FINANCIAL CONDUCT AUTHORITY

Market Study

MS24/1.5

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

Final Report

September 2026

Contents

Chapter 1

Executive summary

1.1 Pure protection products such as life insurance, critical illness cover, and income protection help consumers and their dependants manage their financial commitments or adapt their lifestyles if the policyholder dies or becomes incapacitated, injured or infirm. They can make consumers more resilient to unexpected changes in circumstances, helping them better navigate their financial lives.

1.2 We launched this market study to evaluate whether the distribution of pure protection works well against our operational objectives, including whether competition works in consumers' interest. We found that competition in the distribution of pure protection products generally works well for product holders and delivers good outcomes – a wide range of products are offered, claims acceptance rates are high, the proportion of premiums paid in claims are generally over 50%, and new business premiums are relatively stable.

1.3 However, 58% of people don't hold any protection products, of which 59% have never considered their protection needs. We are concerned where this 'protection gap' results from limited consumer awareness and understanding, or from challenges in the sales process making access difficult.

1.4 We will address these concerns through FCA, industry and wider stakeholder-led actions, relying on existing frameworks rather than new rules. This should improve financial resilience for significant numbers of consumers. We also found a few smaller issues where targeted action could further improve outcomes for product holders.

Tackling the protection gap

1.5 The protection gap can leave consumers and their families financially vulnerable when unexpected life events occur, increasing their risk of financial hardship and making them less resilient to income shocks, illness or bereavement.

1.6 Those most affected are consumers with more complex needs, less stable incomes, lower financial resilience or fewer opportunities to engage with protection products through established distribution channels. This includes consumers with pre-existing or complex medical conditions, renters, lower-income households and people in self-employment or gig economy work. Addressing the protection gap therefore also supports wider efforts to improve financial inclusion.

1.7 On the demand (consumer) side, there's low awareness and limited understanding of these products. Some consumers don't recognise when protection is relevant to their circumstances or don't engage sufficiently with the potential financial consequences of death, serious illness or incapacity.

1.8 To encourage consumers to consider their protection needs more actively, we will work with partners so they can introduce or improve:

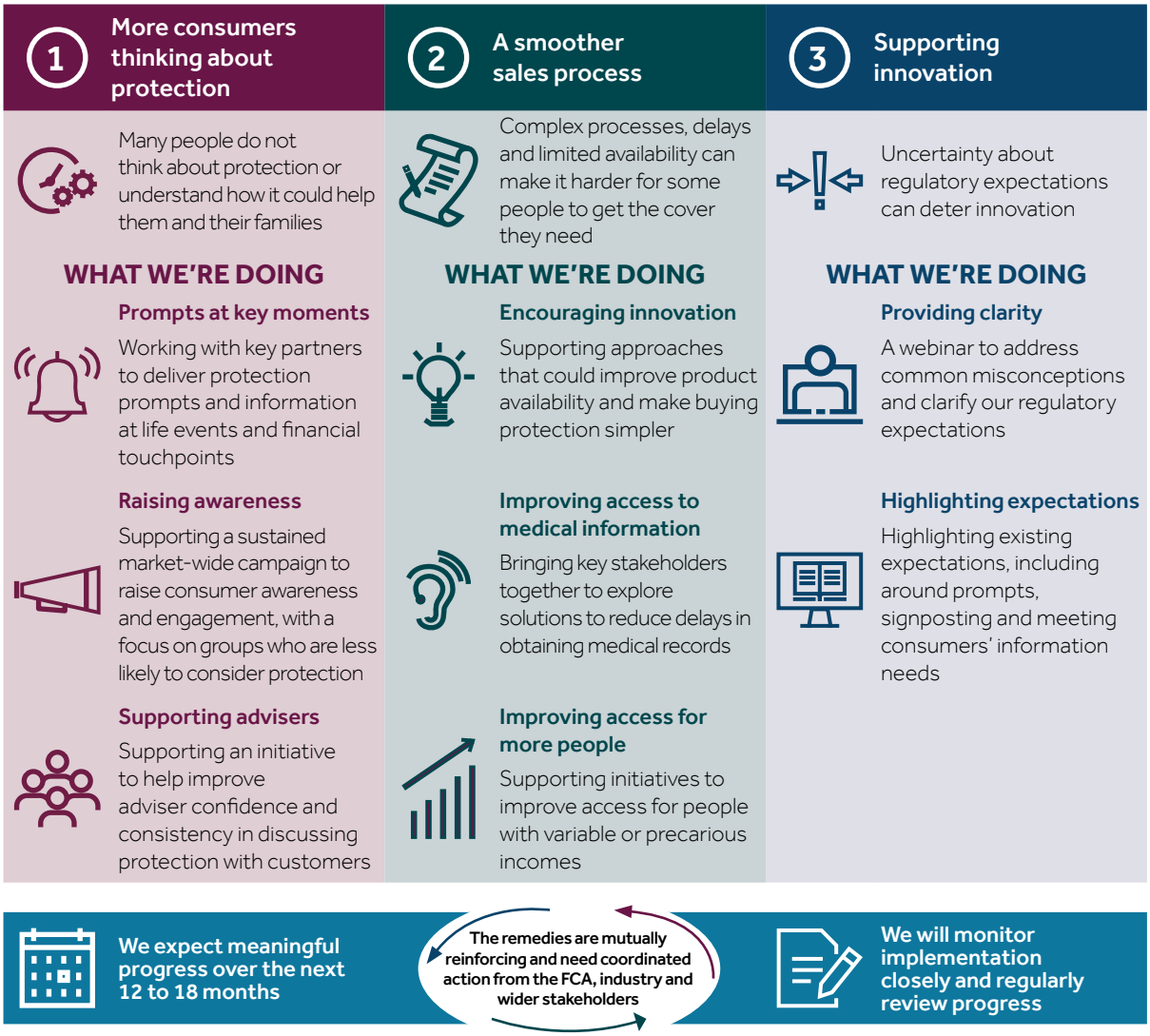
- protection prompts at key life events, such as purchasing a property and planning for future savings and financial needs,

- nudges for consumers to use tools such as trusts and beneficiary nominations, and
- consumer awareness initiatives and strengthened adviser engagement.

1.9 On the supply (firms) side, whilst competition has driven improvements over time, there are aspects which can cause issues. A long and complicated sales process can lead consumers to abandon it. Underwriting can be lengthy or complex, medical evidence takes time to obtain, product communications can be unclear, or products may not be available for consumers with more complex needs. Some firms also told us they aren't always clear whether regulatory requirements allow them to innovate in product design, distribution and consumer journeys.

1.10 To improve access, we will encourage innovations to address complex underwriting and product design, including by running a TechSprint. We will also support initiatives to tackle delays in obtaining medical evidence. In parallel, we will run a myth-busting webinar for firms to address any regulatory uncertainties.

Figure 1: How we intend to narrow the protection gap



Improving price and quality outcomes

1.11 We have also found a handful of smaller issues, limited in scale and not systemic, but where targeted action could prevent harm or deteriorating outcomes. These include some instances where intermediaries may be incentivised to switch consumers unnecessarily and ongoing industry requests for clarity on how premiums can be adjusted for commission.

1.12 We want the market to deliver consistently strong price and quality outcomes as this will also support greater consumer trust and take up of protection products. We remind firms of the requirements under the Consumer Duty (the Duty) and the Product Intervention and Product Governance Sourcebook 4 (PROD 4). Having reviewed firms' fair value assessments, we set out positive examples and areas for improvement. There is scope for firms to strengthen the evidence underpinning their assessments of target market value and the impact of remuneration and distribution arrangements on consumer outcomes and fair value.

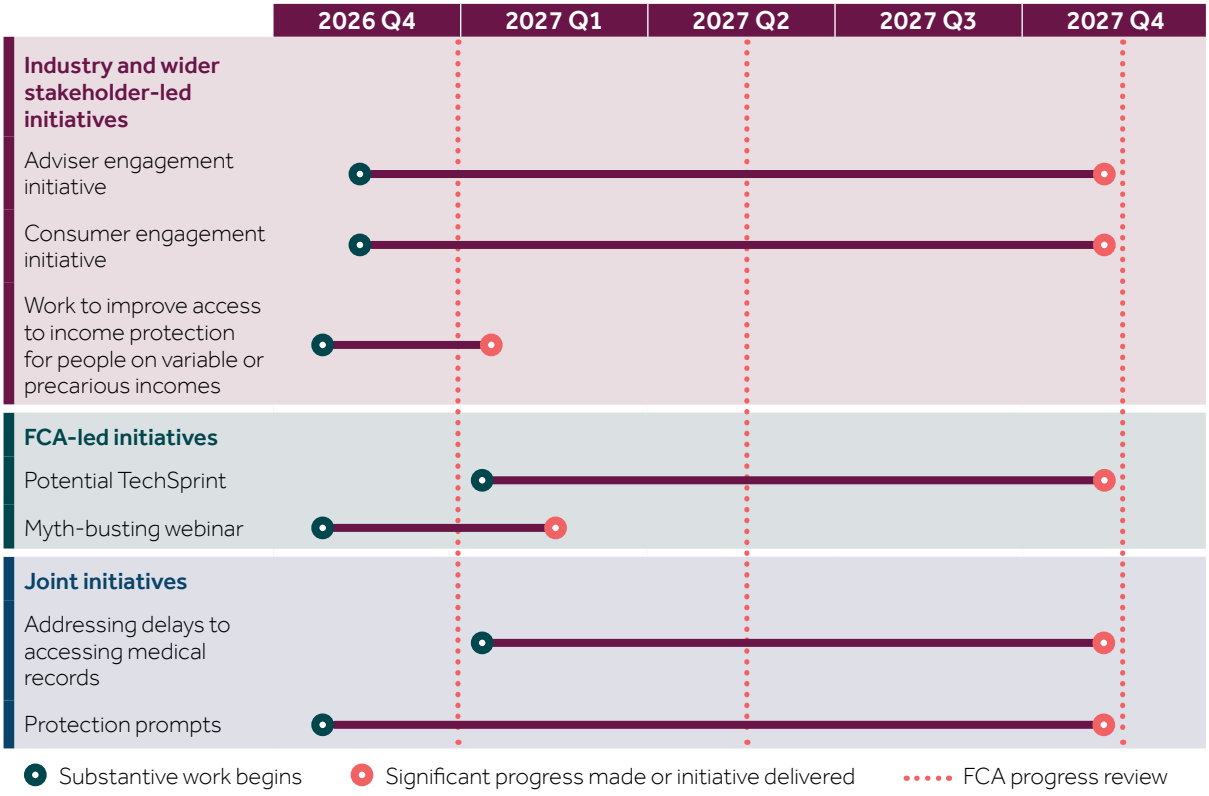
1.13 Firms should consider the examples and findings in this report when reviewing their own arrangements and take opportunities to improve how they deliver and evidence good consumer outcomes. We will continue to take supervisory or enforcement action where firms fall short of regulatory requirements, rather than introducing broad market-wide measures.

