

## **Market Study**

**MS24/1.2**

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Market study into the distribution  
of pure protection products to  
retail customers

Terms of reference

**March 2025**

## How to get in touch

If you want to get in touch with us about the market study, please contact:

Competition Division  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

**Telephone:**

020 7066 1000

**Email:**

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

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## Chapter 1

# Executive summary

## Introduction

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**1.1** These terms of reference set out:

- why we are doing the market study
- the key issues the study will explore
- the market study scope
- the potential outcomes the study might lead to
- our next steps

**1.2** These terms of reference incorporate feedback received on the proposed terms of reference, published in August 2024. Feedback came from our engagement with over 50 insurers, intermediaries, trade associations, consumer bodies, re-insurers, portals, product comparison platforms and lead generators.

## Changes since proposed terms of reference

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**1.3** We have made some refinements to the proposed terms of reference. Our updated terms of reference include:

- further explanation of pure protection distribution, including two additional activities (re-insurance and portals) and their role in supporting intermediaries (see Chapter 3)
- further clarification on the scope of the market study (see Chapter 4)
- sections on the 'protection gap and access to necessary cover' and 'barriers to innovation and investment' (see Chapter 4).

**1.4** Please see Annex 1 for more information about the changes.

## About pure protection

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**1.5** Pure protection products are designed to help individuals and/or their dependents with existing financial commitments or lifestyle adaptations if the policyholder dies, becomes incapacitated, injured or infirm. These products include term assurance, critical illness cover, income protection insurance, and whole of life insurance (underwritten whole of life insurance and guaranteed acceptance over 50s plans).

- 1.6** Pure protection products are important. Consumers rely on them to provide financial resilience, often when particularly vulnerable. In 2023, according to published Association of British Insurers (ABI) data, approximately £4.85bn was paid out in pure protection claims on individual policies, aiding those affected by bereavement, illness, and injury.
- 1.7** The main distribution channel for pure protection products is through intermediaries, both on advised and non-advised bases. This approach can be cost-effective for insurers and allows consumers to benefit from intermediaries' expertise and market access.

## About the market study

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- 1.8** We are launching a market study into the distribution of pure protection products to consumers acting in their personal capacity. We will examine whether the distribution of pure protection products works well against our operational objectives, including whether competition works in the interest of consumers. If the distribution of pure protection products is working well consumers should be able, for example, to buy products and services that meet their needs, provide fair value, and support them in making timely, well-informed decisions.
- 1.9** We observe positive indicators in pure protection, including a relatively low number of complaints received by the Financial Ombudsman and, according to ABI data, over 95% of new consumer claims being paid out on some products (eg term assurance).
- 1.10** However, there are indications that distribution of pure protection products may not be fully effective. We will examine the incentives created by commission structures, competitive constraints on insurers and intermediaries, and the influence of other market participants (such as re-insurers, portals, product comparison platforms and lead generators) on distribution. We will also explore any potential barriers to innovation and investment.
- 1.11** We will also assess whether the consumer outcomes that we observe align with those expected under the Consumer Duty and/or our PROD rules. Concerns include unnecessary consumer switching driven by intermediaries, commission practices that may not represent fair value (eg raising premiums in order to pay an intermediary higher commission), and fair value issues with some products (eg guaranteed acceptance over 50s insurance). Some studies also suggest a substantial protection gap in pure protection products.

## Next steps

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- 1.12** Publication of these terms of reference marks the launch of the market study. We expect to publish an interim report with our initial findings and proposed next steps around the end of 2025.

- 1.13** We will maintain proactive and regular engagement with stakeholders throughout the duration of the market study. During 2025, we plan to publish several pieces of analysis, on specific subjects, to share our latest thinking. We will also keep stakeholders updated via engagement individually and via trade associations.
- 1.14** If the distribution of pure protection products is not working well against our operational objectives, including our competition objective, we will consider whether any improvements are needed on a forward-looking basis, in particular to support competition that delivers innovation and investment and to make sure the market works well for consumers. Market studies are forward-looking and do not examine past conduct of individual firms, nor do they set out to establish the basis for redress.

