FINANCIAL CONDUCT AUTHORITY

Annex 1

Intermediated distribution, remuneration and consumer outcomes

January 2026

Contents

Chapter 1

Introduction

1.1 In this Annex we describe how pure protection products are distributed, how premiums are determined, how intermediaries are remunerated, the incentives remuneration can create, and some measures of outcomes.

1.2 We begin by briefly describing how pure protection products are distributed to UK retail customers. "*MS24/1.3 Structure of the UK pure protection market for retail customers*" paper provides further detail on market participants and practices.

1.3 We then discuss how premiums are set by insurers and the factors influencing the premiums end customers pay. We find that insurers' pricing strategies are complex, and that this leads to a broad spectrum of price points even for the same product.

1.4 Following this, we consider how intermediaries are remunerated for the service they provide to insurers and customers. We look at different commission approaches adopted, as well as how commissions are negotiated, to determine the level of influence intermediaries have on commission rates and how this impacts the premium paid by the end customer. We also discuss the use of other practices such as raising premiums in order to pay intermediaries higher commission (ie loaded premiums), and how our analysis finds that products with loaded premiums are often not more expensive than non-loaded products.

1.5 Lastly, we explore how indemnity commissions might influence firms' behaviour, primarily in relation to churn and commission bias. We have observed generally low lapse rates and limited evidence of spikes in lapse rates after clawback periods have ended, although small pockets of poor practice may exist. Evidence gathered during the course of the market study indicates that insurers and intermediaries put controls in place to limit lapsing and to prevent advisers from prioritising the sale of products with higher premiums.

1.6 We have used several data sources including firms' financial information, firms' data on premiums and commissions and qualitative information provided by firms in response to our Request for Information.

Chapter 2

Organisation of pure protection distribution

2.1 In this Chapter we describe how pure protection products are distributed to UK retail customers. We also explore the role of intermediaries and how distribution arrangements are formed between insurers and intermediaries.

Intermediaries play a key role in the sale of pure protection products

2.2 There are 6 'families' of pure protection products:

- Term assurance
- Accelerated critical illness
- Income protection
- Standalone critical illness
- Underwritten whole of life
- Guaranteed acceptance over 50s

2.3 These products are designed to provide financial resilience when significant life events occur, such as death, incapacity, or serious illness. However, they comprise different combinations of trigger events, payment structures, purpose, duration and cost.

2.4 Each insurer offers a broad range of specific products within these product families, with many customisable product features to meet the demands and needs of individual customers.

2.5 As discussed in "MS24/1.3 Structure of the UK pure protection market for retail customers" paper, a large proportion of new business is intermediated in pure protection. Intermediary-led distribution can be advised or non-advised.

2.6 Due to the complexity and vast choice of pure protection policies available, we have found that consumers often require advice to find the policy which meets their demands and needs. Intermediaries adopting an advised model have expertise and access to specialist tools which enable them to offer tailored advice to customers and guide them through the purchasing journey. Therefore, intermediaries providing advice play an important role in matching consumers with a policy that meets their demands and needs.

2.7 Insurers stated that intermediaries form a critical part of their business strategy. Relationships with 'network level' intermediaries (ie principal network firms, directly authorised network firms and professional service providers) were described as particularly important. Insurers said that loss of these relationships could materially impact distribution reach, sales volume and brand visibility. This is discussed in further detail in Chapter 4 of this Annex.

2.8 We have found that there are multiple layers to intermediated distribution:

- Consumers may contact an intermediary to help find a product that meets their demands and needs, these intermediaries can be independent or may be part of a larger company. Likewise, intermediary firms can belong to a wider network or professional service firm.
- Relatedly, affinity partnerships involve a non-insurance firm (such as banks or building societies) offering insurance products manufactured by a particular insurer, under the bank or building society's brand.
- A customer not requiring advice could also purchase a standardised product from an insurer via a price comparison website (PCW). PCWs often partner with other intermediaries and direct customers to these firms to manage their purchasing journey where their demands and needs are more complex.