Next steps

1.14 The pure protection market study will now move into an implementation phase. We will undertake FCA-led actions, while industry bodies, firms and wider stakeholders will lead the initiatives they are best placed to take forward, which we will oversee and engage with.

1.15 The remedies are intended to work together but will only be successful if all parties act together and take them forward.

Figure 2: Protection gap remedies expected timelines



1.16 From October 2026, we will start to engage with industry, firms and wider stakeholders to mobilise the work and establish arrangements for delivery. Our work and industry-led actions will begin by the end of 2026, and we expect meaningful progress over the next 12 to 18 months. We will monitor implementation closely and regularly review progress, including publishing a short update on delivery and progress by the end of 2027. We will assess the effectiveness of these interventions and continue to engage with stakeholders to understand emerging challenges and opportunities. We expect these initiatives to increase consumer engagement with and access to protection products, and ultimately reduce the protection gap, helping more consumers build financial resilience against illness, incapacity and bereavement.

1.17 We will also continue to monitor market developments and consumer outcomes. While we do not currently consider further regulatory intervention necessary, we will keep this under review and consider if additional measures are needed if evidence indicates that outcomes are not improving.

TechSprint – call for expressions of interest

We intend to run a TechSprint to explore technology-enabled solutions to the protection gap, subject to sufficient interest from firms and other stakeholders.

A TechSprint is a structured innovation programme bringing together firms and others to work on a defined market challenge and develop tech-based solutions.

Subject to sufficient interest, we expect it to take place in Q3 2027. We invite expressions of interest by 13 November 2026 and will confirm by the end of 2026 whether it will proceed. There are more details in Chapter 3.

Please submit your expressions of interest to: PureProtectionMS@fca.org.uk

Chapter 2

Introduction

2.1 In March 2025, we launched a market study into the distribution of pure protection products to retail customers. We published the Interim Report in January 2026.

2.2 As explained in Chapter 1 of the Interim Report, we found that, for product holders, the distribution of pure protection works well in many respects. However, we identified a significant protection gap and a limited number of smaller issues. We committed to working with stakeholders on tackling the protection gap and finding proportionate solutions to the other issues identified.

2.3 Over 50 stakeholders across industry and consumer groups responded to the Interim Report. Stakeholders broadly supported our overall findings, while challenging some conclusions in specific areas.

2.4 We have engaged further with stakeholders, including via a workshop in March 2026, and additional analysis of market data and consumer outcomes. This work has strengthened our evidence base and informed our final position.

2.5 In this Final Report, we set out our final findings and outline a package of interventions.

2.6 These interventions seek to improve outcomes for consumers who do not currently hold protection by helping them consider and access suitable cover, while supporting good outcomes for consumers who already purchase protection products.

Chapter 3

Tackling the protection gap

3.1 58% of people don't hold any protection products. Some of these consumers may of course have decided that protection is not appropriate for their circumstances or priorities. But we also know that 59% of those without any protection products have never considered their protection needs.

3.2 Our analysis suggests the lack of protection is primarily driven by a combination of demand-side (consumer) factors, including low awareness, limited product understanding and behavioural biases, and supply-side (firm) factors, including friction in consumer journeys, underwriting complexity and limited availability of products suitable for consumers with more complex needs. While we found limited evidence that regulation is a major driver of the protection gap, some firms identified perceived regulatory barriers that may discourage innovation.

3.3 These barriers can leave consumers and their families financially vulnerable when unexpected life events occur, increasing the risk of financial hardship and reducing financial resilience.

3.4 Evidence from our consumer research and stakeholder engagement suggests that renters, self-employed and gig economy workers, lower-income consumers and consumers with pre-existing medical conditions are more likely to be affected.

3.5 Our remedies package is targeted at addressing these underlying drivers and combines FCA-led, industry-led and wider stakeholder-led initiatives. Consumer prompts, awareness initiatives and adviser engagement seek to address demand-side weakness. Innovation initiatives, action to improve access to medical records and regulatory clarification seek to address supply-side barriers.

3.6 We will incorporate how we improve consumers' claims experience within the protection gap remedies, by including information on tools such as trusts and nominated beneficiaries within the consumer-facing prompts, awareness and adviser engagement initiatives. We also highlight the relevance of our existing rules.

Demand-side remedies

We will encourage consumers to consider their protection needs through targeted prompts, improved adviser confidence and consumer awareness campaigns

3.7 Many consumers do not actively consider protection unless prompted at a relevant moment. Low awareness, limited understanding and reluctance to think about adverse life events all contribute to this, while prompts are often limited to milestones such as taking out a mortgage. To encourage more consumers to assess their needs, we will work with stakeholders to introduce prompts at relevant life events and financial touchpoints, where behavioural evidence suggests they are likely to be most effective.

Public sector initiatives

3.8 Several public sector partners have agreed to introduce protection prompts:

- **Money and Pensions Service (MaPS)** has agreed to expand the protection information available on its MoneyHelper website. This work is already underway, with updates made to Death & Bereavement guidance – "How to get your finances in order before you die" and Renting guidance – "Tenant responsibilities – your obligations when renting" . Further enhancements are planned for MoneyHelper Savings guidance later this year. MaPS will then continue to give consideration to where and how protection and insurance signposts can be appropriately positioned across MoneyHelper. This will give consumers a neutral source of information on protection, when it may be relevant, and where they can seek further support. In addition, as part of the forthcoming refresh of the UK Strategy for Financial Wellbeing, which MaPS has a statutory duty to co-ordinate, MaPS is considering how protection can be more explicitly reflected within the strategy and its associated activities.
- **The Digital Property Market Steering Group (DPMSG)** have agreed to include protection information within its Digital Property Information Protocol (for England and Wales). This Protocol supports the outcomes set out in the Government's Home buying and selling reform roadmap. The website features a digital end-to-end property buying and selling process, explains the roles and responsibilities of each profession and identifies data requirements each sector needs at every stage. The website features a buyer-facing 'Finance and Protection' page outlining relevant financial products such as mortgages, buildings insurance, contents insurance and pure protection. This will help prompt consumers to consider protection as part of the home-buying process, by signposting its role alongside other financial commitments and decisions.

3.9 Following publication of this report, we will continue to explore with public sector, government and charity partners how protection prompts could be delivered at key life events and financial touchpoints. This may include opportunities to reach consumers when they become a parent or guardian, become self-employed, submit tax returns, experience a change in their health or family situation, or face other significant life or financial events. We will keep our market study webpage updated with developments and any significant progress arising from this work.

3.10 We anticipate that the majority of this work will be completed within the next 12 months. We will provide policy and behavioural economics expertise as well as monitor effectiveness, working with participating organisations to assess reach and engagement with the prompts and reviewing data on whether consumers subsequently seek information or advice about protection. We also encourage distributors to collect and share data on where consumers were first prompted so we can monitor prompt effectiveness.

Trade association initiatives

3.11 Trade associations have committed to leading a number of initiatives to strengthen adviser engagement and improve consumer awareness.

3.12 **The Association of Mortgage Intermediaries (AMI)** will lead a cross-industry initiative to strengthen adviser engagement with protection. Given AMI's engagement across the mortgage and insurance intermediary market, and insight from its annual Viewpoint research into adviser and consumer attitudes, it has an appropriate platform to coordinate practical support for advisers. AMI will help shape a consistent industry approach that supports advisers in understanding, discussing and recommending protection solutions more effectively. This includes improving awareness of the value and relevance of protection products, increasing adviser confidence in discussing protection with clients and encouraging more frequent and consistent protection conversations throughout the advice journey and at key life stages, particularly for underserved groups. Outputs will be developed with input from stakeholders across the market and designed for different intermediary models.

3.13 Stakeholders across the protection market should engage actively with and support AMI in delivering this initiative.

3.14 We have asked the **Protection Distributors Group (PDG)** to lead the market's key stakeholders in developing a market-wide initiative aimed at addressing weak consumer engagement with and understanding of protection, a central market issue identified in our study.

