FINANCIAL CONDUCT AUTHORITY

Market Study

MS24/1.3

Structure of the UK pure protection market for retail customers

September 2025

Contents

Chapter 1

Introduction

1.1 This paper describes the structure of the UK pure protection market for retail customers. It is one of two papers related to the Pure Protection Market Study that we will publish in 2025 before the interim report around the end of the year.

1.2 In 2023, according to the ABI, total individual claim payouts for pure protection amounted to £4.85 billion.

1.3 The provision of pure protection insurance is concentrated. Based on annual new business premiums in 2023, the top 5 insurers collectively accounted for approximately 80% of the total market share across individual pure protection product lines. The distribution of pure protection products is far more fragmented.

1.4 We set out an initial description of the market in the Terms of Reference at the launch of the study. The purpose of this paper is to set out further factual detail, including on the main products, customers, distribution channels, firm participants, regulatory landscape and market developments. Judgments about how well the market is working will follow in the interim report.

1.5 Although this is not a formal consultation, we would welcome feedback by 15 October 2025 if there are any important points we have not captured. Please contact PureProtectionMS@fca.org.uk.

Chapter 2

Product Overview

Overview of pure protection insurance products for retail customers

What is pure protection?

2.1 Pure protection products are long-term insurance designed to help individuals and/or their dependants with existing financial commitments or lifestyle adaptations if the policyholder dies, becomes incapacitated, injured or infirm.

2.2 Pure protection products have no savings or investment element[1]. Cover is conditional on the continued payment of premiums – if the policyholder stops paying, the policy will lapse and no benefit will be payable, regardless of how long the policy was held.

2.3 Consumers often rely on pure protection products when particularly vulnerable. According to the ABI, in 2023, the average claim value for term assurance was £54,600, for critical illness it was £67,300 and for individual income protection it was £9,400.

Types of pure protection products

2.4 Pure protection products include:

- **Term assurance:** a policy which pays a lump sum to beneficiaries if the policyholder dies within a specified period.
- **Stand-alone critical illness cover:** a policy which pays a lump sum to the policyholder if they are diagnosed with a prescribed (non-fatal) serious illness or medical condition.
- **Accelerated critical illness cover:** a policy which combines life cover and critical illness cover into one policy.
- **Income protection insurance:** a policy which replaces part of a policyholder's regular income if they become unable to work because of illness, accident, or disability.
- **Whole of life insurance**, including **guaranteed-acceptance over-50s life insurance plans:** these policies provide cover for the policyholder's lifetime, paying out a lump sum to beneficiaries on the policyholder's death.

2.5 Most protection products are subject to medical underwriting. Applicants are generally required to provide details of their medical history and current health status as part of the application process.

1 Some protection policies include an investment or savings component where a portion of the premium is allocated to a fund that may grow over time. As a result, these policies are not considered *pure* protection products and are outside the scope of the market study.

Term Assurance

2.6 In the UK market, the most common types of term assurance are:

i. **Level Term Assurance:** the sum assured remains constant throughout the policy term.
ii. **Decreasing Term Assurance:** the sum assured reduces over the policy term (commonly used in conjunction with mortgage repayments where the cover is designed to decrease in line with the outstanding mortgage balance).

2.7 There are other variations available, such as increasing term assurance, where the sum assured grows, usually in line with inflation to help maintain the real value of cover. Also offered is renewable term assurance, allowing the policyholder to extend the policy for a further term without needing to undergo new medical underwriting, even if their health has changed.

2.8 Many term assurance policies may also incorporate additional features, such as a terminal illness benefit, which provides a payout of the full death benefit if the insured is diagnosed with a terminal illness and has a life expectancy of less than 12 months.

2.9 Additionally, family income benefit (FIB) provides regular financial support to the policyholder's family if the named policyholder dies or is diagnosed with a terminal illness within the specified term. Unlike a lump sum, it pays out an ongoing monthly income. It can be considered as a decreasing term assurance, agreeing to pay an income upon death or terminal illness diagnosis, with the benefit decreasing over time as the maximum possible payments reduce.

Critical Illness Insurance

2.10 Critical illness insurance pays out a lump sum when the policyholder is diagnosed with a critical illness or condition, typically listed in a dedicated section outlining the covered conditions and the criteria for a valid claim. It helps to ensure that the policyholder can cover various expenses. Similar to term assurance, critical illness insurance provides coverage for a specified term and offers either level, decreasing or increasing cover.

Accelerated Critical Illness Insurance

2.11 Accelerated critical illness is a distinct product that combines life cover and critical illness cover into a single policy. It pays out on the first event – either death or diagnosis of a critical illness.

Income Protection Insurance

2.12 Income protection insurance is designed to provide financial support for an extended period if the policyholder suffers a reduction in income because they are unable to work due to illness or injury. This type of insurance typically covers a percentage, typically around 50-70%, of the policyholder's monthly income and continues to pay out based on a specified maximum term, typically 2 or 5 years, or until the policyholder reaches their selected retirement age, recovers, or passes away (whichever comes first).

2.13 These policies typically include an initial waiting period (also known as a 'deferred period'), which is the time between when the policyholder becomes unable to work and when the income protection payments begin. Common deferred period options include 4, 13, 26, or 52 weeks, and the choice can affect both the premium and the suitability of the cover depending on the individual's circumstances.

Whole of Life Insurance and Guaranteed-acceptance over-50s

2.14 Guaranteed-acceptance over-50s is a specific type of whole of life insurance plan that does not require medical or health information for individuals over the age of 50 to qualify for cover. These policies typically include a waiting period, usually 12 or 24 months, during which most insurers will refund the premiums paid rather than the full benefit.

2.15 In contrast, a whole of life insurance policy is medically underwritten and requires that customers answer a set of specified questions relating to their medical history and current health status as part of the application process. Whole of life insurance policies also frequently include a terminal illness benefit, which provides a lump sum payout of the full death benefit if the insured is diagnosed with a terminal illness and has a life expectancy of less than 12 months.

2.16 Although whole of life insurance typically requires premiums to be paid for the duration of the policyholder's life, some policies specify an age at which premium payments cease. In these cases, cover continues for life without further payments.