2.9 These business models and market participants are described in more detail in "*MS24/1.3 Structure of the UK pure protection market for retail customers*" paper.

2.10 The analysis in this Annex groups pure protection sales through intermediaries into three broad categories: protection specialists, mortgage advisers and financial advisers. When we refer to intermediated sales, we generally refer to these three categories, which represent around 80% of policies sold in 2024 (compared to 12% directly sold by insurers, 7% through affinity partnerships and 1% through PCWs).

Restricted panels are the most adopted distribution arrangement type

2.11 Insurers have standard terms of business agreements that are available to all intermediaries. However, we understand that these are rarely used. In 2024, of intermediated sales, only 2% of policies were sold through standard terms of business arrangements.

2.12 Instead, insurers and intermediaries more commonly form bespoke agreements. Generally, these arrangements usually last between 1 and 5 years.

2.13 We have found that there are three common types of arrangement utilised in pure protection.

2.14 At one end of the spectrum is the 'single-tie' arrangement, where an intermediary works exclusively with one insurer. New sales data collected from insurers for 2024 indicates that approximately 12% of intermediated sales were through tied arrangements.

2.15 However, we have seen evidence that more often intermediaries operate panels that include a certain number of products and insurers, with the size and scope of these panels varying. New sales data for 2024 shows that approximately 85% of intermediated policies were sold through panel arrangements.

2.16 A single intermediary network may operate several panels, characterised by a different selection of insurers and products and, potentially, different commission arrangements.

2.17 In many cases, intermediaries strive to provide 'whole of market' coverage on panels. This means they choose a wide selection of insurers that enables them to meet customers' requirements. New sales data for 2024 shows that approximately 22% of intermediated sales were through whole of market panel arrangements.

2.18 Alternatively, panels may be 'restricted', meaning a more limited number of insurers and products are available, sometimes with a narrower focus on specific customer segments. This is the most common arrangement type based on realised sales: in 2024, approximately 63% of intermediated policies were sold through restricted panel arrangements.

2.19 We have also seen evidence that for those customers whose demands and needs cannot be met by the available panel, intermediaries generally establish additional mechanisms (such as referrals to specialist providers) to ensure these customers are also served effectively.

2.20 Product level data highlights a similar pattern in terms of arrangement types. Table 1 below shows the proportion of intermediated pure protection sales in 2024 by product and arrangement type.

Table 1: Intermediated sales by arrangement and product type (2024)

Pure protection product	Terms of business	Single-tie arrangement	Restricted panel	Whole of market panel
Term assurance	2%	4%	68%	27%
Accelerated critical illness	1%	3%	73%	24%
Stand-alone critical illness	0%	2%	77%	21%
Income protection	1%	2%	75%	22%
Underwritten whole of life	3%	0%	67%	27%
Guaranteed acceptance over 50s	10%	79%	11%	–

Source(s): FCA analysis of data provided by firms. Percentages in the table above are rounded to whole numbers. Values shown as 0% indicate very small shares (less than 0.5%), while a dash indicates zero sales.

2.21 When insurers are seeking a position on an intermediary's panel, they are often required to undergo a tender process. We have learned from firms that intermediaries score, and shortlist insurers based on:

- Technology integration: some intermediaries require insurers to integrate with specific portals or straight-through underwriting systems as a prerequisite for panel inclusion.
- Commission levels: these may be subject to negotiation or stipulated by the intermediary as a condition for joining the panel, see Chapter 4 for further information on commissions.
- Product quality, suitability, and underwriting criteria: key metrics include product features, underwriting flexibility, and suitability for diverse customer demands and needs.

2.22 Other important factors include consumer value, cultural and strategic alignment, the insurer's financial stability, service and claims handling standards, and data sharing approaches.

2.23 Likewise, we have found that insurers evaluate intermediaries when forming distribution arrangements. Insurers primarily consider commercial alignment, operational capability and the ability of intermediaries to deliver good customer outcomes. Intermediaries are scrutinised in terms of their market plans, approach to lead generation, customer journey, technology partners and quality. Once chosen, intermediaries are then subject to extensive due diligence, including regulatory and governance assessments, before they are allowed to distribute the insurer's product. Intermediaries are also subject to ongoing performance oversight and monitoring, as explained in Chapter 5.