3.15 We expect the market to work together with the PDG to develop a sustained programme of work rather than a one-off marketing campaign, with its future development informed by evidence of consumer engagement, understanding and outcomes. It should seek to engage all relevant consumer segments, with particular focus on groups that are under-engaged by existing market routes, including renters, the self-employed and gig-economy workers. Its purpose should be to enable consumers to better reduce their financial vulnerability.

3.16 Robust governance will be essential. PDG intends to establish arrangements including an executive group to develop and deliver the programme and an oversight board to provide strategic direction, accountability and challenge. Both groups will be selected from across the industry. We consider this a sensible approach, which will give the initiative the legitimacy, accountability and decision-making capability needed to move from industry support in principle to sustained delivery in practice.

3.17 Market participants and other relevant stakeholders should engage constructively with the initiative, provide appropriate resource, financial support and active and collaborative participation. Funding arrangements should be agreed as an early priority and should be equitable, proportionate and sufficient to support the professional development, launch, governance, measurement and sustained delivery of an effective engagement programme. We expect relevant firms and industry bodies to participate in and work through the governance structure that PDG will establish, and to agree those arrangements at pace.

3.18 Senior FCA colleagues will participate in the governance arrangements in an appropriate capacity, including through named Director-level sponsorship. This participation will provide strategic challenge and help ensure alignment with the broader aims of the protection gap remedies package, while responsibility for delivery remains with industry.

3.19 Where necessary, we will use our convening role to engage directly with relevant stakeholders to encourage the participation and funding commitment needed to support effective delivery, and to provide challenge where issues may affect the intended outcomes of the initiative.

3.20 The PDG intends to take this work forward in phases, beginning with governance, delivery approach and funding principles. It will shortly provide an update on its website, setting out its approach, expected next steps and how stakeholders can engage with the initiative.

3.21 To be effective, the AMI and PDG-led initiatives should work alongside and support existing industry and stakeholder activity. Stakeholders should seek to coordinate efforts and share learning to maximise impact.

3.22 These initiatives must be designed and delivered in a way consistent with competition law. They should also have clear success measures and monitoring arrangements, enabling progress and outcomes to be assessed in a proportionate and transparent way.

3.23 We have agreed that work will begin on these initiatives this year, with progress delivered within the next 12 to 18 months. We will focus on providing policy expertise, supporting effective engagement and monitoring progress.

Supply-side remedies

We will tackle consumer journey friction by promoting innovation and supporting industry action to improve access

3.24 Some consumers who engage with protection still face barriers to buying suitable cover, including complex underwriting, delays in medical evidence, unclear communications and limited product availability. These issues particularly affect consumers with pre-existing medical conditions and self-employed or gig economy workers. Our remedies will combine FCA-led innovation tools with industry and wider stakeholder-led initiatives to reduce avoidable drop-offs and improve access.

Innovation tools

3.25 We propose to run a TechSprint to test technology and data-led solutions to friction in the consumer journey, subject to sufficient engagement from firms and other stakeholders. TechSprints bring together firms and stakeholders to work on defined market challenges and develop solutions, typically as prototypes or proofs of concept.

3.26 We will define the problem statements, convene participants and support delivery. The programme will follow a structured format, including an initial bootcamp, a solution development phase and a final Demo Day where outputs are presented and assessed for further development and potential scaling.

3.27 The TechSprint is likely to focus on:

- consumer awareness and understanding, particularly for those with low financial literacy or characteristics of vulnerability
- application and underwriting journeys, particularly for those with pre-existing medical conditions
- product design and access, particularly for self-employed consumers, gig economy workers or non-standard risk profiles

3.28 We invite expressions of interest from firms and other stakeholders who would like to participate and help shape the problem statements. Submit your expressions of interest to PureProtectionMS@fca.org.uk by 13 November.

3.29 Our next steps are:

- By the end of 2026 we will assess the interest from stakeholders and determine whether there is enough to proceed with the TechSprint.
- If we proceed, we will work with participants and other stakeholders to refine the problem statements and ensure they focus on the most significant barriers to improving access to and engagement with protection. We will also identify the data required to test potential solutions and engage with stakeholders on data availability and sharing arrangements.
- Subject to sufficient interest, we anticipate launching the TechSprint in Q3 2027.
- If there is insufficient interest, we will not launch the programme. Instead, we will focus on industry-led initiatives and continue to monitor their impact on consumer outcomes, keeping under review whether further intervention or other measures may be warranted.

3.30 In the meantime, we also encourage firms to make use of the FCA's Digital and Supercharged Sandboxes.

- The Digital Sandbox is available on an ongoing basis and supports firms developing and testing technology-enabled propositions across financial services. It provides access to a secure testing environment, datasets, Application Programme Interfaces (APIs), mentoring and opportunities to engage with the wider sandbox community.
- The Supercharged Sandbox builds on the Digital Sandbox but is more targeted. It operates through time-limited cohorts and is designed for firms with clear use cases that would benefit from enhanced support for artificial intelligence (AI) experimentation, including access to computing resources, tooling, data and structured engagement.

3.31 Both services may be relevant to firms exploring ways to reduce friction in the consumer journey and improve access to protection products. The Supercharged Sandbox's most recent cohort closed for applications on 1 June 2026, but firms can apply to the Digital Sandbox at any time by creating a profile and submitting an online application. Applications are assessed against published eligibility criteria, and successful applicants are admitted onto the platform.

3.32 For firms that have specific data requirements, we will seek to understand these as part of the application and onboarding process. While access to particular datasets cannot be guaranteed, we will work with firms to identify data sources or other practical ways to support their testing objectives.

Industry-led initiatives

3.33 Delays in obtaining relevant medical information can be a significant friction in underwriting and claims journeys, particularly for consumers with pre-existing medical conditions. Industry, including the **Association of British Insurers (ABI)**, has previously sought to address these challenges. However, this remains a complex area, and our study has highlighted that many consumers continue to experience delays, underlining the need for renewed momentum and active regulatory engagement.

3.34 To support the ABI's continued work on this, the FCA will seek to bring together a range of relevant stakeholders for a roundtable – insurers, government, regulators, health representatives, consumer representatives and other stakeholders – to consider:

- the impact of delayed access to relevant medical information on consumers being able to access the cover they need and their experience of making claims, and
- identify potential solutions for the ABI and other relevant stakeholders to investigate further

3.35 We plan to hold the roundtable in Q1 2027, with progress delivered within the next 12 to 18 months.

3.36 As described above, we expect this initiative to complement existing activity, participating firms must comply with competition law, and the initiative should have clear objectives and success measures.

3.37 **Fair4All Finance** is leading coordinated industry action, as part of the Government's Financial Inclusion Strategy, to improve access to income protection for people on variable or precarious incomes. This is particularly relevant to self-employed and gig-economy workers, who may not benefit from employer-provided protection and may have variable incomes that do not fit standard product design.

3.38 The commitment brings together organisations including the ABI, the British Insurance Brokers' Association (BIBA), the Investment & Life Assurance Group (ILAG), the Income Protection Taskforce (IPTF), the Association of Financial Mutuals (AFM) and Insurtech UK. These stakeholders will support a research programme seeking to understand the protection needs of people on precarious incomes, review what has and has not worked in previous initiatives, assess current market offerings, improve awareness of existing products, and learn from international practice to inform UK solutions.

3.39 The final report on key findings and agreed industry actions is expected in Q1 2027, with practical pilot solutions expected to follow later in 2027. We will support this work by providing policy input and sharing insights from the market study.

3.40 This work may also help inform our proposed TechSprint on reducing consumer journey frictions. In particular, any recommendations relating to the development of new or adapted income/expenditure protection propositions for consumers with variable or precarious incomes could provide practical use cases for Sprint participants to develop and test. Participants may wish to use the TechSprint to explore how technology, data and innovative product design and underwriting could support the delivery of these propositions.

3.41 We also understand that Fair4All Finance may make innovation funding available to support implementation of its recommendations, which could help enable participation in the TechSprint and the development of potential solutions.

We will provide greater regulatory clarity to help firms innovate and distribute suitable products with confidence

3.42 We found limited evidence that our rules directly prevent innovation, but some firms may interpret the framework cautiously, creating uncertainty about how to discuss protection alongside other products, compare options or recommend products where the best outcome is not simply the lowest price.

3.43 We will therefore run a myth-busting webinar in Q1 2027 to clarify regulatory expectations, reduce unnecessary compliance caution and give firms greater confidence to distribute suitable products, raise protection and innovate while supporting good consumer outcomes.

3.44 In addition to the webinar, we are using this report to highlight how expectations under the Duty apply to the drivers of the protection gap, primarily in relation to:

- prompts
- signposting
- meeting consumers' information needs

We remind firms of the expectations of the Consumer Duty

Consumer Duty expectations in relation to prompts

3.45 Under the Duty, firms must ensure consumers are given the information they need to make effective, timely and properly-informed decisions. When consumers take out a mortgage, advisors or brokers should ensure they understand the product. That includes the associated risks (for example, failure to keep up with repayments resulting in accumulating arrears or repossession of a home) and how to mitigate them.