Other product features

2.17 Beyond the product categorisations above, there are also certain types of benefits and enhancements, some examples are:

- Critical illness cover enhancements: Provides cover for more conditions, either by extending the list of commonly covered illnesses or by including less common but serious conditions, and allows multiple claims on the same policy, for example if the policyholder suffers from more than one unrelated critical illness.
- Hybrid protection products: Combines elements of health and income protection and includes health-related (or 'value added') benefits such as private diagnostic services and digital GP access.

2.18 Pure protection policies can be structured as either **single** or **joint** cover. Single cover policies cover one individual and pay out a lump sum upon the policyholder's death or in the event of a critical illness, depending on the policy terms. Joint cover policies cover two individuals under a single policy cover, usually paying out on the first death or critical illness diagnosis after which the policy terminates. Income protection insurance cannot be offered on a joint life basis, unlike other pure protection products.

2.19 There are **individual** policies and **group policies**. Individual policies generally refer to the policies purchased by individuals on their own behalf for their personal protection. Group policies are typically offered by employers as part of an employee benefits package. These policies are usually purchased in bulk by the group or employer. Group policies are outside the scope of the study.

2.20 There is also individual business protection insurance offering financial security for firms against the loss of a key individual, shareholder, or partner. This insurance can play an important role in supporting business continuity and stability, particularly in the event of the loss of a key individual, shareholder, or partner. This insurance includes key person protection, ownership protection, and loan protection, covering death, terminal illness, critical illness, and income protection. Business protection insurance is also outside the scope of the study.

2.21 Pure protection insurance policies can be offered:

- As **standalone** products.
- As **rider benefits**, which are optional enhancements that are built into a base insurance policy.
- As **add-ons** which are separate insurance policies that are bundled with the base policy to provide broader protection. Although sold together, they remain independent contracts with their own terms and separate claims processes.

2.22 Additionally, some pure protection policies, such as term assurance and whole-of-life insurance, have **beneficiaries**. This is where the policyholder can nominate persons who will receive the policy's payout upon the policyholder's death, ensuring that the intended individuals benefit from the policy proceeds. Policies can also be **placed in a trust**, whereby the payout will be managed by the trustees for the beneficiaries, offering potential tax advantages.

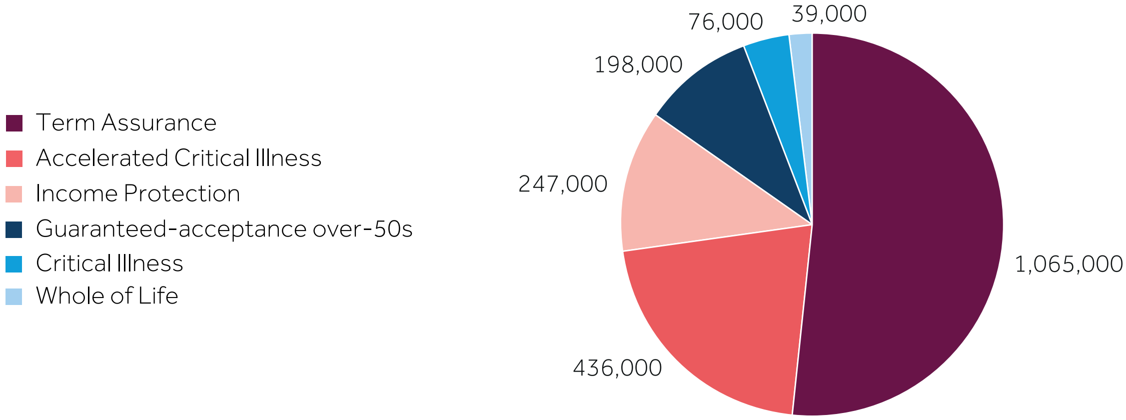
Product insights

2.23 The following metrics are generally used to analyse market trends, product development, financial performance, and other factors, to gain a comprehensive understanding of portfolios:

i. **New business written** which refers to the insurance policies that are issued and activated within a specific year. This includes all new contracts that an insurer has successfully sold and underwritten during that period. New business analysis can help identify current market trends and sales effectiveness.
ii. **In-force policies** which refer to the stock of currently active insurance policies held by an insurer. These policies could have been issued at any time in the past, as long as they remain active and have not lapsed or been terminated. This metric provides insight into the insurer's current portfolio.

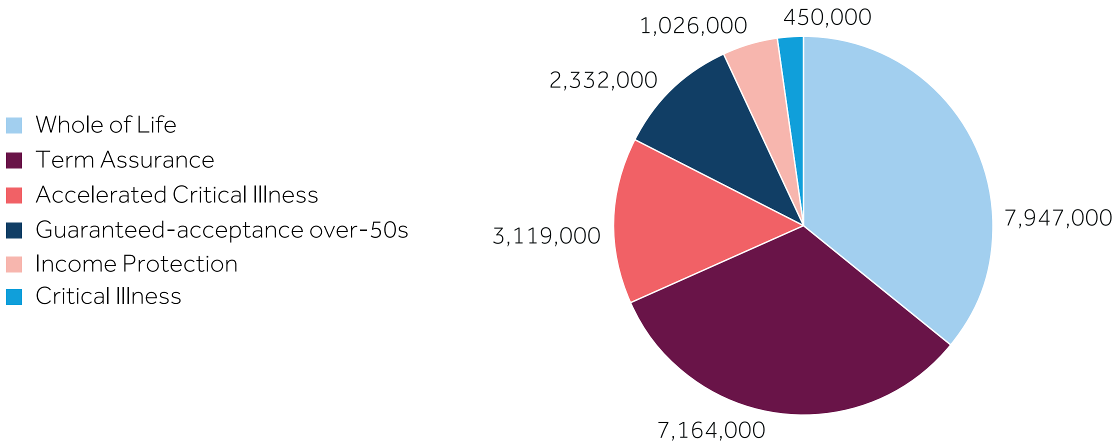
2.24 Figure 1 illustrates the number of new pure protection insurance policies issued by product type in 2023, and Figure 2 illustrates the number of in-force pure protection insurance policies by product type in 2023. This data includes new business written and business in force in that respective year, as provided by the ABI member firms and non-members' for that relevant reporting period.