2.24 Insurers stated that it is crucial to secure positions on intermediary's panels to access the market. Many insurers said that exclusion from multiple panels would significantly impact sales volumes. Insurers explained that if they cannot secure a place on a panel, it can be challenging to access the individual distributors and firms who are members of that intermediary. This is discussed in further detail in Chapter 4.

2.25 Responses to our request for information highlighted how insurers partner with multiple network level intermediaries to maintain broad market access across different channels and customer segments.

Chapter 3

Setting premiums

3.1 In this Chapter we describe how premiums are set by insurers and the factors impacting the premium paid by the end customer. We explore the complexity of pricing and the resulting variance in premiums paid.

3.2 A premium is the consideration payable under the contract by the policyholder to the insurer[1], paid monthly to keep an insurance policy in-force. The premium is based on several factors, including:

- Product features (such as: coverage amount, policy features, exclusions and optional added services).
- Individual risk-based factors (such as: age, smoking status, medical history and mortality/morbidity assumptions).
- Distribution strategy (such as: competitive positioning, market conditions and distribution channel performance).

3.3 Insurers use sophisticated pricing models to establish the premium paid by the customer. We have found that the pricing strategy for a product has multiple determinants, as outlined in Figure 1 and described in the text below.

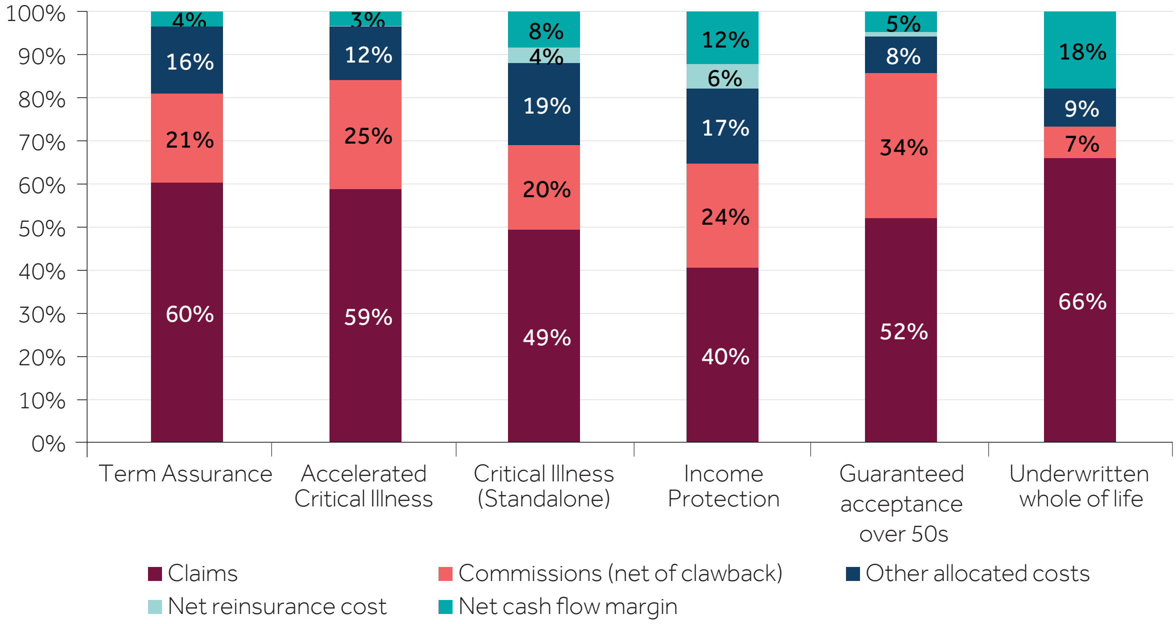
Figure 1: Factors influencing premiums

Source(s): FCA analysis of information provided by firms

3.4 Graph 1 shows the percentage of the present value of projected premiums insurers expect to pay out in key costs and retain as profit for new business written in 2024.