3.46 During our discussions with stakeholders, we've learned that some advisors prompt customers to think about their protection needs when purchasing related products such as mortgages. We are encouraged by these practices, particularly where:

- An advisor makes customers aware of any risks associated with their products (such as the implications of failing to continue to meet mortgage commitments) and prompts the customer to consider how these risks may increase as a result of unexpected circumstances such as illness, death or other income loss and could be mitigated by protection cover.
- An advisor can reasonably see that if a customer is relying on current earnings that may be unstable and suggests that their lack of protection is making them less financially resilient.
- An advisor learns of a change in a customer's circumstances related to life events such as marriage or becoming a parent/guardian and considers whether the products they currently hold still meet their needs.

3.47 Firms may wish to consider these insights to assess how they meet their obligations under the Duty.

Consumer Duty expectations in relation to signposting

3.48 We have found that some consumers struggle to access protection products as a result of complex needs or requirements that traditional protection products cannot meet.

3.49 FG22/5 makes clear that where a firm declines to provide a customer with a particular product or service, it should still consider whether there is information or support it could provide to help the customer pursue their financial objectives.

3.50 Travel insurance firms are required to signpost customers with pre-existing medical conditions to a directory of specialist insurers in certain circumstances. This is consistent with our expectations under the Duty, as firms signpost declined customers to a reliable source of information that can help them to achieve their financial objectives. Pure protection intermediaries and insurers should consider a similar approach when they decline customers.

3.51 BIBA and the ABI have launched a voluntary industry-wide Total Signposting Commitment. It aims to make it easier for retail customers to find suitable insurance, and improve financial resilience, using BIBA's find insurance service. Firms may wish to consider signing up to the Commitment and directing customers to BIBA's services. Likewise, firms could signpost to other sources of information such as the MaPS MoneyHelper website.

Consumer Duty expectations in relation to meeting consumer's information needs

3.52 We have found that some consumers may have considered their protection needs but not purchased protection, because, for example, they may not understand the products or find them too complex.

3.53 We remind firms of their obligations under the Duty, particularly in relation to consumer understanding. Customers should have the information they need, at the right time and presented in a way they can understand.

3.54 In particular:

- Communications should be understandable by the intended recipients and enable them to evaluate their options relative to their needs and financial objectives.
- Firms should ensure that key information is clear, visible and accessible – not hidden within a large volume of material, or hard to find on a website.
- Effective communications will present information logically, avoiding jargon or technical terms where possible.
- Firms should test communications, checking that customers can understand it and that it will help them make effective decisions and access any additional information or support.

3.55 Under the Duty, firms should contact customers at suitable points during the life of a product. A customer's circumstances can change and firms should keep this in mind and contact them at the right time, prompting them to see if a product still meets their needs.

3.56 We also encourage firms to review the FCA's recent report on consumer understanding: good practice and areas for improvement. This report outlines good practices and steps firms may wish to consider when assessing how they comply with their obligations under the Duty.

Remedies we are not taking forward at this stage

3.57 We are not taking forward more interventionist remedies, such as mandated protection discussions or auto-enrolment, at this stage because they would be disproportionate and could encourage a tick-box approach.

We are not progressing targeted support at this stage

3.58 In the Interim Report, we explored whether targeted support could play a role in narrowing the protection gap. Targeted support is a new regulatory framework that allows firms to provide suggestions designed for groups of consumers with common characteristics to help them make important decisions across their pensions and investments.

3.59 However, we currently consider that extending targeted support to pure protection would not be proportionate to addressing the protection gap. The evidence suggests the main challenge is that many consumers do not engage with or recognise their potential need for protection, rather than a lack of support once they are engaged.

3.60 Additional factors reinforce this conclusion. Targeted support was developed for pensions and investments, which have different regulatory frameworks and market dynamics, limiting how far evidence from those markets applies to pure protection. Consultation feedback also suggested targeted support may not be commercially viable for all firms, limiting its uptake and impact on the protection gap.

3.61 We also recognise that targeted support is a new regime. As it develops, and as we evaluate the wider package of protection gap remedies, we may reconsider whether there is a role for targeted support in the protection market.

Improving consumers' claims experience

3.62 In the Interim Report, we said we wanted to explore how to encourage the take-up of preparatory tools that can improve claims experience. These tools can bring benefits for many consumers, particularly in preventing delays, uncertainty, and unintended outcomes.

The use of preparatory tools can benefit consumers as it can lead to claims being paid out quicker

3.63 Many firms offer preparatory tools, such as trusts and beneficiary nominations, at the point of sale. However, these are promoted inconsistently, and consumers may not understand their importance, contributing to a 'beneficiary gap'– the percentage of policies that are not placed in trust or set up without named beneficiary nominations.

3.64 Despite this, there are low levels of complaints, and claims acceptance rates remain high relative to other insurance markets.

We will use our existing rules and the protection gap remedy package to support consumers' claims experience

3.65 We want to increase the offering and take-up of preparatory tools to better support customers if or when a claim is eventually made. We want consumers to better understand these and feel empowered to make decisions based on what suits their needs. This could be at the point of sale or other stages of the consumer journey.

Our expectations under existing rules

3.66 Under the Duty, we expect firms to deliver good outcomes, for example by meeting consumers' information needs for the product and by providing support that mitigates foreseeable harm across the policy lifecycle. This includes ensuring that they do not create avoidable barriers to good outcomes at the point of claim.

3.67 We have seen examples of firms taking steps to improve customer understanding and take-up of these preparatory tools both at the point of sale and later along the customer journey. These include:

- Several insurers routinely prompt customers, at application or onboarding, to consider how benefits would be paid on death and whether additional steps are needed to ensure payouts are delivered smoothly and as intended.
- Several insurers let customers place policies in trust, or consider doing so, as a part of their product offering. Some firms have introduced beneficiary nomination mechanisms to reduce delays and complexity at claim stage, particularly where customers do not wish to use trusts.
- Some insurance intermediary firms train advisers on the role of trusts and beneficiary nominations in good claims outcomes. This includes supporting advisers to help customers understand the implications of their policy and tools to reduce foreseeable friction at claim stage.
- Signposting customers to services relevant to their circumstances. For example, we have seen firms form partnerships that focus on offering these preparatory tools as a service to help streamline support for customers' financial planning.
- Using innovative technology to embed these preparatory tools into the digital sales journey could improve customer take-up. For example, some firms embed beneficiary nomination directly into the online application journey.

3.68 We expect that these behaviours will improve adviser understanding and are practices we are encouraged by. We want firms to consider how they can offer a more integrated insurer-intermediary journey. This could include ensuring firms are more joined-up on who raises claims experience options, when these conversations occur, and how customers are supported.

We will use our protection gap remedies to help tackle the issue of claims experience

3.69 We will use our protection gap remedies to reinforce our expectations under existing rules. Both issues involve consumers being unable to make and act on decisions due to low levels of awareness, limited understanding, behavioural friction and weak or inconsistent prompts at key points in the journey. Addressing these issues involves improving advisers' capability and confidence. As such, we have incorporated how we address the issue of claims experience within the protection gap remedy package. In particular:

- **MaPS** – as part of its expanded protection content on the MoneyHelper website, it intends to include information on preparatory steps that can help ensure protection products deliver their intended benefits. This will include information on arrangements such as placing policies in trust and nominating beneficiaries.

- **PDG-led awareness campaign** – the campaign will also help consumers understand the role preparatory tools, such as trusts and nominated beneficiaries, can play in ensuring protection benefits reach the intended recipients quickly and effectively. By improving awareness of these options and encouraging their adoption where appropriate, the initiative could help improve consumer outcomes and reduce the risk that policy benefits do not reach those they were intended to support.
- **AMI-led cross industry initiative** – will also consider the relevance of preparatory tools with the aim of supporting advisers in raising these topics where appropriate, including at key life events and review points. This may also involve engaging with insurers to explore potential opportunities to simplify consumer journeys and processes, where this could help customers make more informed use of these tools.

3.70 This will combine efforts to support the broader objective of improving trust, engagement and outcomes across the protection journey.

Monitoring outcomes from the protection gap and claims experience remedies

3.71 We will review progress through 2027 and beyond, using Financial Lives Survey data, sales data, supervisory activity and engagement with industry-led initiatives to monitor whether consumer awareness, engagement and access improve. We will also monitor indicators relevant to claims experience, including the take-up of preparatory tools and changes in awareness.

3.72 If outcomes do not improve, or industry-led work does not progress sufficiently, we will consider further intervention. In addition, we will monitor outcomes through our ongoing supervisory activity and market data to ensure that any increased take-up of pure protection sales does not reflect poor sales practices.

Chapter 4

Improving price and quality outcomes

4.1 The feedback we received to our Interim Report and our response to it is summarised in Annex 1.

4.2 In this Chapter, we address a small number of issues that we consider merit more detailed discussion based on the feedback we received to our Interim Report. These are: pricing and commissions (including so called 'loaded premiums'), restricted panels, guaranteed acceptance over 50s policies, unnecessary switching, and the value of income protection.

4.3 This Chapter should be read alongside the Interim Report, which contains the detailed analysis, evidence and conclusions on which our responses are based.

Pricing and commissions

4.4 Setting premiums is complex. Distributor commissions are generally negotiated on a bilateral basis and vary across intermediaries and insurers. Commissions are one of many factors affecting premiums and there is no standard premium across distribution channels.

4.5 We tested if loaded premiums (generally known as arrangements where an insurer funds additional intermediary commission by increasing the customer premium) are in fact associated with higher premiums by comparing policies with loaded premiums and non-loaded premiums.

