid out and profit sharing are considered. Other intermediaries (such as networks or comparison platforms) exhibit higher reported margins due to differences in cost allocation and business mix. Overall, we found that intermediary profits are moderate and consistent with a competitive market.

9.2 Intermediary remuneration was found to be primarily commission-based with commission typically structured as a percentage of first-year premiums and mostly paid upfront. The commission rate is typically set as a percentage of the first-year premium, generally between 170% and 250%. The actual monetary amount the intermediary receives is calculated by multiplying the commission rate applicable to the specific sale by the (first year) premium value. Over the lifetime of a product, we found that commission on average ranges from approximately 20% of projected premiums paid on critical illness up to 34% on guaranteed acceptance over 50s insurance. We found that while commission rates have increased slightly over time, overall commission revenues have remained broadly stable, reflecting a combination of stable premiums and slightly declining policy volumes.

Respondents agreed that commission rates and intermediaries' profitability do not appear high on average

9.3 Industry feedback broadly supported our findings. Feedback highlighted that specialist intermediaries (particularly those providing advised services) often operate on tight margins due to high operational costs, customer acquisition, underwriting engagement and ongoing support. There was also agreement that stable pricing suggests the current distribution model is broadly functioning well.

9.4 Some stakeholders noted that the structure of commissions has been static, with stable prevalence of the indemnity model. Other stakeholders suggested that this model leads to insurers paying extremely high commissions and a few suggested that the FCA should cap commissions. Several stakeholders highlighted that high commissions are paid where policies have loaded premiums or restricted panels.

9.5 On the other hand, some intermediaries emphasised that they incur significant costs, particularly when supporting vulnerable or harder-to-insure consumers. A meaningful proportion of business may be low-margin or loss-making, especially where firms invest heavily in customer support without ultimately completing a sale. Respondents argued that assessing value purely through premiums, commissions or claims ratios does not fully capture the broader role intermediaries play in delivering suitable outcomes, including providing guidance, ensuring clarity of information and supporting customers throughout the policy lifecycle.

Our response

The feedback received supports our findings that profitability and commission rates are not excessive on average. We recognise that there may be intermediaries earning higher rates and profits on some sales, that firms may incur higher cost in servicing more complex or vulnerable consumers and that value cannot be measured solely through price and claims ratios.

Indemnity commissions are the most common model, reflecting the upfront nature of intermediary costs, but commission negotiations are complex and lead to different commission structures. We discuss pricing and commissions negotiations further in Chapter 4 of the Final Report.

Chapter 10

Loaded premiums and restricted panels

10.1 In our Interim Report, we noted that premium pricing is complex, as insurers typically use multiple pricing points and there is no standard premium. Commissions rates are generally negotiated on a bilateral basis and vary across intermediaries and insurers.

10.2 We analysed a large sample of 2024 policy sales to assess whether loaded premiums (where insurers raise customer premiums to pay intermediaries commission) and restricted panel arrangements (where intermediaries offer products from a limited number of insurers) lead to poorer pricing outcomes for consumers. We found that premiums were broadly similar between loaded and non-loaded policies and between policies sold through restricted and whole-of-market panels.

10.3 We concluded that, at current levels, loaded premiums and restricted panels are not, on average, leading to worse pricing outcomes, although we noted the potential risks to competition and access for smaller insurers from restricted panels.

10.4 We highlighted that firms must comply with Chapter 4 of the Product Intervention and Product Governance Sourcebook (PROD 4) rules and demonstrate that distribution arrangements, including commission, don't adversely affect the overall value of their products.

Some stakeholders challenged our findings that loaded premiums and restricted panels do not currently lead to worse pricing outcomes for consumers

10.5 Feedback on loaded premiums and restricted panels was mixed. Some respondents challenged our findings, while others agreed with our analysis and our focus on overall value, under all remuneration or distribution models.