1 FCA Handbook Glossary https://handbook.fca.org.uk/glossary?sortBy=relevance&searchTerm=premium

Graph 1: Present value projected premium distribution for new business written (2024)[2]



Source(s): FCA analysis of data provided by firms

3.5 Reinsurance impacts the premium by reducing retained risk by the insurer and adding the cost of reinsurance cover. Firms stated as much as 90% of the risk of pure protection policies can be transferred to reinsurers. Therefore, reinsurance rates and terms can significantly affect the final price paid by a customer. Reinsurers apply their own morbidity and mortality assumptions, which can differ from the insurer's.

3.6 Insurer's expected claims costs make up a significant portion of premiums. These expectations are built on data relating to claims frequency and severity. As illustrated in Graph 1 above, we have found that claims costs make up the largest percentage of premiums, between 40% and 66% depending on the product.

3.7 As discussed in Chapter 2, the majority of pure protection products are distributed via intermediaries. Insurers remunerate intermediaries via commissions, and they factor in the cost of intermediary commissions when setting premiums. Therefore, although intermediaries have limited direct influence over price at point-of-sale as premiums are set by insurers, intermediary commissions do affect the final price paid by the customer. Graph 1 above illustrates that commissions make up between 7% and 34% of premiums depending on the product.

3.8 Insurance risk can also vary by type of intermediary and distribution channel. For example, we have found that underwriting processes and questions can vary by intermediary type (ie where fewer questions are asked, this creates higher risk and therefore higher prices). Mortality rates can also differ among intermediary types due to different target markets (for example, firms stated that contact centres are often

2 Net reinsurance impact for term assurance and whole of life presents as a positive cash flow and is likely to be driven by distortions to claims values driven by legacy mortality assumptions in firms models not capturing recent mortality improvements. As such, 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.

associated with higher mortality rates) and lapse rates similarly vary. This means that, even when intermediaries have negotiated higher commissions, this will not necessarily result in higher premiums for the customer compared to another intermediary selling the same product.

3.9 Insurers also assess the fair value of the product, as required under their PROD 4 obligations.

3.10 Graph 1 above demonstrates that other costs represent a small to moderate share of premiums and include expenses like claims handling, distribution, operations, marketing, underwriting, and allocated overheads.

3.11 Underwriting risk drives expected claims and is the foundation of pricing. Underwriting risk is calculated accounting for risks such as mortality and morbidity.