4.6 We concluded that, at current levels, loaded premiums are not leading to poor pricing outcomes for consumers. However, we also emphasised that all firms must be able to demonstrate how their product provides fair value to customers in the target market as required under PROD 4.

4.7 While some stakeholders agreed with our assessment of loaded premiums, others challenged our findings and recommended increased disclosure requirements. We considered this feedback along with our evidence and undertook further analysis and stakeholder engagement.

4.8 Our conclusions remain unchanged. Based on our assessment of how premiums and commissions are set, and current pricing outcomes, we do not think that any market-wide intervention is necessary.

4.9 In this section, we clarify our assessment and address the main challenges raised in response to our Interim Report. Annex 2 outlines positive examples of firms' practices and areas for improvement in demonstrating the fair value of commissions and distribution arrangements.

Premium setting and commission negotiations are complex; commission negotiations affect prices even where premiums are not explicitly loaded

4.10 Premiums are affected by underwriting risk, claims costs, reinsurance, expenses, commission, distribution strategy and other commercial factors. The result is a wide range of price points, even for the same product and insurer, across intermediaries.

Commission negotiations result in a range of commission levels and structures, which always affect premiums

4.11 Commission structures and rates are negotiated between insurers and intermediaries. For insurers, commissions are a cost and, as such, they are factored into their premium setting decisions.

4.12 Insurers typically offer intermediaries terms that specify both the premium for the customer and the commission payable to the intermediary. These terms may be standardised initially (ie as an opening 'offer') and may not be negotiable for smaller intermediaries. However, many intermediaries can usually negotiate commission levels when a relationship is established, or at periodic reviews.

4.13 Intermediaries' bargaining power tends to increase with their sales volumes and may also be influenced by the quality of the business they introduce, including metrics such as early and overall lapse rates, mortality and morbidity rates. While insurers generally use multiple intermediaries and are therefore not dependent on any single distribution partner, it may be more difficult for them to walk away from larger intermediaries, or from several intermediaries seeking higher commission. Qualitative evidence also indicates that commission levels may reflect differences in the costs and complexity of selling particular products.

4.14 The range of potential outcomes from commission negotiations is reflected in the variety of terminology used across the industry. Firms generally use the term 'loaded premiums' when part of the commission is explicitly added to the premium. Some firms distinguished between 'enhanced' commissions and 'loaded premiums', where the former is higher than standard commission but not explicitly added to the premium.

4.15 However, the distinction is not straightforward. Even in the case of enhanced commissions, insurers have discretion over how much of the higher commissions they absorb, and the additional cost will be reflected, at least in part, in the premiums consumers are offered. We've seen examples where an increase in commission is fully passed onto the customer by raising the premium. Despite the outcome being equivalent to a loaded premium, if the loading is implicit the intermediary may not label it as such.

4.16 Some insurers refer to 'differential pricing', where the premium charged to the customer reflects a range of factors, including commission, customer experience, risk costs and expenses. Under that terminology, it becomes clear that commission impacts the final premium, even when there is no explicitly identified loading.

4.17 Higher premiums can therefore arise through different mechanisms, including: an explicit premium loading, an implicit loading, where commission negotiations result in higher premiums even if this is not separately identified, or cross-subsidisation between consumers, products or distribution channels.

Differences in commission are not the only driver of premium variation between intermediaries, so there is no 'standard' premium on to which commission is added

4.18 Intermediaries operate different business models and may attract consumers with different risk, lapsing probability or profitability profiles, which can affect insurers' expected costs and income. For example, qualitative evidence gathered during our market study indicates that customers introduced by mortgage advisers tend to have lower early lapse rates than those acquired through protection specialist contact centres. Premiums tend to reflect these differences. Therefore, there is no 'standard' premium onto which an agreed level or rate of commission is added.

Market-wide and like-for-like comparisons did not show consistently higher prices from loaded premiums at current levels

4.19 We have compared commission rates and annual premiums for policies with loaded and non-loaded premiums, first at a market level for each product type and then comparing like-for-like policies (in terms of customer characteristics). The analysis is reported in paragraphs 5.37-5.45 of the Interim Report and in more detail in paragraphs 4.43-4.57 of Annex 1 to the Interim Report.

4.20 We used policy-level data on real transactions collected from 11 insurers – all the policies they sold, both directly and through intermediaries, in 2024. The sample included the biggest insurers, mutuals and some smaller insurers with different business models. Using different sources (such as our Product Sales Data, the Association of British Insurers' data, PRA's Solvency II and Mintel data), we estimate that our dataset covered 75% to 95% of all policies sold in the UK in that period, depending on the specific product. Insurers identified policies with loaded premiums within their data: while their definition was consistent with how the term is used across the industry, there might be variations in reporting.

4.21 At the market level, we found that the distribution of annual premiums was similar between the loaded and non-loaded policies, with both showing a wide range of annual premium values. While we found that policies with loaded premiums can be more expensive for middle-priced products, there are almost always more expensive non-loaded products available.

4.22 That market-level analysis tests whether loaded policies are generally associated with higher prices. It does not control for differences in coverage or quality, so similar prices may reflect customers accepting lower coverage or quality. It also does not show whether the same policy would have been cheaper without a loaded premium. We addressed these limitations by also including a like-for-like analysis, described in paragraphs 4.51-4.54 of Annex 1 to our Interim Report.

4.23 This like-for-like analysis assessed how loaded premiums affected the premiums customers paid. It compared policies with the same product type, product name, acceptance basis, health status, cover type, level of cover and age band. We carried out these comparisons for all combinations of these characteristics where a sufficient number of loaded and non-loaded policies were available in our dataset. Once these factors were accounted for, we found that the distribution of loaded and non-loaded premiums was similar.

4.24 In isolation, a loaded premium might, therefore, be expected to be higher than a non-loaded premium. But **our empirical analysis demonstrates that, at current levels, loaded premiums do not on average result in higher premiums for customers**.

4.25 These results are consistent with commissions influencing prices through both explicit and implicit mechanisms. Loaded premiums are one possible commission structure, but the evidence does not indicate they currently result in systematically worse outcomes for consumers. Conversely, our findings do not rule out that there might be cases where specific premiums and commissions, including loaded premiums, fail to provide fair value.

Commission arrangements can deliver fair value regardless of their structure, but firms need to demonstrate it

4.26 The findings above provide insights on the link between certain commission structures and prices paid by consumers. Although we have not identified market-wide concerns, there may still be cases where individual commission arrangements, including loaded premiums, or policies do not offer fair value.

4.27 Price differences across sales channels or intermediaries may be inconsistent with PROD 4 where they are not justified. However, even customers with the same observable characteristics may differ in ways that affect the cost of serving them. These differences could include the time and effort needed to complete the sale, or underlying lapse, mortality or morbidity risk. Such factors may also vary by sales channel or intermediary. In addition, the cost of reaching otherwise identical customers can differ across channels.

4.28 Under PROD 4, firms should consider the relationship between the overall price the customer paid and the quality of the product and/or services, including the impact of distribution arrangements and remuneration. This applies to loaded premiums and other commission arrangements.

4.29 **Firms should consider the impact of commission arrangements on the overall price, and how these support the intended value of the product**, rather than focusing on the structure or label of the remuneration arrangement.

We do not currently see a need for market-wide interventions on commission structures, including loaded premiums

4.30 Given our conclusion on pricing outcomes, including loaded premiums, remains unchanged, we continue to believe that market-wide intervention is not required.

4.31 Some stakeholders called for loaded premiums to be banned or suggested additional disclosure requirements. We don't think these are necessary or proportionate, as our findings don't show a market-wide issue and our rules already require firms to show that distribution arrangements provide fair value and to ensure that the information they disclose to customers is clear and enables them to make effective decisions.

4.32 Based on our findings on how commissions and premiums are set, these proposals would also be unlikely to improve consumer outcomes.

- A ban on loaded premiums would prohibit one remuneration structure while allowing other arrangements that could lead to similar outcomes.
- Requiring intermediaries to disclose the amount of any premium loading is unlikely to be informative because the amount of loading is only part of the total premium and is not a reliable indicator of value. It might also make the consumer journey more complex and information heavy.

Restricted panels

4.33 In our Interim Report, we reported that many intermediaries use 'panels' of insurers, which can be 'whole-of-market', which aim to provide comprehensive coverage of insurers in the market, or 'restricted', which include a subset of insurers and products. We found that commission rates associated with restricted panels were, on average, higher than under whole-of-market arrangements. However, premium levels were broadly similar across both distribution models. We concluded that, on average, restricted panels are not currently leading to worse pricing outcomes for consumers, although we noted the potential risks to competition and access for smaller insurers.

4.34 We received mixed feedback on restricted panels, see Annex 1 for further detail.

Restricted panels can create risks, but evidence does not show that current practices lead to higher premiums, increased barriers to entry or less choice for consumers

4.35 Some respondents raised price-related concerns about restricted panels. They suggested restricted panels may lead to higher premiums where intermediaries can negotiate higher commissions. Others argued that restricted panels may create barriers to entry or expansion, particularly for mutuals and smaller insurers, and may limit consumer choice even where they do not increase prices.

4.36 Our analysis of premiums associated with restricted panels used the same dataset and methodology as the analysis of loaded premiums. We compared policies sold through whole-of-market and restricted panels, at the market level and for like-for-like policies, based on combinations of product and customer characteristics. We found that premium values are broadly similar between the two distribution arrangements. A negotiated distribution arrangement does not necessarily mean consumers pay more than they would through other channels. Nor does it mean customers are not receiving fair value. However, firms must be able to demonstrate clearly how the distribution arrangement supports the intended value of the product.