Figure 1: Number of new policies issued by product type in 2023



Source: ABI

Figure 2: Number of policies in-force by product type in 2023



Source: ABI

2.25 In 2023, whole of life contributed the largest share of in-force policies (36%) but there were few new policies sold. Term assurance followed with 33% of in-force policies and was the most commonly purchased pure protection product in 2023.

Chapter 3

Customer Overview

Overview of retail customer segments and distribution

Understanding customer segments in pure protection markets

3.1 Different pure protection products are tailored to meet the financial needs of individuals at various life stages. For example, term assurance may be ideal for mortgage-holders, while income protection and critical illness cover may support working individuals particularly vulnerable to health or employment disruptions.

3.2 Individuals in good health, often referred to as 'healthy lives', typically have access to a broader range of insurance options. Their lower risk profile typically results in more favourable underwriting outcomes, such as lower premiums and/or fewer exclusions.

3.3 Individuals with pre-existing medical conditions or a history of health issues will likely face more limited choices and encounter higher premiums (reflecting the increased risk). Coverage options for these individuals can also be more limited, with certain conditions excluded.

3.4 However, products such as guaranteed acceptance over-50s plans provide an option for individuals who might otherwise struggle to obtain coverage due to age or health.

Distribution channels and access to pure protection products

3.5 Providers may choose to distribute their pure protection products directly or via third-party intermediaries.

3.6 Intermediaries play a crucial role in the distribution of pure protection products. They can:

- be a cost-effective way for insurers to reach consumers, and
- help consumers overcome search costs involved in looking across the market and comparing what is available.

3.7 Whether sold directly or via an intermediary, pure protection products can be sold on an advised or non-advised basis[2].

- **Advised sales:** where a recommendation is made to customers, helping them select policies that align with their individual needs. Advisers can explain policy intricacies, compare options, and clarify key elements such as premiums, exclusions, and claim procedures.

2 Advised and non-advised sales | FCA

- **Non-advised sales:** where sales are non-advised, firms should not give a recommendation and leave the customer to decide how they wish to proceed. However, firms are still expected to ensure that any product offered aligns with the customer's demands and needs. Non-advised sales may be suitable for individuals with straightforward needs or those who prefer to conduct their own research.

3.8 In practice, from the customer's journey perspective, these two approaches can also merge into a hybrid model, where a customer initially accesses the market through a non-advised online channel. If additional support is needed, they may then move to an advised (or still non-advised) service delivered by phone or in person to complete their purchase. This transition can occur either with the same intermediary they started with or by engaging a different intermediary to finalise the transaction.

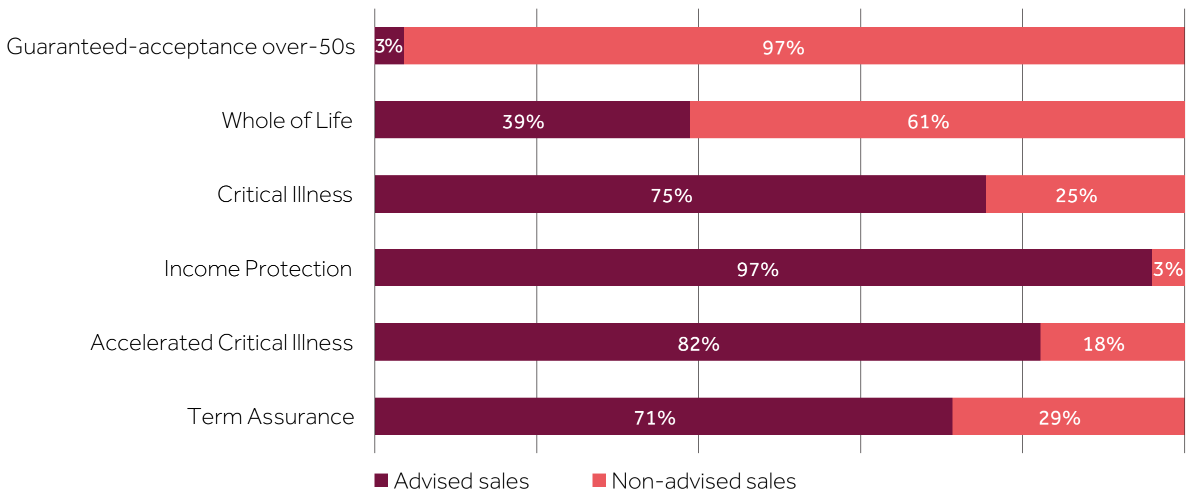
3.9 In the past few years, some insurers have also started allowing customers to enquire, fill in their applications and finish the purchasing journey entirely online for certain products.

3.10 Where insurers distribute their pure protection products directly, they typically operate on a non-advised basis.

3.11 In some cases, there is also a link to inheritance and tax planning and whether to write the policy in trust to ensure proceeds are paid outside of the estate and to mitigate potential inheritance tax liabilities. Consideration of setting up power of attorney and/or making a will is also important. Due to this inherent complexity and the need for tailored structuring, the market for pure protection policies is predominantly advised.

3.12 To further illustrate distribution channels, in Figure 3 we observe the number of new business written on an advised and non-advised basis in 2023. Advised sales dominate, highlighting the prevalence of professional guidance when navigating the complexities of term assurance, accelerated critical illness, critical illness and income protection.

Figure 3: Number of new advised and non-advised[3] intermediated sales in 2023



Source: ABI

3 Non-advised sales category includes direct, intermediary firms, single-tie and aggregator sales in 2023, while advised sales include independent advice, restricted advice, intermediary firms and single tie.

3.13 The distribution of advised versus non-advised sales varies significantly across product types. Unlike other products, guaranteed-acceptance over-50s plans are overwhelmingly sold on a non-advised basis (97%), followed by whole of life (61%).

3.14 Guaranteed-acceptance over-50s policies are also more commonly sold without third-party intermediation. This could be where the customer has reached the provider entirely on their own initiative through, for example, a provider's advertising TV campaign, an online offer, or through a direct-offer process. In addition to face-to-face, telephone and online sales, most insurers also offer paper-based application routes for this product to better accommodate the target demographic.

Chapter 4

Market Participants

Main market participants in UK retail pure protection

4.1 As explored in the Terms of Reference, the pure protection value-chain for UK retail customers is complex and involves multiple actors.