## Chapter 2

# Market overview

**2.1** Pure protection products include:

- term assurance
- critical illness cover
- income protection insurance
- whole of life insurance (underwritten whole of life insurance and guaranteed acceptance over 50s plans)

**2.2** In 2022, an estimated 2.5m new individual pure protection policies were sold in the UK, generating around £928m in new premiums for insurers.<sup>1</sup> The average payout per claim varied from around £8,000 for income protection in that year, £66,000 for critical illness cover and £53,000 for term assurance.<sup>2</sup>

**2.3** Provision of pure protection insurance is concentrated. In 2022, the top 5 insurers (based on sales of pure protection products) accounted for 70 to 80% of the market in critical illness cover, term assurance and income protection, and around 90% in guaranteed acceptance over 50s plans, by volume of new sales.<sup>3</sup>

**2.4** The pure protection value-chain is complex and involves multiple actors, including reinsurers, insurers, intermediaries (protection specialists, mortgage businesses, independent financial advisers (IFAs) and price comparison websites (PCWs)), portals connecting intermediaries with insurers, product comparison platforms, and lead generators. Figure 1 below illustrates the main market participants and payment flow from reinsurers through to consumers.

## Risks and reinsurance

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**2.5** Insurers typically focus on mortality and morbidity risks as these are the most common core risks associated with pure protection products. Insurers manage these risks internally or seek external reinsurance providers.

**2.6** Stakeholders told us that with many pure protection products, 90-100% of the risk is re-insured. Insurers may use one or multiple reinsurers for the same business segment to spread risk and enhance financial resilience. Insurers and reinsurers typically agree on the proportion of risk each will bear, and the insurer sets the premium accordingly. Reinsurers have a degree of influence over the manufacturing and distribution of pure protection products, to the extent these impact the risk that they take on.

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1 All figures from Mintel reports; UK Critical Illness Cover Market Report 2024; UK Term Assurance Market Report 2023; UK Income Protection Market Report 2024; UK Over-50s Guaranteed Acceptance Life Insurance Market Report 2024.

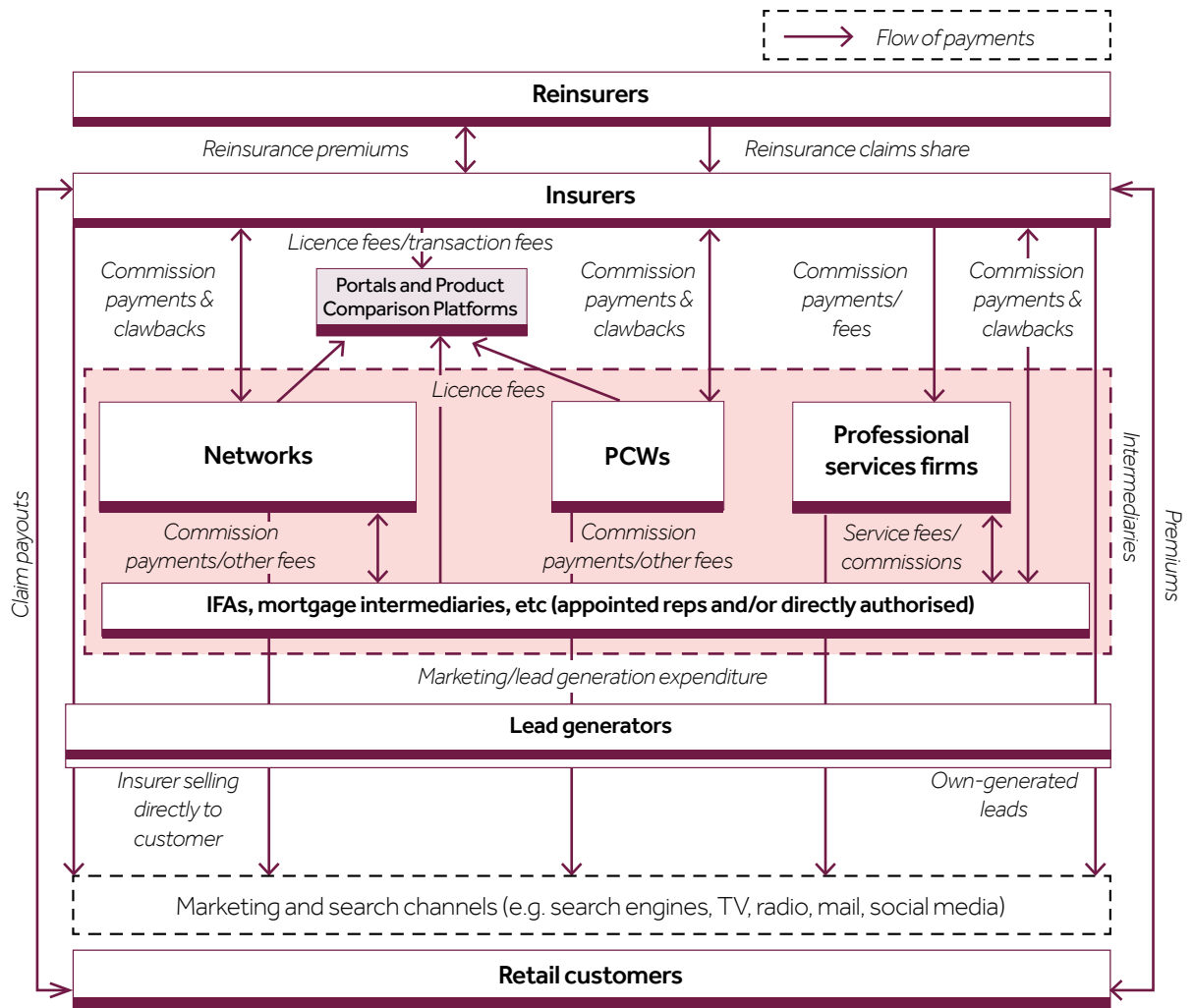
2 Ibid.