4.37 We also recognised that restricted panels could, in principle, make it harder for smaller insurers and mutuals to compete if they limit access to intermediated distribution, also limiting consumer choice. This risk is plausible, particularly where panel access depends on commercial terms that smaller-scale insurers may find harder to meet. However, we consider that, based on current practices, the risk of consumer harm is low.

4.38 Intermediaries have incentives to maintain panels that meet a broad range of consumer needs. Many intermediaries using restricted panels told us that smaller, niche or innovative insurers form part of their panel strategy because this helps them serve consumers more effectively. Although our data does not fully capture panel composition, there isn't any evidence that outcomes are substantially different between restricted and whole-of-market panels.

4.39 Overall, our view on restricted panels remains the same as in the Interim Report: currently, the practice isn't harmful at the market level. This reflects current levels of the practice; if panel criteria were to become more restrictive, the risk of reduced competition is likely to increase.

4.40 We remind firms that under PROD 4 they must be able to demonstrate that, depending on their particular role, the product delivers fair value and that any distribution arrangements are consistent with the aim of providing fair value. Products also need to be compatible with the target market including customers' needs, characteristics and objectives.

Guaranteed acceptance over 50s

4.41 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 stakeholders raised points about 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.

4.42 We also noted that these products particularly serve those consumers who may not be able to, or choose not to, access underwritten insurance, such as social renters, low-income households and those with characteristics of vulnerability. We 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.

4.43 Feedback to our Interim Report highlighted that although market-level metrics for guaranteed acceptance over 50s products, such as claim ratios, may appear in line with other pure protection products, some consumers might still suffer harm. In particular, some 'healthy lives' customers within the identified target markets may be better off purchasing an underwritten product. Separately, respondents compared the value offered by guaranteed acceptance over 50s products with that of funeral plans. Some also suggested that the profitability of guaranteed acceptance over 50s products is driven by customer lapses.

4.44 In this section we address the feedback provided regarding guaranteed acceptance over 50s products. Annex 2 outlines positive examples of firms' practices and areas for improvement in assessing target market value for these products.

Value of guaranteed acceptance over 50s policies to healthy lives customers

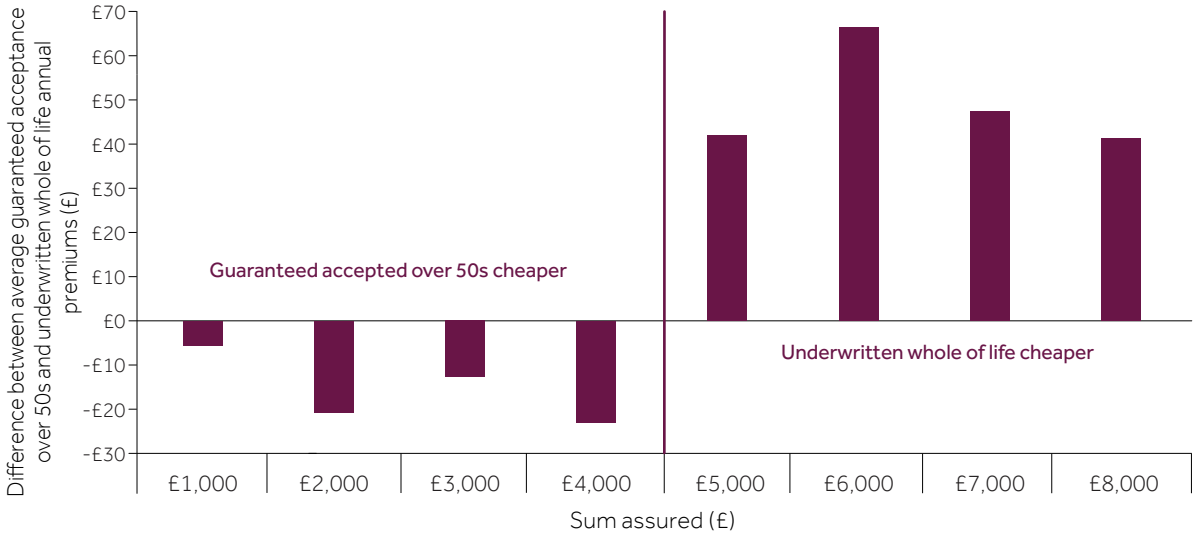
4.45 To assess the extent of potential harm to healthy lives customers in the target market, we conducted further analysis to assess guaranteed acceptance over 50s policies against comparable underwritten whole of life polices.

4.46 We compared these products because both are whole of life policies that provide a guaranteed payout upon death, but differ in their underwriting requirements. Using our sample of insurers' policy-level data, our analysis focused on policies with similar levels of cover and underwritten whole of life policies that were taken by healthy lives customers of age 50 or above. This allows us to estimate the price difference a healthy life customer would face if they purchased an underwritten whole of life policy instead of a guaranteed acceptance over 50s policy.

4.47 Our analysis shows that there is a price gap: for some healthy lives customers, guaranteed acceptance over 50s policies can be more expensive than comparable underwritten whole of life policies. Across the sample, the average price difference is between 12% and 22%, equivalent to around £25.50 to £47.60 per year, depending on whether the comparison is based on mean or median premiums.

4.48 However, the average price gap does not apply evenly across all levels of cover. Figure 3 shows that the difference in premiums varies by the sum assured. At lower levels of cover, particularly below £4,000, guaranteed acceptance over 50s policies are, on average, up to around £23.00 per year cheaper than comparable underwritten whole of life policies. This likely reflects the absence of underwriting costs for guaranteed acceptance over 50s products. The overall average price difference should therefore be considered alongside the variation by sum assured.

Figure 3: Differences in average premiums between a guaranteed acceptance over 50s policy and an underwritten whole of life policy across sums assured



Source: FCA analysis based on data provided by our sample of insurers. For comparability, we restricted the sample to policies with coverage of £8,000 or less (90th percentile of the distribution of guaranteed acceptance over 50s policies in our sample) and underwritten whole of life policies that were taken by healthy lives customers at age 50 or above. Analysis presented on the basis of mean premium values. Negative values show instances where average premiums for underwritten whole of life are less exceed guaranteed acceptance over 50s, while positive values show instances where average premiums for underwritten whole of life and less than guaranteed acceptance over 50s.

4.49 Our consumer research shows that, compared to other pure protection products, guaranteed acceptance over 50s has the highest proportion of customers with a pre-existing medical condition, ie who would not be classified as healthy lives. While some customers may receive better financial value from an underwritten whole of life policy, customers may have other motivations for choosing a guaranteed acceptance over 50s policy over an underwritten alternative. For example, our consumer research found that 28% of respondents chose a guaranteed acceptance over 50s plan rather than an alternative because of the product's guaranteed acceptance.

4.50 We consider that guaranteed acceptance over 50s products have an important place in the market, as they are an easy-to-access and affordable option for certain consumers, including those who may be unable to, or choose not to, access underwritten pure protection products. This is particularly relevant in the context of the protection gap, as evidence suggests consumers with pre-existing health conditions may find the pure protection market less accessible, which can contribute to the gap.

4.51 Given the evidence that some customers may receive better financial value from an underwritten whole of life product, we consider it appropriate to confirm regulatory safeguards are in place to ensure suitable customers are identified in the product's target market, and they are getting the intended value of the product. We have therefore considered how firms are meeting their obligations under PROD 4, and have set out our observations from our review of fair value assessment submitted to us by firms. Please refer to Annex 2 for further details of positive examples and areas for improvement across target market definition, information sharing with distributors and monitoring of distribution arrangements.

Guaranteed over 50s products and funeral plans can provide fair value for customers in the target market with different preferences and objectives

4.52 Respondents made comparisons between the fair value provided to the target market by funeral plans, where customers may purchase guaranteed acceptance over 50s products policies to contribute to funeral costs. However, we consider that value comparisons between these products should account for differences in their designs and objectives.

4.53 Funeral plans are specifically designed to provide a pre-specified funeral package. Guaranteed acceptance over 50s products are designed to pay out a lump sum and are purchased to meet a wider range of financial objectives. Guaranteed acceptance over 50s products may therefore be purchased with the intention of covering the costs of a funeral, but the amount they pay out is fixed and is not guaranteed to cover the actual costs of a funeral. However, they may provide more flexibility than funeral plans.

4.54 Firms highlight in their fair value assessments and marketing that guaranteed acceptance over 50s products may be used, for example, as a cash gift to beneficiaries or for the purpose of settling debts. Similarly, additional wellbeing benefits offered as part of some guaranteed acceptance over 50s products may contribute to the overall value for some customers. Typically, funeral plans don't include these services.

4.55 There are also differences in how customers pay for these products. Funeral plans are also often set over shorter payment periods, commonly offering upfront payments and 12 to 24 months payment periods. Of the total funeral plan sales in 2025, 82% were sold as a single payment funeral plan. Guaranteed acceptance over 50s products may therefore be a more affordable option for some customers, as contributions can be spread over a longer period, although, as noted in our Interim Report, some customers may pay more in premiums than their sum assured. Our consumer research found that 25% of respondents decided to purchase a guaranteed acceptance over 50s plan as it was more affordable than other options.