4.2 Figure 4 illustrates the main market participants and payment flow from reinsurers through to retail consumers. The remainder of this chapter discusses each firm type and their role within the pure protection insurance distribution chain. We also discuss the interactions among participants, helping to better understand the market dynamics and the factors that may influence customers access and choice.

Role of Insurers

4.3 Insurers are firms with permission to effect and/or carry out contracts of insurance[4]. They create, design, develop and underwrite the risk of pure protection policies. As manufacturers they are responsible for manufacturing products that align with the requirements of their target market.

4.4 Intermediaries may also act as co-manufacturers by establishing general principles or product requirements derived from consumer demands and market trends they observe.

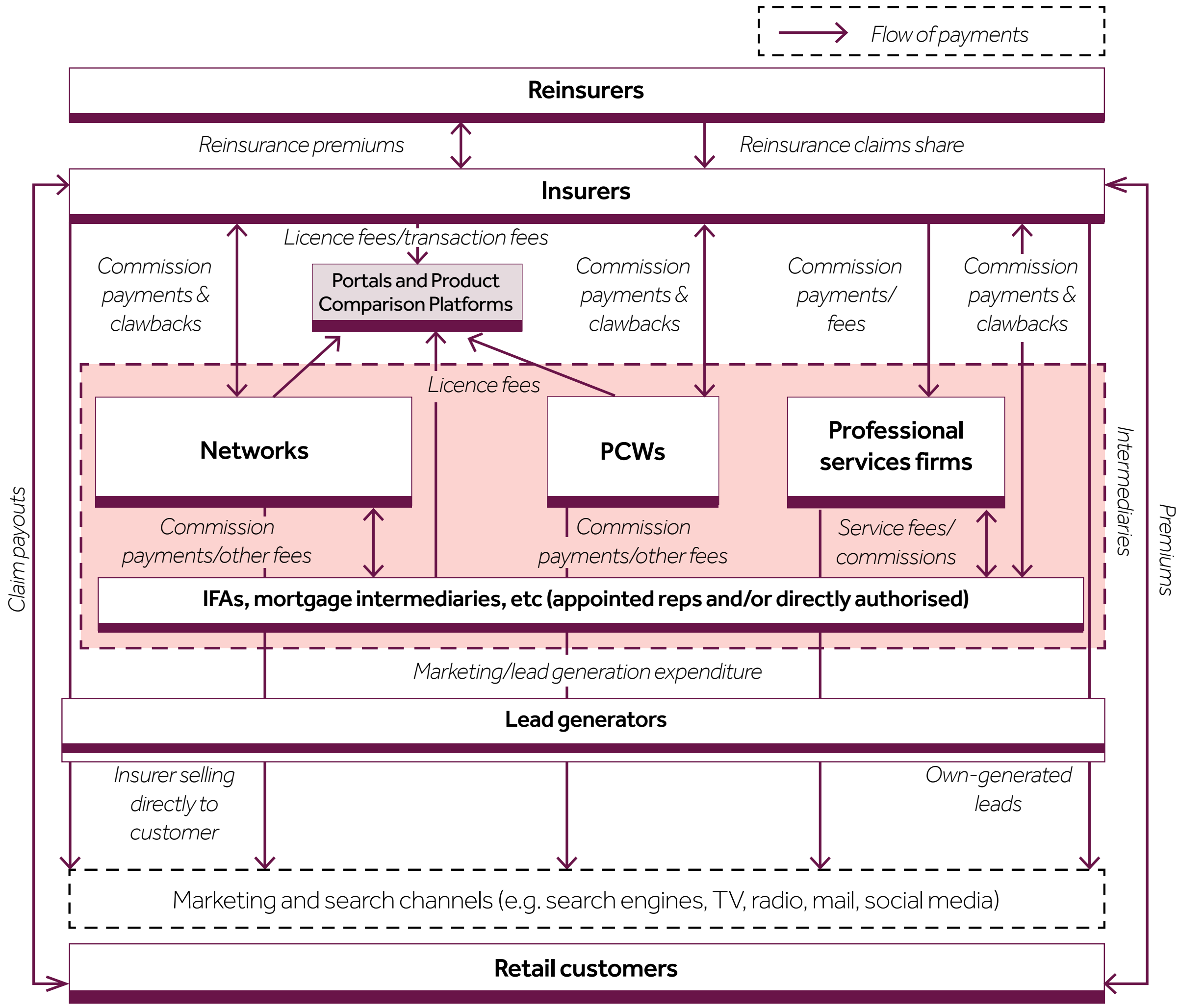
Insurer types and underwriting

4.5 Insurers can be stock insurers or mutual insurers, where both types play significant roles in the industry, offering different benefits depending on customer needs and priorities:

- **Stock insurers** are owned by shareholders, which can lead to a strong emphasis on financial performance. These insurers can raise capital through issuing shares, allowing for scalability and broader market operations.
- **Mutual insurers** are owned by their members, some of which are also policyholders, and operate to benefit them. Profits are reinvested or returned to members. Mutuals may be able to take a longer-term view of the business but can face challenges in raising capital as they cannot issue shares to raise funds. Mutuals rely on retained earnings, policyholder contributions, or external borrowing.

4 Insurer – FCA Handbook

Figure 4: Main market participants in pure protection insurance distribution



4.6 Underwriting is an essential component of insurers' procedures for evaluating the risk associated with each policyholder. The underwriting process helps determine the terms and premiums of the policy based on the individual's health status and other risk factors. Higher-risk individuals, such as those with chronic illnesses or hazardous lifestyles may face stricter policy conditions or coverage limitations, reflecting the increased level of risk they pose to the insurer.

4.7 Specialist insurers focus on underwriting high-risk policies that traditional insurance providers might typically avoid. These insurers identify and address the needs of niche markets and manage unconventional risks based on which they can craft more bespoke policies.

4.8 In the pure protection market, insurers focus on mortality and morbidity risks, relating to death and illness, as the basis for pricing. Premiums are set with reference to these risks and associated costs, often in coordination with reinsurers and intermediaries through commercial arrangements that support pricing alignment and sustainability.