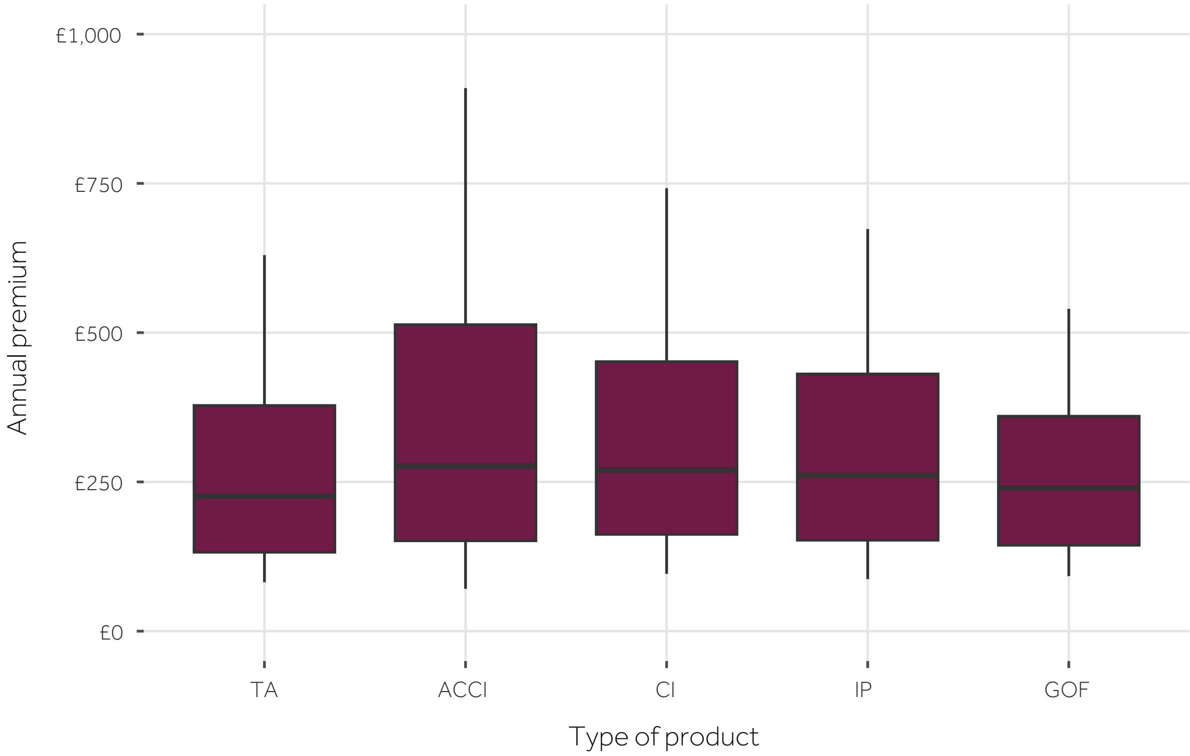
3.12 Insurer's consideration of expenses and commercial factors, such as profit margins, also impact premiums. Insurers also consider competitors pricing within their models, many insurers use benchmarks to set pricing targets against their competitors. Likewise, insurers account for the price elasticity of customers, modelling impacts of price changes.

Wide price dispersion is present across pure protection products, only partially attributable to expected cost of claims

3.13 As explained above, several factors influence insurance premiums. We have found that this leads to a broad spectrum of price points, even for the same product, ie wide price dispersion.

3.14 We have seen evidence of wide dispersion in annual premiums for each pure protection product. This is illustrated in Graph 2 below. The boxes represent the range of premiums where half of the policies fall, while the highest 25% and lowest 25% of premiums are represented by the vertical lines. These plots show that all products have wide premium dispersion, for example half of term assurance policies sold had an annual premium between £132 and £378, and 80% between £82 and £630.

Graph 2: Distribution of annual premium, by product type (2024)