3 Ibid.

## Distribution arrangements

**2.7** Insurers may distribute their pure protection products either directly to customers or through intermediaries, such as mortgage intermediaries, IFAs, protection specialists, and PCWs.

**Figure 1: Main market participants in pure protection insurance distribution**



Source: FCA

**2.8** The main distribution channel for pure protection products is through intermediaries. According to FCA returns, in 2023 around 92% of income protection and 83% of critical illness premiums from new sales were generated through intermediaries. Distribution can be either advised or non-advised, with some intermediaries operating both sale channels. In 2023 around 89% of income protection and 85% of critical illness premiums from new sales were generated through advised channels.<sup>4</sup>

4 Source: FCA pure protection product sales data for year-end 2023



- 2.9** Intermediaries negotiate distribution arrangements with insurers in one of three ways:
- directly
  - by joining a network (which can provide support, compliance oversight and collective negotiation capacity)
  - through professional services firms (offering various support services)
- 2.10** Commissions for pure protection insurance are sales-based and broadly structured on an indemnity, non-indemnity, or hybrid basis. Non-indemnity commissions are paid by the provider in monthly instalments over a fixed period. However, most distribution arrangements in the provision of pure protection insurance use indemnity commissions, where a lump sum is paid at policy commencement, conditional on the policy continuing for a specific term and premiums being paid during the earning period.
- 2.11** There are often provisions for 'clawbacks', where unearned commission is returned from the intermediary to the insurer if the customer cancels their policy early or lapses. Clawbacks ensure that intermediaries remain accountable for policy cancellations or lapses. The clawback period, negotiated with the insurer, is commonly between 2 to 4 years.
- 2.12** Distributing through intermediaries can be cost-effective for insurers. An insurer's distribution strategy and remuneration arrangements (including commission) can help to align the interests of insurers and those distributing their products. This approach also allows consumers to benefit from intermediaries' expertise and better market access.
- 2.13** In addition to their own marketing, some insurers and intermediaries use third-party lead generators to market their products and find potential customers, while retaining responsibility for the sale. Lead generators use targeted marketing strategies (eg TV, radio, mail, social media, content marketing) to attract customers and convert them into qualified leads for insurers or intermediaries.
- 2.14** Insurers and intermediaries also use portals and product comparison platforms to obtain quotes and information about individual pure protection products. Portals provide access to insurance products and quotes from various providers, streamlining the process of obtaining, comparing, and submitting applications. Product comparison platforms compare policies based on criteria such as premiums and exclusions, offering intermediaries detailed information and helping them research product options for customers.