Insurer insights

4.9 Figure 5 describes insurers' market shares using new premium (sales) data that the ABI have received from firms and is displayed at an annual level for the past four years. The data shows that the provision of protection insurance is concentrated amongst 5 firms, generally around 80% overall and often higher.[5]

Figure 5: Top 5 Insurers market shares – concentration ratios by business line and year using annual new business premiums (£ million)

		2021	2022	2023	2024
Mortgage Related Life (Term Assurance)	*Total Value*	204	193	176	188
	Top 5 firms %	**87%**	**80%**	**79%**	**84%**
Non-Mortgage Related Life (Term Assurance)	*Total Value*	348	349	353	318
	Top 5 firms %	**70%**	**71%**	**69%**	**73%**
Whole Life Guaranteed-acceptance over-50s	*Total Value*	56	42	50	52
	Top 5 firms %	**99%**	**98%**	**100%**	**97%**
Whole Life Medically Underwritten	*Total Value*	37	40	56	51
	Top 5 firms %	**92%**	**96%**	**86%**	**86%**
Income Protection (Long-Term)	*Total Value*	68	81	100	102
	Top 5 firms %	**82%**	**85%**	**86%**	**82%**
Stand Alone Critical Illness	*Total Value*	24	29	32	37
	Top 5 firms %	**94%**	**92%**	**94%**	**95%**

Source: ABI

4.10 Insurers have described a market in which there is very strong competition on price – margins are low and premiums are falling. This may explain the exit of some firms in recent years – see chapter on market developments.

Significance and mechanisms of reinsurance

4.11 Life insurers can choose to manage mortality and morbidity risks internally or seek external providers for reinsurance. These risks are inherently uncertain and can span decades, making them more volatile and capital-intensive. Reinsurers play a significant role by providing insurers with a way to manage risk and capital more effectively.

4.12 Reinsurance essentially provides insurance for insurers. As described in the FCA Handbook[6], a reinsurance contract can cover all or part of the risk that an insurance company faces under a long-term insurance contract.

5 Data comprises ABI participating companies list, with some firms entering and exiting the market over the 4-year period. Please note this data does not include Aegon.

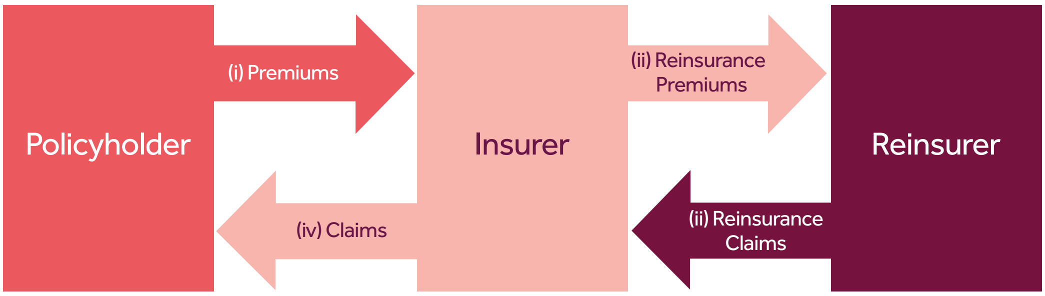
6 Pure protection contract – FCA Handbook (2)

4.13 Insurers can use one or multiple reinsurers for the same business segment to spread risk. Insurers and reinsurers would typically agree on the proportion of risk each will bear, and the insurer would set the policyholder premiums to reflect this risk. Reinsurers therefore have a degree of influence over manufacturing and distribution of pure protection products by insurers.

4.14 The below simplified value chain in Figure 6 covers (i) payments flow from policyholders to insurers as premiums, then (ii) from insurers to reinsurers as reinsurance premiums, (iii) with claims payments from insurers to policyholders and (iv) reinsurance recoveries occurring when applicable, as reinsurers reimburse insurers if claims exceed a certain agreed threshold.

4.15 A reinsurance premium is the payment made by an insurance provider to a reinsurer in exchange for transferring a portion of its risk. This premium is dependent on the level of coverage required and the terms of the reinsurance agreement. Essentially, it acts as the cost of obtaining reinsurance protection.

Figure 6: Typical reinsurance protection arrangement, excluding intermediation



4.16 A reinsurance claim refers to the request made by the insurance provider to the reinsurer for reimbursement when a covered loss occurs. This happens when the insurance provider has paid out claims to its policyholders and seeks compensation from the reinsurer for the portion of the risk that was transferred under the reinsurance agreement.

4.17 While there are a small number of reinsurance firms serving UK-based insurers, the reinsurance market is characterised by larger, global players.

Role of Intermediaries

4.18 In the UK individual pure protection insurance market, approximately 88% of individual new business in 2023 was intermediated, with only 12% conducted through direct sales channels (also including vertically integrated firms).

4.19 The majority of the market comprises intermediary-led distribution, including both advised and non-advised models, single-tied arrangements, and aggregator platforms. These channels all involve third-party distribution and reflect a diverse population of firms that mediate between retail consumers and providers.

4.20 Intermediaries can look across the market to try to find a policy that best meets a consumer's needs. IFAs, for instance, can offer expertise and tailored advice. When a customer takes out a mortgage, a broker might suggest protection policies, like term assurance or critical illness cover, to help support mortgage repayments if something unexpected happens, subject to a successful claim.

Intermediary business models

4.21 Apart from the sales channel, intermediaries can be also defined by the type of business model they adopt. The choice of business model is closely tied to regulatory permissions – it determines the level of responsibility and accountability for discharging their regulatory responsibilities as well as the scope of activities the intermediary can engage in (eg advising, arranging, or selling specific financial products).