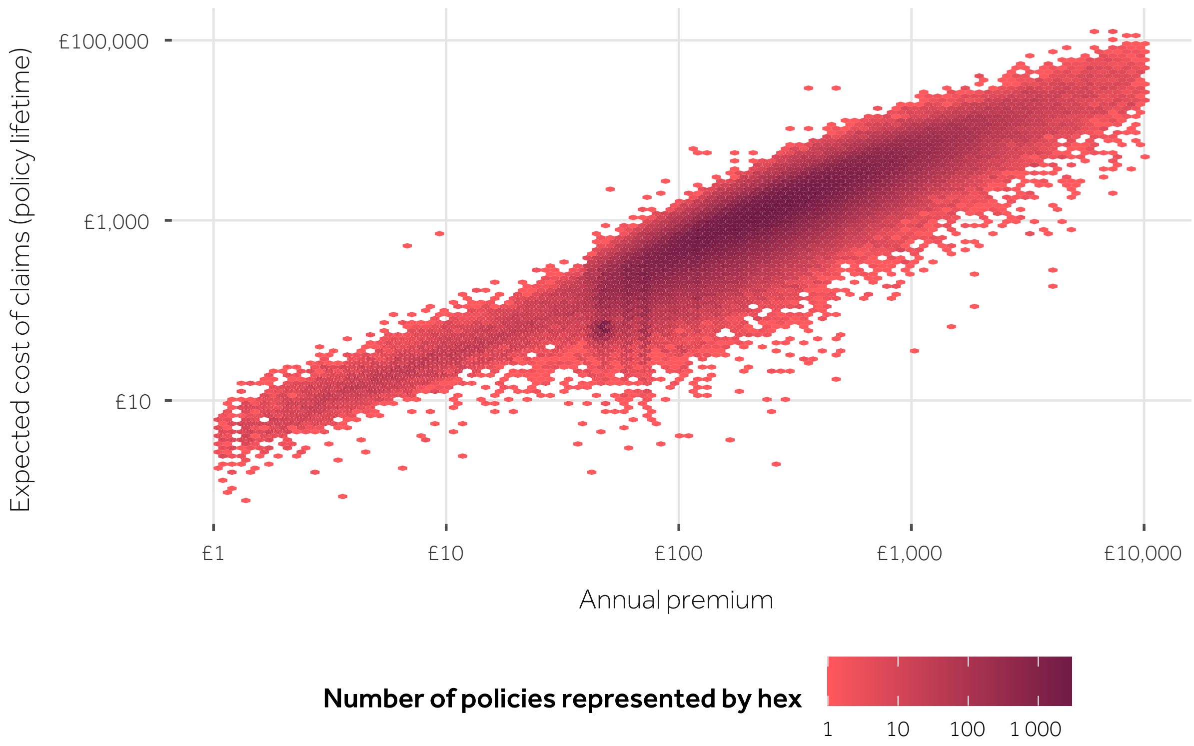
Source(s): FCA analysis of data provided by firms. Note: the boxes show the 25th, 50th and 75th percentile of the data, while the vertical lines extend to the 10th and 90th percentile, showing the central 80% of the data. The product types shown are Term assurance (TA), accelerated critical illness (ACCI), stand-alone critical illness (CI), income protection (IP), and guaranteed acceptance over 50s (GOF). Underwritten whole of life has much higher annual premiums and is excluded to not obscure the distributions of the other products. Excludes direct distribution.

3.15 We have found that a large proportion of this price dispersion can be explained by the expected cost of claims (ECC). We found a positive correlation between annual premiums and ECC. This is shown in Graph 3 below, which illustrates the relationship between annual premium and ECC for term assurance policies sold in 2024. This suggests that the variation in premiums is largely related to the customers' characteristics and insurers' risk assessments, this finding is consistent across all product types.

3.16 However, for any given level of ECC we have found a wide range of annual premiums for term assurance policies, indicating that there is still a lot of dispersion that is not explained. The pattern is very similar for all product types. Some of this dispersion can be attributed to factors not captured in our data, such as policy add-ons[3] and different policy term lengths.

3 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.

Graph 3: Annual premiums and expected costs of claims for term assurance policies (2024)



Source(s): FCA analysis of data provided by firms. Note: shows policies with annual premiums up to £10,000, for visual clarity.

3.17 We also compared the prices paid by comparable sets of customers (ie those with similar characteristics and risk profiles) for individual policies that sold the same product (from the same insurer). Here we might expect more homogeneity in prices, but price dispersion was widespread. In Chapter 4, we report our findings from performing a like-for-like comparison.

3.18 It is not surprising to find a high degree of price dispersion, as pure protection products have many variable features, and the pricing reflects differences in costs and service levels (as explained earlier in this Chapter). Buyers of pure protection products benefit from the wide range of options available to cater to their needs. Their choice will also be influenced by the policy options presented by intermediaries.

3.19 As a result, it is likely that even customers with similar observable characteristics might end up paying very different prices for protection. Customisable pricing can be efficient compared to uniform pricing, because it can expand the market to more price sensitive customers by providing options that match their willingness to pay, while customers who value the product more or cost more to serve pay more.

3.20 Price dispersion can, in principle, also reflect some degree of price discrimination – where customers who cost the same to serve pay different prices based on differences in how much they are willing to pay.