Fair value, pricing and commissions

10.6 Some respondents supported a focus on providing fair value to the target market rather than on loaded premiums in isolation. They suggested that differentiated premium structures can reflect differences in distribution models, risk costs, service levels and commercial arrangements, and that the assessment should focus on whether products continue to deliver fair value to customers in the target market.

10.7 A few respondents agreed that current practices do not appear to be causing harm on average and that continued monitoring under PROD is more appropriate than direct intervention. One respondent also noted that loaded premiums could help support access to advice, while emphasising that distributors should be able to demonstrate that consumers understand what they are paying for and the service they receive.

10.8 Several respondents raised concerns that loaded premiums could still result in worse outcomes for some consumers, even if they do not appear to increase premiums on average. They argued that, from a consumer perspective, even a modest increase in premiums could be material if it is not justified by better service or additional value. Others said that price differences for the same product, depending on the intermediary used, may not be consistent with fair value obligations.

Our analysis of premiums

10.9 Several respondents challenged our findings and our loaded premiums analysis. Some also apply to the restricted panels analysis, as we used the same methodology, but most of the challenges referred to loaded premiums.

10.10 Stakeholders argued that our analysis did not sufficiently compare like-for-like outcomes, and that it could not determine whether the same policy, for the same client, would have been cheaper on non-loaded terms. A few also said that we had relied on quotes from insurers rather than real transactions, and that more detail should be provided on the methodology, data sources and sample used in the analysis. One respondent said that our graphs, seen in paragraphs 4.46 to 4.52 in Annex 1 to the Interim Report, seemed to imply products with loaded premiums are indeed more expensive.

Competition, market access and consumer choice

10.11 Although many respondents agreed with our findings that restricted panels are not associated with higher premiums, several highlighted broader concerns relating to consumer choice, competition and market access. These firms suggested that smaller, specialist and mutual insurers can face barriers to accessing restricted panels, which may reduce product diversity, limit innovation and make it harder for some consumers, particularly those with more complex needs, to access suitable products.

10.12 Some respondents highlighted that restricted panels can support access to protection products, help target underserved consumer groups and deliver consumer value.

Transparency, disclosure and regulatory clarity

10.13 Some respondents raised concerns about transparency around the FCA approach to regulation. More specifically, in relation to loaded premiums, they suggested that the FCA should include good practice, relevant examples and clarify valid reasons for applying differentiated and enhanced premiums, as well as higher levels of commission.

10.14 Respondents also raised concerns about transparency and consumer understanding. A few said consumers are unlikely to know whether an intermediary uses loaded premiums or restricted panels or be able to compare options across intermediaries effectively. Some respondents suggested the need for clearer disclosures on premium loading, adviser remuneration, business models and the value proposition offered to consumers.

10.15 Another respondent called for more direct intervention on loaded premiums, including disclosure of the amount of premium loading and alternative prices, requirements for firms to demonstrate the value of loaded premiums, and restrictions or bans on their use for customers who have been switched from one policy to another prompted by intermediary advice.

Our response

We do not see evidence that, at current levels, loaded premiums and restricted panels are leading to higher prices or reduced choice across the pure protection market. However, firms continue to be responsible for demonstrating that distribution arrangements support the intended value of the product in line with PROD 4 requirements.

We provide further detail and clarification in Chapter 4 of the Final Report. Our response also includes examples of positive practices and areas for improvement that we observed in firms' fair value assessments, set out in Annex 2.

Chapter 11

Incentives to switch consumers

11.1 In the Interim Report, we found that there was a risk that commission structures could drive poor outcomes by incentivising intermediaries to encourage consumers to switch to a new policy following the end of the clawback or indemnity period. We identified approximately 19,000 customers per year (representing 0.1% of policyholders) that may be affected. This type of switching, driven by commission incentives, which we refer to as 'unnecessary switching', can lead to harm, particularly if consumers are switched to policies that deliver worse value than their current policy.

11.2 Stakeholders agreed that switching is an issue, but that interventions should be proportionate to the harm identified.