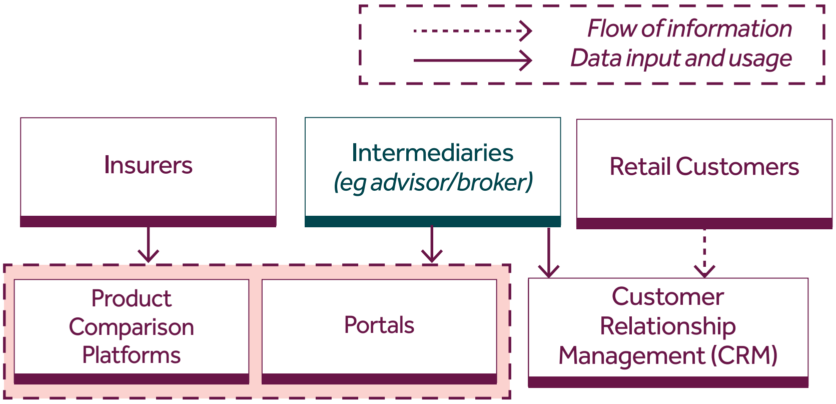
- **Principal Network Firms (PNFs)** act on behalf of their ARs to negotiate commissions and build relationships with insurers, typically operating as mortgage or wealth advisors.
- **Appointed Representatives (ARs)** operate under the regulatory umbrella of a principal network firm, which provides them with compliance support, training, and negotiates commissions with insurers on their behalf. ARs are authorised through their principal and may be required to follow specific systems or procedures. Introducer Appointed Representatives (IARs), meanwhile, are limited to introducing clients to their principal firm or its group.
- **Directly authorised (DA) member firms** are can also operate within a network, benefitting from the network's negotiated commissions and relationships with insurers. DA member firms may also receive services from the network for compliance and training.
- **DA independent firms** are intermediaries who operate autonomously, managing their own compliance and business strategies without being tied to a larger network. Banks can also act as intermediaries in the distribution of pure protection insurance.
- **Professional services firms** offer various support services to the insurance industry overall, including compliance and training (ie unregulated activities). Such firms have similarities to a network in the role which they can play in negotiating commissions with insurers and constructing panels, but they do not have overall responsibility for firms' compliance activities.
- **PCWs** enable customers to compare insurance products and prices from different providers. They can be the sole intermediary in the distribution chain, or they can act as one of two distributors in a partnership. They are also typically remunerated via commission.

Other market participants and customer acquisition

Use of product comparison platforms (PCPs) and portals

4.22 There are a number of digital tools that sit between advisers and insurers, enabling advisers to generate quotes, compare products and submit applications.

Figure 7: Usage of product comparison platforms and portals



4.23 Figure 7 focuses on the usage of PCPs and portals in the context of pure protection insurance, whereby insurers feed into platforms and portals, and intermediaries (advisers) use them to obtain information and/ or quotes about what is covered by individual products. As such:

- **Product Comparison Platforms** compare insurers on a menu-plan basis based on a specific criterion such as premiums, coverage, and exclusions, offering detailed information on different insurance policies when researching product options for retail customers.
- **Portals** or **quote portals** offer access to multiple insurance products and quotes from various providers, streamlining the process of obtaining, comparing and submitting applications.
- **CRM systems** allow advisers to store client documents, including quotes and supporting materials, for future reference and compliance.

4.24 PCPs may also include tools for comparing policy definitions and tracking historical versus current offerings. When integrated with portals, they support pricing illustrations and help advisers tailor recommendations to individual client needs.

4.25 Policies are also assigned quality scores, highlighting best quality products based on the clients' scenario and the PCP's underlying scoring methodology. Such scores are often shown alongside the price of the policy. If advisors chose to proceed with underwriting – platforms can redirect them to a quote portal with which they are integrated.

4.26 In some cases, portals, or quote portals, can create a single journey for obtaining underwriting decisions from multiple insurers, allowing advisors to simultaneously apply for different policies with various insurers. They can facilitate the underwriting process for insurers and advisors by enabling them to obtain multiple underwriting decisions from a single application form rather than completing individual application forms for each insurer.

4.27 Each insurer applies its own underwriting rules and returns a decision to the adviser. While this process streamlines initial underwriting, it may often still allow for additional underwriting, if required. If such a streamlined process is not available, advisors need to complete individual application forms for each insurer.

4.28 Technologies provided by PCPs and portals to streamline and expedite the information gathering, and in some cases the underwriting process, can reduce the need for manual intervention.

4.29 Straight-through underwriting (STU) refers to automated underwriting with minimal manual intervention. It enables insurers to evaluate and approve applications using standardised questions. Straight-through processing (STP) extends this automation across the full workflow, from data entry to final decision.

4.30 STP adoption varies by product type and regulatory complexity. Simpler products like term assurance are more likely to be processed through STP, while more complex products such as income protection may require manual underwriting.

4.31 While STP offers benefits such as reduced costs and improved adviser and customer experience, some stakeholders have raised concerns that it can:

i. weaken competition and choice for customers that have vulnerabilities and that are not as easy to process, and
ii. dampen innovation as insurers all have to use the same set of questions.

4.32 Not all insurers appear on every portal or PCP. Participation depends on strategic partnerships, technical integration, market focus, and commercial arrangements. Some insurers may have exclusive agreements, while others may choose not to participate. However, many adviser networks require the use of specific portals.

Customer reach and lead generation

4.33 Lead generation involves a blend of targeted marketing strategies and technology to attract and convert potential customers. Effective engagement strategies can enhance the visibility and appeal of insurance offerings to retail customers. Some insurers may manage this in-house, designing campaigns aligned with their brand and customer needs across channels like digital, TV and social media. Advertising for pure protection is also done via search engine optimisation. Some firms purchase customer lists to contact.

4.34 Intermediaries can also promote insurance products, either independently or in collaboration with insurers. Intermediaries' knowledge of local markets and customer segments can allow them to craft personalised campaigns. While this extends the insurer's reach and reduces operational burdens, it may require careful coordination to ensure alignment with the insurer's brand.

4.35 Additionally, marketing incentives are used to attract customers to purchase insurance. Such incentives may include:

- Health and Wellness Incentives: discounts may be offered to individuals who demonstrate healthy habits, such as using fitness trackers or participating in regular health screenings.
- Sign-Up Rewards: new policyholders might receive gift cards for essentials like groceries, retail shopping, or wellness services.
- Multi-Life Discounts: reduced rates when multiple family members are covered under life insurance policies.
- Discounts on ancillary services: eg on funeral costs.

4.36 Insurers and intermediaries can also use third-party lead generators to enhance their reach, reduce operational burden, and ensure effective customer acquisition. The lead generation process involves attracting potential customers through tailored campaigns, qualifying leads based on specific criteria, and transferring these leads to firms for further engagement and sales. Firms must handle leads ethically and comply with relevant data protection legislation.

4.37 Lead distribution is determined by availability of partners and partner requirements. Firms tell us that challenges in the market include significant costs associated with search engine optimisation and having efficient algorithms and data-driven matching systems (ie a selection of relevant search terms (key words)).