## Chapter 3

# Rationale and focus of the market study

- 3.1** Pure protection products are designed to offer peace of mind, helping an individual and/or their dependents with existing financial commitments or lifestyle adaptations if the policyholder dies, becomes incapacitated, injured, or infirm.
- 3.2** Firms point to many good outcomes for consumers in the market:
- many medical conditions and/or additional services included in the cover
  - favourable pricing (measured as cover per £ of premium) compared to other developed countries
  - claim payouts of around 98% or more for some protection products, such as term assurance.
- 3.3** However, there are indications that some areas of pure protection distribution may not be working well against our operational objectives including our competition objective. Our market study will assess the following key areas:
- Design of distribution arrangements and commissions
  - Fair value of some pure protection products
  - Impact of recent insurer exits
  - Protection gap and access to necessary cover
  - Barriers to investment and innovation

## Design of distribution arrangements and commissions

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- 3.4** We have heard from stakeholders that intermediaries in pure protection are remunerated by indemnity commissions. Stakeholders told us that these commissions amount to a multiple of the annual premium (approximately 200%) and are paid to the intermediary upon policy sale.
- 3.5** This remuneration can be an effective tool for intermediaries for their time and effort for providing customers with advice (for advised sales) and/or arranging the cover they need.
- 3.6** However, commission can also lead to negative outcomes for consumers, including by impacting the fair value customers receive from the product:
- Unnecessary re-broking: We have seen examples of intermediaries seeking to earn repeat commission by encouraging customers to switch policies unnecessarily (eg to a product that does not meet a customer's needs as well as their existing product or that provides poorer value). We have also heard anecdotal evidence of intermediaries buying customer details from other intermediaries to be able to switch customers to a new policy and receive associated commission.

- Unsuitable product sales: Intermediaries might sell products that provide consumers with insufficient or excessive coverage, are unsuitable for the consumers' circumstances (eg do not cover pre-existing conditions), or fail to ensure that consumers understand the importance of accurate declarations.
- 'Low quality' entry: By paying intermediaries the commission upfront, insurers can effectively encourage intermediary entry. However, as insurers can only observe the quality of intermediaries after several years in business (judging them by, for example, the percentage of lapsed customers), this may result in lower quality intermediaries entering the market.
- 'Low quality' leads: Intermediaries may buy low-quality leads (customers not genuinely interested in purchasing pure protection insurance) to get sales and commission as quickly as possible.

**3.7** Some distribution arrangements (such as restricted panels<sup>5</sup> and exclusive / single tie arrangements) can offer more simplicity for advisers and customers, and may be an effective way of distributing pure protection products. However, we heard some concerns from stakeholders about restricted panels, including:

- **Higher commission payments:** Stakeholders told us that insurers must pay higher commissions to access restricted panels. This may increase the premiums paid by customers.
- **Barriers for smaller insurers:** Smaller insurers may struggle to join restricted panels due to high commission rates for access. This may prevent them from gaining the necessary customer volumes to expand effectively.
- **Limited customer choice:** Customers may not be aware of the restricted nature of a panel, limiting their choices or affecting the value they receive.

**3.8** We will examine the size and structure of commissions, the incentives they create, and the effectiveness of FCA rules and commissions scheme features (eg clawback or equalising commission across advisers) in mitigating incentives and conflicts of interest. We will consider the effects for different types of intermediaries (e.g advised and non-advised). In addition, we are seeking to understand the impact that commission arrangements may have on fair value outcomes for consumers.

**3.9** As part of this, we will also examine:

- the importance of intermediaries as a route to market and the value of services they provide to insurers
- the relative bargaining power between intermediaries and insurers
- the nature of competition between insurers for distribution channels
- the broader macroeconomic environment and its impact on insurer and intermediary competition
- the nature of competition between insurers and between intermediaries, and how distribution arrangements (for example, set out in paragraph 2.9) can affect this.