Customer lapses and guaranteed acceptance over 50s product profitability

4.56 We recognise the relationship between the lapse rate of pure protection products and their profitability. However, our Interim Report findings show that long term lapse rates for guaranteed acceptance over 50s products are comparable to, or lower than, other pure protection products. While rates are elevated in early years (before year 3), insurers indicate that policies tend not to become profitable until around year 6, given the need to recoup acquisition-related costs. This does not point to concerns that lapses are driving the product's profitability.

Unnecessary switching

4.57 We found that there was a risk that commission structures drive poor outcomes by incentivising intermediaries to encourage consumers to switch to a new policy following the end of the clawback[1] or indemnity period. We define unnecessary switching as occurring when an intermediary encourages a customer to switch (in order to gain a commission) to a policy that does not better suit the consumer's needs or offers less value. This can harm consumers by leaving them with either the same coverage at higher prices, or less coverage.

4.58 We expect consumers in the target market to get fair value and suitable products when they purchase pure protection products. In many financial services markets, switching and the ability to switch helps improve consumer outcomes. Switching gives consumers an opportunity to seek out better value and incentivises providers to compete on price, quality or the service that they offer.

4.59 Pure protection policies are long term and individuals' risk profiles typically increase with age, making policies more expensive. However, consumers' circumstances can change and the opportunity to switch can still be important.

4.60 We would not expect to see 'unnecessary switching' driven by commission structures and arrangements where it leads to poorer consumer outcomes. We already work with industry to monitor lapses and switching rates through our ongoing supervisory work and engagement to identify and address potential risks.

4.61 In feedback to our Interim Report, stakeholders broadly agreed that not all switching is harmful, so we should be cautious when considering remedies. Further detail on the responses received is outlined in Annex 1.

We have found insufficient harm to justify market-wide intervention for unnecessary switching

4.62 Many stakeholders highlighted that the scale of harm arising from unnecessary switching is limited. They suggested that interventions may be better targeted at bad actors to ensure that the intervention is proportionate to the harm.

4.63 As described in the Interim Report, there were approximately 19,000 customers per year that may be affected by unnecessary switching, which represents roughly 0.1% of policyholders. Feedback received from industry stakeholders on the scale of harm was also mixed. We have deprioritised market-wide intervention to ensure that our approach is proportionate to the limited scale of harm we have identified.

4.64 We have considered the potential costs of implementing different interventions we suggested in our Interim Report. We have since discounted these because we are mindful of imposing requirements on the whole industry when a relatively small proportion of bad actors are engaging in unnecessary switching:

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 to the insurer.

- **Individual Reference Numbers (IRN):** We proposed requiring advisers to have IRNs to enable insurers to track who may be engaging in unnecessary switching at the adviser-level even when advisers move between firms. The costs of implementing this intervention industry-wide would not be proportionate given the relatively small number of policies affected by unnecessary switching.
- **Additional data reporting requirements for intermediaries and insurers to the FCA:** We sought input from industry on additional data reporting that would help track and monitor switching. Following further engagement with industry, implementing market-wide reporting is not proportionate to the scale of harm that we have identified. Furthermore, if reporting requirements are imposed on individual insurers, it is unlikely this will reveal unnecessary switching that occurs between different insurers.
- **Lead generators reporting by intermediaries to insurers and the FCA:** We proposed requiring intermediaries to report which lead generators they use, to identify any market-wide patterns. Implementation would be costly for distributors and intermediaries, and it's uncertain how effective this would be for remedying unnecessary switching driven by advisers.

We will continue to monitor outcomes from switching through our supervisory function

4.65 We will continue to monitor switching in the market through our supervision of insurers and intermediaries. We encourage the industry to continue sharing information with us about bad actors engaging in unnecessary switching so we can take action against these firms where appropriate.

Value of income protection

4.66 In our Interim Report we reported that, in 2024, income protection products had the lowest claims ratio and one of the highest projected margins across all pure protection products. Claims ratios are a commonly used metric across insurance products and can indicate value to customers, although they are not an all-encompassing measure. We presented our understanding of the reasons for income protection's position compared to other products and invited feedback from stakeholders. This included certain factors specific to income protection products, such as more complex underwriting and uncertain claim durations, are likely to explain these results. We found that income protection had the lowest rate of claims accepted across pure protection products at 86%.

4.67 We observed a trend of falling income protection premiums and some firms had told us that this continued in 2025. We therefore refreshed our assessment of claims ratios using updated projections for new business written in 2025 from a sample of insurers.

4.68 For the 2025 updated analysis, we collected similar data from a similar sample of insurers, so we could understand the value offered by income protection as well as benchmark it against other products (eg to help distinguish market-wide movements from product-specific changes). We also sought information from insurers on the product-specific factors that may contribute to differences in claims ratios and margins across products.

4.69 This section sets out the findings from our refreshed value assessment and addresses feedback on the claims acceptance rate for income protection products. See Annex 1 for further detail on the feedback received.

Claims ratios across all protection products declined between 2024 and 2025, varying by product type

4.70 Based on the 2025 data we received, income protection's claims ratio remains lower than other pure protection products. However, as we said in our Interim Report, there are a number of reasons that a lower proportion of projected premiums are attributed to claim payouts. Stakeholders agreed with this.

4.71 For example, claims management costs are higher for income protection, given monthly payouts and ongoing claim reassessments, compared to the lump sum payout and single assessment for other pure protection products.

4.72 Stakeholder feedback to our Interim Report also confirmed the role of rehabilitation services and other support services in income protection policies. These services can help policyholders return to work, which benefits customers, but may contribute to a lower claims ratio through fewer claims and shorter claim durations.

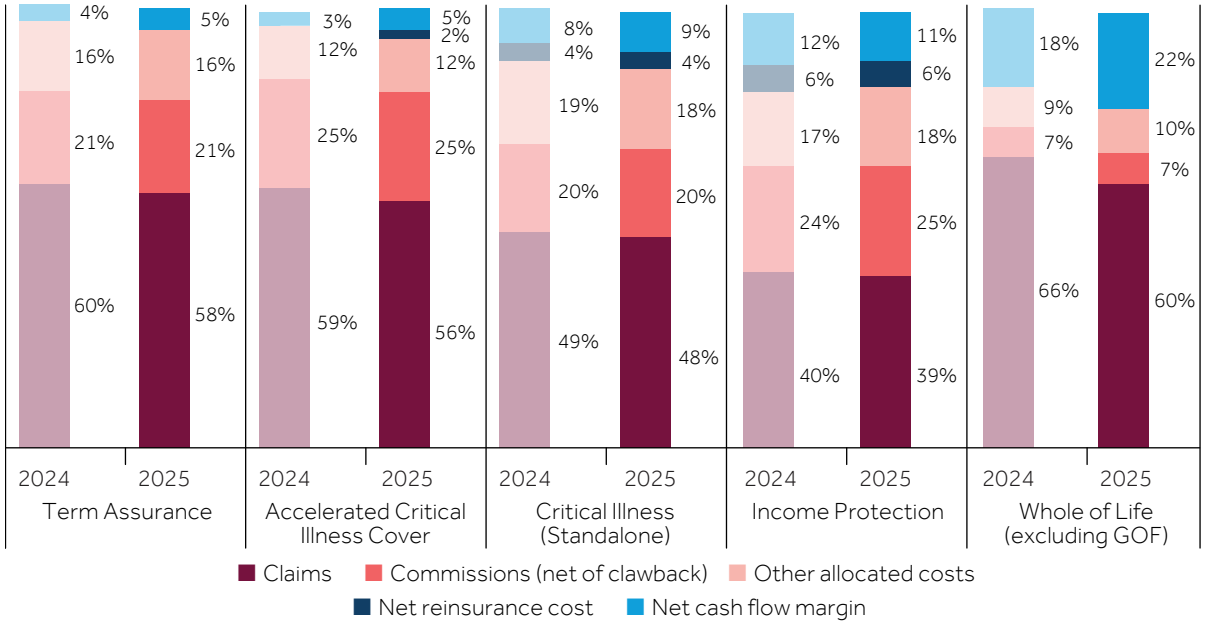
4.73 Figure 4 shows the distribution of present value projected premiums for new business written in 2024 and 2025.

4.74 We found that the claims ratios across all pure protection products declined between 2024 and 2025, indicating that across the market, firms expect a lower proportion of premiums to be paid out in claims to consumers.

4.75 We observe small reductions in the present value claims ratios between 2024 and 2025, varying between 1 percentage point for income protection and critical illness, and 6 percentage points for underwritten whole of life products.

4.76 As these are long-dated projections, they can be sensitive to small adjustments in modelling assumptions, such as reinsurance rates, morbidity and mortality rates. Wider macroeconomic factors can also cause significant fluctuations, and the interest rate can influence discount factors used in present value calculations. Year-on-year movements may also be impacted by other factors underpinning firms' modelling assumptions and may not indicate a deterioration in the value of income protection products to consumers.

Figure 4: Present value projected premium distribution for new business written in 2024 vs 2025



Source: FCA analysis based on data provided by firms. The net reinsurance impact for term assurance and whole of life presents as a positive cash flow, likely driven by distortions to claims values from legacy mortality assumptions in firms' models which do not capture recent mortality improvements. To prevent anomalies and ensure consistency, we have unwound the reinsurance profit and replaced this with a lower claims amount for these two products. This removes any prudence in mortality basis setting when a large proportion of the risk is reinsured.

In contrast to other pure protection products, income protection's net cashflow margin decreased between 2024 and 2025, but product-specific factors contribute to a higher net cashflow margin overall relative to most other products

4.77 As shown in Figure 4, the present value of projected net cash flow margin increased for most products between 2024 and 2025, with the exception of income protection which decreased from 12% to 11%.