4.38 Third-party lead generators tend to charge on a cost-per-lead or cost-per-acquisition basis, with pricing varying according to lead quality and exclusivity. Their associated digital marketing expenditure can encompass search engine marketing, social media advertising, and content creation.

Post-sale engagement

4.39 Following the point of sale, customers typically enter a 'servicing phase' that includes policy administration, ongoing engagement and claims handling. For advised sales, intermediaries may continue to support customers with administrative tasks such as placing policies in trust or updating beneficiary details. In non-advised or execution-only journeys, post-sale engagement is generally more limited, with customers relying on insurer communications or digital portals.

4.40 Claims handling is also another critical aspect of the post-sale experience. Providers vary in their approach, with some investing in digital claims platforms and proactive communication, while others maintain traditional paper-based systems.

Chapter 5

Market Practices

Commercial Practices

Pricing of pure protection products

5.1 In pure protection, policyholders make regular premium payments, generally on a monthly basis, to the insurance provider. The premium payable is determined by various factors, including a customer's age, health, and risk profile, as well as the overall policy requirements and structure.

5.2 Premiums are adjusted to reflect the level of risk a policyholder presents. For higher-risk individuals, such as those with pre-existing conditions or hazardous occupations, premiums are increased accordingly. Reinsurers play a key role in shaping these adjustments, offering data and expertise to align pricing with broader market trends and ensure financial soundness.

5.3 Insurers tailor pricing models to reflect their risk appetite, market positioning, and customer demographics. They collect data through health and lifestyle questions, sometimes supported by medical evidence. While streamlined applications can improve accessibility, they must still ensure a sufficient risk assessment is completed.

5.4 Insurers may also take into consideration their overall business mix, which may involve the distribution of different types of insurance products and other business (such as annuities). This mix can diversify their business and capital, reduce volatility of profit and be amended to their risk exposure appetite.

5.5 Additionally, insurers analyse and take into consideration data on lapses, which are instances where policyholders discontinue their coverage. High lapse rates, particularly in the early stages of a policy, can signal issues not only with customer satisfaction or the affordability of premiums but also with the quality of the sales process. In response, insurers may adjust their pricing strategies, enhance customer service, or refine sales practices to ensure products are better matched to customer needs and expectations.

5.6 Claims data is another critical factor, as insurers examine the frequency and severity of claims to estimate future liabilities. This information helps them set premiums that adequately cover potential payouts while maintaining profitability. Insurers must also account for inflation in their pricing models to ensure that premiums remain sufficient over time.

5.7 Other expenses, such as IT, staff or commissions paid to brokers and agents, are also considered. These costs are necessary for acquiring new business.

5.8 Several other factors may come into play when determining insurance premiums – for example, the length of the policy and type of cover customers choose. Longer policy terms often result in higher premiums due to the increased likelihood of a claim over the duration of the policy, although taking out policies at younger ages can reduce premium rates. By understanding such factors, customers can better navigate the options and choose a policy that suits their needs and budget.

Cross-selling opportunities and rebroking

5.9 Pure protection products such as term assurance, critical illness cover, and income protection can often be cross-sold with other financial products, particularly mortgages. This can be a strategic approach to increase uptake among consumers who may not otherwise consider these products independently.

5.10 Cross selling can offer consumers convenience (ie not having to find a different intermediary from whom to purchase protection). However, cross-selling could mean a firm faces less competitive pressure when selling the secondary product (ie the protection).

5.11 **Rebroking** is a practice where consumers may switch their insurance providers or policy following contact by an intermediary. Rebroking allows consumers to change the terms or coverage of their existing insurance policies to better align with their evolving needs. However, a policyholder switching to a different provider or policy is also likely (though not certain) to be higher risk due to their greater age, meaning rebroking could sometimes lead to poor outcomes.

Panel arrangements

5.12 Intermediaries can provide access to pure protection products advice by using panels of insurers, which must be regularly reviewed and updated. As per ICOBS 4.1, the selection criteria for these panels focuses on product features, premiums, and services offered to customers[7].

5.13 Intermediaries can operate under different arrangements:

- Tied to a single insurer (**single-tie arrangement**), where they only offer products from one provider, or
- Using a panel of insurers (**multi-tie arrangement**), which allows them to offer a broader range of products from several providers, or
- Accessing the entire insurance market without being tied to any specific insurer or panel of insurers (**whole-of-market arrangement**).

5.14 Even with a whole-of-market arrangement, however, it is possible that some insurers may not be included – eg an insurer might not seek to join a particular panel.

7 ICOBS 4.1 General requirements for insurance intermediaries and insurers – FCA Handbook

5.15 Intermediaries can negotiate distribution arrangements with insurers directly, by joining a network, or via a professional services provider firm.

Distributor remuneration

5.16 The most common remuneration method for intermediaries is through commissions payable by insurers. **Commissions** are a critical component of intermediary remuneration in the insurance industry.

5.17 Commissions in the pure protection market are sales-based and usually structured on:

- An **indemnity basis**, whereby the intermediary receives an upfront payment of commission at the point of sale. This payment is often an advance on the expected revenue the policyholder will bring in over time.
- A **non-indemnity basis**, where commission is paid over time.
- A **hybrid commission arrangement basis**, whereby the elements of both indemnity and non-indemnity structures are combined. For example, an intermediary might receive a smaller upfront payment with the remainder being paid overtime as premiums are collected. Hybrid models aim to balance the need for upfront cash flow for intermediaries while managing risks for the provider and ensuring policy persistency.

5.18 Alternatively, some insurers may offer **level commission**, where a fixed percentage of each premium is paid to the intermediary throughout the policy term, similar to general insurance models. **Renewal commission** may also be paid on premiums after the clawback period (see below), typically contingent on the policy remaining in force. Intermediaries may also engage in **commission sacrifice**, voluntarily reducing their commission to lower the customer's premium, though this happens rarely.

5.19 The majority of distribution arrangements in the provision of pure protection insurance are on the basis of indemnity commissions, including agreed provisions to return unearned commission to the insurer if the customer cancels their policy early or **lapses** (triggering a clawback).