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5 A panel consisting of a limited selection of insurers

## Fair value of some pure protection products

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- 3.10** Guaranteed acceptance over 50s insurance can benefit some consumers, such as those with pre-existing medical conditions. However, some customers appear to receive low average payouts compared to overall premiums paid and other products. We have seen examples showing that total premiums paid over a lifetime often exceed payouts by at least 50%. While total premiums could be higher if the customer lives longer than average, the payout amount remains fixed, widening the gap between premiums paid and payout amount. We are particularly concerned that this may not provide fair value to all consumers and, in particular, may be impacting customers in vulnerable circumstances.
- 3.11** For some customers, other products such as underwritten whole of life insurance or funeral plans may offer better value.
- 3.12** Some of our stakeholders have raised concerns about how guaranteed acceptance over 50s life insurance products are sold. Concerns involve whether target customers are sufficiently engaged and aware of their options at the point of sale to make informed decisions.
- 3.13** In examining the fair value of pure protection products we will assess the relationship between the quality of the products/services provided to consumers and the overall price they pay. This will include the benefits and value of services provided by intermediaries. We will also consider the roles of other market participants, such as re-insurers, portals, research firms, and lead generators, and how they influence the design and value of pure protection products.
- 3.14** We will not consider fair value in isolation. Instead, we will examine this alongside the other outcomes and cross-cutting obligations under the Consumer Duty, such as products and services, consumer understanding and consumer support. For example, we intend to examine the nature and complexity of products, consumer engagement with pure protection products at the point of sale, whether they are presented in a way that is understandable to consumers, and how consumers make choices.

## Impact of recent insurer exits

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- 3.15** We have some concerns that competitive pressures on insurers may be weakening due to the recent exit of several insurers offering pure protection products. We will examine whether these exits have reduced insurers' competitive incentives to provide consumer product choice, fair value of pure protection products, and innovation to meet consumers' needs.
- 3.16** We will also examine the drivers behind insurers exiting the market and the extent of barriers to entry and expansion faced by potential entrants who could strengthen competitive pressures in the market.

## Protection gap and access to necessary cover

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- 3.17** We have been told that 70-80% of customers are eligible for 'straight through' underwriting, allowing them to receive an immediate quote and be eligible for the headline premium. We understand that this segment of customers is well served by intermediaries and insurers in terms of access to cover.
- 3.18** However, some stakeholders have told us that individuals who fall outside the 'healthy lives' definition, such as those with medical conditions, may struggle to access affordable insurance. This may be due to the cost of the underwriting process, uncertainty of the outcome, and/or the intermediary commission structure not fully compensating the intermediary for their time spent on a more complex case.
- 3.19** We have also been told that insurers have increased the number of policy exclusions over time. This has reduced the pool of people eligible for headline premiums and increased the pool of people who find it more difficult to access appropriate cover at an affordable price.
- 3.20** We will examine how well vulnerable consumers are currently served and, if not, examine the reasons why.
- 3.21** A number of studies have found a 'protection gap' – the difference between the economically beneficial amount of insurance and the actual amount of coverage purchased. While not a primary focus of the market study, we will undertake some work to develop a better understanding of the magnitude of the protection gap and its underlying causes.

## Barriers to investment and innovation

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- 3.22** The existence of a protection gap may indicate opportunities for market expansion and growth. Stakeholders have told us of ongoing initiatives to educate consumers, reach under-insured groups, design new products, and improve underwriting and claim settlement processes. Feedback also highlighted areas with potential for more investment and innovation. For example, stakeholders have told us that the approach to distribution and remuneration of intermediaries has been uniform across insurers and has not changed significantly over a long period of time.
- 3.23** Other areas identified by stakeholders for potential innovation and improvement include:
- **Improving the consumer journey:** Making the insurance process less time-consuming both when taking out the insurance and at the time of payout (eg shortening pay out times)
  - **Simplifying policy wording:** Making it easier for consumers to understand the cover they are receiving
  - **Product innovation:** Improving the availability of affordable cover for customers who don't fit within the current 'healthy lives' definition
- 3.24** We will explore potential opportunities for market growth, identify barriers to investment and innovation, and the extent to which these barriers could be overcome.