Scale of harm

11.3 Overall, stakeholders broadly agreed that not all switching is harmful, so we should be cautious when implementing remedies. Some respondents agreed with our assessment that the scale of harm from unnecessary switching is likely to be limited. One respondent suggested that switching is difficult for insurers to monitor when it occurs between different insurers in the market.

11.4 Several respondents highlighted that any policy interventions in relation to switching should not reduce good switching, which we refer to as 'rebroking', that occurs in the interest of consumers. As outlined in the Interim Report, switching can also create more competition between intermediaries, which may result in downward pressure on prices.

Additional data reporting requirements

11.5 In the Interim Report, we proposed that additional data reporting could help monitor and deter unnecessary switching and invited feedback on what type of data would be effective and proportionate.

11.6 Several respondents agreed that additional data reporting would help the industry to track and monitor switching. Some of these respondents mentioned that a standardised or consistent metric across industry would help to monitor switching, although there was a lack of detail on how this reporting could be operationalised in a proportionate and effective way.

Individual Reference Numbers (IRNs)

11.7 In the Interim Report, we invited feedback on the potential introduction of IRNs which would be assigned to intermediaries and distributors of protection products. The purpose of IRNs would be to facilitate monitoring of individual advisers, similar to the provisions in place for mortgage and wealth advisers, making it harder for individual advisers to engage in unnecessary switching to earn repeat commission.

11.8 Respondents to the Interim Report presented mixed views in relation to IRNs. Most insurers, or groups that represented insurers, were broadly supportive of introducing IRNs as it would aid Distribution Quality Management (DQM) systems, particularly where individual advisers within firms are driving poor outcomes for consumers. Although, some of these respondents noted that there would be significant technical and operational implications associated with integrating IRNs into the reporting structure of the pure protection market.

11.9 Distributors and other respondents were broadly sceptical of the impact that introducing IRNs could have. Some respondents noted that implementing IRNs would require additional administration and oversight which may not be justified. One firm explicitly noted that the costs of implementing IRNs could have a disproportionate impact on smaller firms.

Lead generators reporting

11.10 Another option on which we invited feedback in the Interim Report was to introduce a requirement on intermediaries to report the lead generators they use, to help insurers identify potential future customer switching.

11.11 Only a few stakeholders provided views on lead generators, agreeing that it would potentially improve monitoring but stressing that the expectations around the scope and how the reporting would work would need to be clearly defined. A small number of these respondents also suggested the FCA should increase its scrutiny on lead generators, either by requiring more due diligence under the Consumer Duty or regulating lead generators.

Other feedback received

11.12 A few respondents suggested that industry could improve the use of Guaranteed Insurability Options (GIOs) to amend or change existing cover, as opposed to switching to a new policy entirely. This wouldn't require a new FCA policy intervention, although one of these respondents also highlighted that GIOs can be relatively inflexible and switching may still be required to provide the customer with the best coverage.

11.13 A few respondents called for FCA action, for example suggesting they would like to see the FCA investigate intermediaries that engage in unnecessary switching or requesting that the FCA discuss the 2023 consultation on a cold calling ban with the Treasury, as protection plans were in scope of the original consultation.

Our response

The feedback received supported our Interim Report finding that unnecessary switching can lead to consumer harm, while emphasising the need to avoid interventions that may discourage beneficial switching.

We also recognise the potential for firms to make greater use of existing options, such as GIOs, where these support good consumer outcomes. Future developments, such as Open Finance, may help support consumer decision-making and improve access to information when reviewing existing protection arrangements. Over time, this could help consumers and advisers identify when switching may be beneficial while reducing the risk of unnecessary switching.

This feedback, together with our further analysis, informed our decision to adopt a proportionate approach focused on supervisory activity rather than new market-wide measures. Accordingly, we do not intend to take forward remedies such as additional data reporting, IRNs or lead generator reporting at this stage.

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk

Pub ref: 2-008582.2

All our publications are available to download from www.fca.org.uk.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Or call 0207 066 1000

Sign up for our **news and publications alerts**