5.20 **Clawbacks** are a standard feature of indemnity-based commission arrangements in the pure protection market. Where commission is paid upfront a clawback period applies, during which the intermediary may be required to repay part or all of the commission if the policy lapses. They serve to ensure that intermediaries remain financially accountable for early policy lapses or cancellations.

5.21 These periods are generally set at either 2 or 4 years. The choice of clawback duration reflects a balance between providing sufficient upfront remuneration to cover intermediaries' front-loaded costs and managing the risk of early lapses. Clawback terms are typically standardised and set out in the terms of business agreements between insurers and intermediaries.

5.22 If a clawback results in a commission debt owed to the insurer, this may be deducted from future commission earned by the intermediary. Where this is insufficient, insurers may offer repayment arrangements. In some cases, debts may be written off due to insolvency, lack of contact, or where recovery is not commercially viable.

5.23 Intermediaries can provide other value-added services to their clients, which can include financial planning, risk assessment and ongoing policy management. These services can enhance client relationships and can justify additional fees beyond standard commissions. In some cases, intermediaries may also receive additional fees or contingent commissions based on the volume of business they bring in or by hitting specific targets.

5.24 The levels of commission are often commercially sensitive for firms and play a fundamental role in the market's commercial framework. Commission rates can be determined with reference to the cost-to-serve, which encompasses various factors and expenses. Additionally, there are numerous commercial drivers such as market competition, negotiation capabilities, customer retention strategies, risk appetite, and degree of service differentiation.

5.25 There are also **loaded premiums**, sometimes referred to as enhanced premiums. Loaded premiums involve an insurer paying a larger commission to a particular intermediary which is recovered from the customer through a higher premium than that which could be obtained elsewhere.

5.26 Distributors may legitimately seek to negotiate loaded premiums to cover additional costs incurred (in comparison to competitors) for the benefit of consumers. However, loaded premiums may also simply reflect market power held by an intermediary.

Chapter 6

Relevant Regulation and Market Developments

Relevant regulation

The Consumer Duty and PROD 4

6.1 The **Consumer Duty** ('the Duty') sets high expectations for firms, including those offering insurance products. It requires that firms act to deliver good outcomes for retail customers.

6.2 The Duty includes rules and guidance in relation to four outcomes: product and service design, price and value, consumer understanding, and consumer support. However, two of these outcomes (the Products and Services outcome and the Price and Value outcome) are disapplied for general insurance and protection products which are not long-term care insurance products.

6.3 This is because firms offering these products are subject to similar requirements under **PROD 4**[8]. For example, under PROD 4, non-investment insurance products must be designed to meet the needs of a target market, and they must provide fair value.

Review of legal framework governing friendly societies

6.4 The Law Commission was asked by HM Treasury to review the legal framework governing friendly societies. The aim is to modernise the legislation governing mutual insurers and other friendly societies, potentially leading to significant changes in governance, communication, and regulatory compliance. Following a consultation that ended in June 2025[9], the Law Commission is now analysing responses before making its final recommendations to government.

Recent market developments

6.5 There have been a number of market exits by insurers recently:

- In 2023, Canada Life sold its protection business to Countrywide Assurance, and Aegon UK sold its individual protection business to Royal London.
- In 2024, Aviva bought the protection business of AIG Life UK.
- In 2025, HSBC Life UK announced it had agreed to sell its protection business to Chesnara.

8 PROD 4 – FCA Handbook
9 Friendly societies – Law Commission

6.6 The core underlying product types that are offered to customers have remained relatively constant over time, with incremental improvements to products, services, and processes.

6.7 In recent years there has been some new entry, acting as a catalyst for innovations such as the provision of health-related (or 'value-added') benefits including private diagnostic services, digital GP access, wellness incentives.

6.8 These non-contractual benefits, offered by some insurers as part of their protection propositions, are typically offered at no additional cost and provide value to consumers.

6.9 As well as product innovation, there have been other developments:

- Technological developments in distribution. The adoption of portals, PCPs, and STU has streamlined advice and application processes. As a result, the market has seen a shift towards hybrid intermediation models that blend digital and human interaction.
- Intermediaries have begun to incorporate digital health record access via apps. This can facilitate more accurate risk assessment and tailored underwriting, enabling more personalised protection offerings. However, adoption remains uneven and is subject to data governance and consent frameworks.
- The emergence of multi-product and menu-based offerings has allowed consumers to tailor protection packages to their individual needs, driven jointly by insurers and intermediaries.

Chapter 7

Next Steps

7.1 To ensure that competition in the protection market is effective, it is essential to understand consumer needs, preferences, and awareness. Informed and active consumers are more likely to drive better outcomes, making their engagement a critical factor in market performance. Recognising this, we have undertaken a comprehensive programme of quantitative and qualitative consumer research.

7.2 This includes an online survey of 1,000 recent purchasers of protection products, as well as feedback from individuals who have switched policies or made claims. The findings, which explore consumer perceptions, understanding, and engagement with protection products, including how consumers choose products and intermediaries, will be published in November.

7.3 In parallel, we are investigating the reasons behind protection gaps and the challenges faced by specific consumer cohorts, particularly those considered more vulnerable. This work aims to identify barriers to access and engagement, and to understand how these may be addressed to improve outcomes across the market.

7.4 While firms that sit between insurers and consumers (excluding distributors) are not the primary focus of the market study, their influence on consumer outcomes warrants examination. We are therefore assessing the role of portals, lead generators, and straight-through underwriters, as well as analysing the share of the value chain they typically represent. Additionally, we are considering the indirect role of reinsurers in shaping product design and its implications for consumers.

7.5 We are also reviewing a range of industry practices that may affect consumer outcomes. This includes how premiums are set and vary across channels, including the use of loaded premiums; the structure and level of commission arrangements; the use of panels; and the overall value offered by different products and commission models. Furthermore, we are exploring the practice of rebroking and how often consumers switch policies or providers during the term of their initial policy, whether this is likely influenced by commission structures, and whether it consistently leads to better outcomes for consumers.

7.6 Our analysis extends to market entry and innovation in the UK, aiming to understand the extent and drivers of new activity. This includes identifying barriers to entry and assessing the level of innovation in product design, distribution, and consumer engagement.

7.7 All of this work will inform our ongoing engagement with market participants and be reflected in the interim report around the end of the year, which will assess how well the market is functioning.

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