## Chapter 4

# Scope of the market study

- 4.1** We will conduct this market study under our FSMA powers as the main activities in scope fall within the FCA's perimeter.

## Products in scope

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- 4.2** We will primarily focus on the distribution of the following pure protection products in the UK:
- **Term assurance:** A policy that pays a lump sum to beneficiaries if the policyholder dies within a specified period.
  - **Critical illness cover:** A policy that pays a lump sum to the policyholder if they are diagnosed with a prescribed (non-fatal) serious illness or medical condition.
  - **Income protection insurance:** A policy that replaces part of a policyholder's regular income if they become unable to work due to illness, accident, or disability.
  - **Whole of life insurance:** This includes underwritten policies and over 50s guaranteed acceptance plans. These policies provide cover for the policyholder's lifetime, paying out a lump sum to beneficiaries upon the policyholder's death. Guaranteed acceptance is a type of whole of life insurance that doesn't require medical or health information for an individual to qualify for cover.
- 4.3** We will focus on policies purchased by individuals on their own behalf, including joint life policies.

## Products outside the scope

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- 4.4** The products below are outside of the scope of this market study:
- Insurance products with a savings or investment element
  - Business and key person protection
  - Private medical insurance (PMI)
  - Products sold alongside pure protection insurance – such as accident, sickness, and unemployment insurance (ASU)
  - Funeral plans (though we recognise that distribution of over 50s often targets a similar customer need).
- 4.5** We think there are significant differences in the provision and distribution of these products, as well as distinct competition issues compared to the pure protection products outlined in paragraph 4.2. More detailed reasoning for excluding these products from the scope of the market study can be found in Annex A.

## Activities in scope

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- 4.6** We will focus on certain activities undertaken by insurers and others in the pure protection distribution chain.
- 4.7** For insurers, this will involve the design and distribution (both direct and intermediated sales) of products. This includes the prices of products, benefits consumers receive, and the commissions that insurers pay to intermediaries. We will also consider the impact, including unintended consequences, of mitigants in place to address conflicts of interest created by commissions, such as clawback arrangements.
- 4.8** For intermediaries, we will examine the distribution of products, the total price paid by customers, and commission structures. Additionally, we will consider fees/adviser charging and in-house remuneration to understand how the market operates and to better design remedies, if they are required.

## Activities outside the scope

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- 4.9** Activities of other market participants, such as re-insurers, portals, product comparison platforms, and lead generators, may influence the design, distribution and value of the product. Although these individual markets are not the direct focus of the market study, we will examine the relevant activities of these participants to the extent that they influence outcomes for consumers.
- 4.10** Insurers and intermediaries also carry out other activities. These are not directly in the scope of the market study, but may be of interest if they materially impact the distribution of pure protection products. For example, we may be interested in the cross-selling of pure protection products as a secondary sale to a loan (including mortgages) or financial planning and wealth management advice.

## Chapter 5

# Next steps

### Potential outcomes of the market study

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- 5.1** We are beginning the market study with an open mind as to whether we will find evidence of the distribution of pure protection products not working well against our operational objectives, including the competition objective. If we find that it is not, we may choose to intervene.
- 5.2** If we identify that the distribution of pure protection products is not working well against our operational objectives, we will first explore whether the issue can be addressed by reference to existing rules. This might involve, for example, clarifying the relevant requirements.
- 5.3** Other potential interventions are set out in the remedies section of [Our Approach to Competition](#). These may include rule changes, publishing general guidance, or proposing better self-regulation for the industry. Additionally, we can refer the matter to the Competition and Markets Authority (CMA) for further investigation, known as a market investigation reference.
- 5.4** Previous investigations into intermediated markets have led to varied outcomes. In some markets, such as non-advised sales of funeral plans, we found significant harm and banned commission arrangements. However, where we have not identified any material harm that regulatory intervention could proportionately address, such as in wholesale insurance broking, we have not taken any action.
- 5.5** If evidence supports the need for additional FCA intervention (such as implementing further rules and guidance), we will consider the potential benefits and costs to consumers and firms of amending our current regulatory framework. Any changes must advance our objectives, align with our secondary international competitiveness and growth objective, create appropriate incentives, and avoid unintended consequences.