4.78 Firms previously highlighted that income protection's product risk was contributing to higher margins relative to other products, and that the elevated risk profile can drive higher capital requirements. Our updated request for information therefore asked insurers to report their projected cost of capital separate from their projected margin. This would help us understand whether this showed a convergence of margins across products.

4.79 The cost of capital charge, as a percentage of premiums, reduces margins by between 1 to 3 percentage points in 2025 and broadly increases in line with the risk profile of pure protection products. For term assurance and accelerated critical illness products, the projected cost of capital accounted for around 1% of premiums, whereas it accounted for around 2% for critical illness and income protection products, and around 3% of underwritten whole of life. While the range of cost of capital across products does align with our understanding of a product's risk profile, accounting for it does not then show margins converge across products.

4.80 Firms identified additional factors that may contribute to a higher risk assessment for income protection products, which may not be fully reflected in capital allocation. For example, some said that reinsurance costs may be higher, as reinsurers can require higher margins to compensate for the uncertainty associated with income protection claims and that reinsurance is used to manage risk which significantly reduces the capital and risk margin.

Variation in the distribution of projected premiums among individual firms

4.81 Although the projected market-level income protection claims ratio decreased marginally between 2024 and 2025, movements at the firm level varied. Some firms projected their claims ratios to be higher for new business written in 2025, or to stay the same. Firms highlighted a number of factors driving claims ratio movements in either direction, including repricing due to competitive pressures, changes in reinsurance rates, operational changes, and shifts in business mix.

4.82 Changes in market-level metrics can therefore mask firm-level trends that indicate improvements in consumer value in parts of the market. Aggregate measures are sometimes disproportionately influenced by structural changes affecting a small number of firms. While claims ratios have fallen for some firms in our sample, our analysis of individual firms does not point to widespread concerns with customers in the target market not receiving fair value.

Income protection claims acceptance rates

4.83 Stakeholders highlighted factors that may contribute to more claims being declined than for other pure protection products, such as consumers not disclosing relatively minor medical conditions, and the impact of comparatively prescriptive illness and diagnosis policy definitions that do not apply to morbidity-based products. We've also seen insurers taking steps to investigate and address what's causing these, particularly where there are common reasons for declining claims. We therefore do not consider that comparing income protection claims acceptance rates with other pure protection products clearly indicates poor outcomes for consumers.

4.84 Responses to the Interim Report raised concerns that inconsistent reporting of income protection claims acceptance rates can make it harder for advisers to compare policies. We understand that advisers of income protection consider claims acceptance statistics as part of their recommendations, to ensure products best meet a customer's needs. However, evidence suggests that they do not rely on these metrics for decision making, noting that differences in claims acceptance rates between policies do not influence their decision to choose one insurer over another. Instead, they place greater value on their experience of customer claims for different policies and providers.

Firms must consistently evidence fair value of their protection products

4.85 While there are differences in the value metrics for income protection and other pure protection products, there are factors specific to income protection products that provide explanations for this. That said, **we remind firms that under PROD 4 they must be able to demonstrate that the product delivers fair value. Where a firm is unable to identify and clearly demonstrate that the product will provide fair value, it must ensure the product is not marketed or distributed, or that changes have been made so that it provides fair value**.

4.86 This is particularly important given the use of income protection remains a key part of proposals to reduce the protection gap, particularly for self-employed and gig-economy workers.

4.87 We will continue to monitor outcomes for income protection customers through our supervisory work and review of market data. This will include considering relevant value measures, complaints data and other evidence of customer outcomes as part of ongoing supervisory monitoring. 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.

4.88 We have not seen evidence that variation in how firms report claims acceptance rates is causing material consumer harm, but it is important that information is comprehensible for advisers to understand how products align with consumers' needs and financial objectives. Our review of the rules for reporting and publishing general insurance (GI) value measures data also identified concerns about reporting consistency and is exploring options to improve value measures, including reporting definitions. While the GI value measures rules do not apply to pure protection products, under the Duty, firms must communicate in a way that meets consumers' information needs, is likely to be understood, and enables consumers to make effective, timely and properly informed decisions.

4.89 We also remind manufacturers of PROD 4.4.4G and the steps they may want to consider when providing information to distributors. This can support consumer communications meeting information needs and equip consumers to make effective, timely and informed decisions.

Glossary of terms used in this document and its annexes

The definitions in this table are specific to this report and are not a replacement of the meaning of FCA Handbook glossary terms.

Term	Description
Accelerated critical illness cover	A policy which combines life cover and critical illness cover into one policy.
Advised sales	Insurance sales conducted with regulated financial advice, ensuring suitability for the customer.
Application Programme Interfaces	Marketplace for 300+ synthetic, public, anonymised and pseudonymised data sets and over 1000 API end points. Data scope covers entities, corporate individuals, consumers, transactions, financial statements, loans, credits and investments.
Beneficiary gap	This is the percentage of policies that are not placed in trust or set up without named beneficiary nominations
Claims ratio	The present value of projected claims divided by the present value of projected premiums for a product. It indicates the proportion of premiums expected to be returned to consumers through claim payments and is used as one measure of consumer value.
Clawback period	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.
Commission	A payment made to intermediaries or distributors by insurers for selling or arranging insurance policies.
Cover	The protection provided by an insurance policy against specified risks or events.
Distributor	An organisation or channel that markets and sells insurance products, which may include intermediaries, aggregators, or direct sales platforms.
Economic abuse	Economic abuse is a form of domestic abuse that affects many people in the UK. It involves the control, exploitation or sabotage of an individual's access to money, assets, financial products or economic independence.

Term	Description
Fair Value	A regulatory concept ensuring that insurance products provide appropriate benefits relative to their cost, considering customer needs and avoiding excessive charges.
Healthy lives	Individuals who are classed as meeting the lowest risk profile, accounting for other characteristics such as age, due to their current health.
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.
Intermediary	A regulated individual or firm that advises customers and arranges insurance policies on their behalf.
Lapse	Termination of a policy due to non-payment of premiums.
Lead Generator	A lead generator is a firm that acquires customer contact information and provides it to other firms for a fee or share of commission. Lead generators could also include advertising platforms such as search engines or social media platforms.
Loaded Premiums	Practice of raising customer premiums for the purpose of paying an intermediary a higher commission.
Net cash flow margins	Net cash flow margins are calculated as the present value of the projected net cash flows divided by the present value of projected premiums.
Non-Advised sales	Insurance sales without regulated advice, where the customer makes their own decision based on provided information.
Panel	A selected group of insurers or products offered by an intermediary or distributor, rather than the entire market.
Policyholder	The individual or entity that owns the insurance policy and is responsible for paying premiums.
Portal	An online platform used by intermediaries or distributors to quote, apply for, and manage insurance policies.
Premium	The amount paid by the policyholder to maintain coverage under the insurance contract.
Preparatory tools	Arrangements or services that customers can put in place during the lifetime of a protection policy to support a smoother and more timely claims process and help ensure benefits reach the intended recipient.
Product Comparison Websites	Websites or tools that allow consumers or advisers to compare insurance products across multiple providers based on price, features, and benefits.
Rebroking	The process of reviewing and replacing an existing insurance policy with a new one, often to secure better terms or pricing.

Term	Description
Reinsurance	Insurance purchased by an insurer from another insurance company to reduce its risk exposure on policies it has underwritten.
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.
Straight-Through Underwriting	Automated underwriting process where applications are assessed and approved without manual intervention, using pre-set rules and data checks.
Switching	The act of moving from one insurance policy or provider to another.
Targeted support	Targeted support is a new regulatory framework that allows firms to provide suggestions designed for groups of consumers with common characteristics to help them make important decisions across their pensions and investments.
Techsprint	A TechSprint is a structured innovation programme that brings together firms and relevant stakeholders to work on a defined market challenge and develop technology-based solutions.
Term Assurance	A policy which pays a lump sum to beneficiaries if the policyholder dies within a specified period.
Unnecessary switching	An intermediary encouraging a customer to switch to a policy that does not better suit their needs and demands or offers less value.
Underwriter	A professional or automated system responsible for assessing risk and determining the terms and conditions of an insurance policy.
Underwriting	The process of assessing risk and determining the terms, conditions, and premium for an insurance policy.
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.
Whole of Market	An approach where an intermediary offers products from all insurers in the market, providing comprehensive choice for the customer.

Abbreviations used in this document

Abbreviation	Description
ABI	Association of British Insurers
AFM	Association of Financial Mutuals
AMI	Association of Mortgage Intermediaries
BIBA	British Insurance Brokers' Association
CIC	Critical Illness Cover
CII	Chartered Insurance Institute
DPMSG	Digital Property Market Steering Group
DQM	Distribution Quality Management
FLS	Financial Lives survey
GIO	Guaranteed Insurability Options
GOF	Guaranteed Acceptance Over 50s
ICOBS	Insurance: Conduct of Business sourcebook
ILAG	Investment & Life Assurance Group
IPTF	Income Protection Taskforce
IRN	Individual Reference Numbers
MaPS	Money and Pensions Service
PCWs	Price Comparison Websites
PDG	Protection Distributors Group
PROD	Product Intervention and Product Governance Sourcebook
PROD 4	Chapter 4 of PROD
RFI	Request for Information
SEA	Surviving Economic Abuse
STU	Straight-Through-Underwriting

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