### Next steps

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- 5.6** Publication of these terms of reference marks the launch of the market study. We expect to publish an interim report with our initial findings and proposed next steps around the end of 2025.
- 5.7** As a next step, we will gather specific information on pure protection products and any relevant activities from market participants. We will act proportionately, considering the burden on firms and only collecting what we need.
- 5.8** We will maintain proactive and regular engagement with stakeholders throughout the duration of the market study. During 2025, we plan to publish several pieces of analysis,



on specific subjects, to share our latest thinking. We will also keep stakeholders updated via engagement individually and via trade associations.

- 5.9** If the distribution of pure protection products is not working well against our operational objectives, including our competition objective, we will consider whether any improvements are needed on a forward-looking basis, in particular to support competition that delivers innovation and investment and to make sure the market works well for consumers. Market studies are forward-looking and do not examine past conduct of individual firms, nor do they set out to establish the basis for redress.

## Annex 1

# Changes since proposed terms of reference

1. We published our proposed terms of reference (ToR) on 28th August 2024. We have since spoken to over 50 insurers, intermediaries, trade associations, consumer bodies, re-insurers, portals, product comparison platforms and lead generators to gather feedback on our proposed ToR. This ToR incorporates the feedback we received. Below, we outline the changes made since the proposed terms of reference.

## Clarifications to the scope of the market study

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2. During stakeholder engagement, firms asked for clarification on whether certain products were within the scope of the market study. We confirm that underwritten whole of life insurance (without a savings or investment element) and joint life personal pure protection policies are within the scope. This is because these products serve the same customer need, are provided and distributed by the same manufacturers and intermediaries, and have the same distribution arrangements as term assurance.

## Products outside the scope of the market study

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3. During stakeholder engagement we were asked to clarify whether certain products were excluded from the scope of the market study.
4. We confirm that we are not planning to examine distribution arrangements for group policies and business and key person insurance within this market study. We understand that different distribution arrangements apply to these compared to individual pure protection policies. Additionally, these products are likely to have a separate set of competition concerns, which would be difficult to explore within the confines of this market study.
5. We are also not planning to examine funeral plans and accident, sickness, and unemployment products. While these may address a similar need for some customers as guaranteed acceptance over 50s insurance and income protection, they are different products with distinct distribution methods.
6. We also do not intend to examine the distribution of private medical insurance, which, although it may be sold alongside some pure protection products, has different manufacturers, distributors, and distribution arrangements compared to the products within the scope of the market study.

## Other changes

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- 7.** We have clarified and updated our understanding of the market structure. Specifically, we recognise that re-insurers, portals, product comparison platforms, and lead generators have important roles within the value chain and can impact the value of pure protection products. Although our market study does not primarily focus on these services, we will examine the relevant activities of these participants to the extent that they influence outcomes for consumers.
- 8.** In the proposed ToR, we set out our concerns about commissions potentially distorting intermediaries' incentives in the choice of providers and our intention to examine this as part of the market study. Stakeholders told us that most intermediaries have measures in place to prevent such provider bias. We are grateful for this feedback from stakeholders and will keep it in mind as we empirically assess the effectiveness of these measures.

## Annex 2

# Glossary of terms used in this document

Term	Description
<b>The Consumer Duty</b>	Where we refer to fair value requirements under the Consumer Duty in this document, we are referring to our Consumer Duty rules and/or the PROD 4 rules as relevant.

## Annex 3

# Abbreviations used in this paper

<b>Abbreviation</b>	<b>Description</b>
<b>bn</b>	Billion
<b>CMA</b>	Competition and Markets Authority
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>IFA</b>	Independent financial adviser
<b>m</b>	million
<b>PCW</b>	Price comparison website
<b>PROD 4</b>	Chapter 4 of the FCA's Product Intervention and Product Governance Sourcebook
<b>UK</b>	United Kingdom

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Pub ref: 2-008414

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