3.21 The extent to which suppliers can price discriminate depends on their ability to learn about customer's price sensitivity and tailor their price accordingly. In the pure protection market, premiums are set by insurers based on their pricing models and commission rates are agreed between insurers and intermediaries before the point of sale. As such, an intermediary would not be able to explicitly charge two identical customers a different price for the same product at the point of sale. However, intermediaries are likely to be able to obtain information about customers' price sensitivity during the sales process and could tailor which policy options they present as a result. Likewise, insurers could set the price of policy add-ons above the additional cost of providing them, targeting customers with higher willingness to pay through these additional features. While we have not seen evidence of these specific practices, the way pure protection policies are priced and sold might give firms the ability to price discriminate.

3.22 Price discrimination is a common practice in many markets. Like customisable pricing, it can be efficient compared to uniform pricing by expanding the market to more price sensitive customers, who would otherwise not purchase the product at all. However, as some customers may be paying more than others, it can raise questions about fairness. We would be concerned if price discrimination targeted vulnerable customers (such as those with low income or low financial resilience) or was being used to raise prices above the competitive level across the market (ie with no customer groups paying less).

3.23 It is difficult to disentangle price discrimination from customisable pricing that reflects differences in cost, service level and customer preferences. Based on available data, we cannot assess the extent of price discrimination occurring or who may be affected.

3.24 Given the complexity of the market and pricing, we cannot rule out that some customers might be paying premiums not proportional to the value they receive. However, this would be inconsistent with firms' regulatory obligations. For example, under PROD 4, manufacturers and distributors of non-investment insurance products must meet fair value requirements. SYSC 19F.2 also requires that firms must act fairly, honestly and professionally in accordance with the best interests of their customers. The remuneration they receive must not conflict with the customers best interests.

3.25 As set out in our interim report, we have not found evidence of high profitability among insurers and intermediaries. This does not suggest that price discrimination is being used to raise prices above competitive levels across the market.

Chapter 4

Remuneration of intermediaries

4.1 In this Chapter we describe how intermediaries are remunerated for the service they provide insurers and customers. We explore different approaches to remuneration and how remuneration is negotiated between insurers and intermediaries. We also consider the level of influence intermediaries have on the premium paid by the end customer, including distribution arrangements utilised and practices adopted.

Most policies involve an intermediary being remunerated through indemnity commissions

4.2 Intermediaries are typically remunerated via commissions, which are earned when they sell a pure protection policy. The commission rate is a percentage (multiple) of the first-year insurance premium paid by the end customer.

4.3 The commission value is the actual monetary amount the intermediary receives, calculated by multiplying the commission rate applicable to the specific sale by the annual premium value. The rate is a fixed percentage, whereas the value fluctuates based on the premium amount. Commissions are only payable on in-force insurance policies.

4.4 There are broadly 4 approaches to commission:

- Indemnity: an upfront payment of the total commission value.
- Non-indemnity: commission value paid monthly over a pre-specified period.
- Hybrid: combines upfront and ongoing payments.
- Level: fixed percentage of the premium paid throughout the policy term.

4.5 Insurers stated that, in forming relationships with them, intermediaries have some influence as to the commission approach adopted. We have found that indemnity commissions are the most popular approach utilised in the sale of pure protection products. Of the 12.4 million policies in force for our sample of insurers at the end of 2024, 11.4 million were intermediated sales and 88.9% of those had involved an intermediary being remunerated though indemnity commissions, while only 3.9% had non-indemnity commissions.[4]

4.6 Intermediaries stated that they generally prefer the front-loaded nature of indemnity commissions because most expenses are incurred up-front.

4.7 In designing the payment schedule for commissions, insurers can either make indemnity and non-indemnity commissions financially equivalent or try to make one schedule financially more appealing than the other (eg deliberately designing the schedule so that the present value of future commissions is higher or lower than the commission paid upfront).

4 1.4% had no commissions, the rest were hybrid, other types, or not stated.

4.8 The median commission rates received by intermediaries across pure protection products are presented in Table 2 below, alongside the median annual premium and the median level of commission (rate and monetary value).

4.9 The commission rates in Table 2 are expressed as multiples of first year premiums and may appear high at first glance. However, pure protection policies are intended to last many years: insurers reported that terms for new policies sold in 2024 were on average around 25-30 years for term assurance (often aligned with mortgage terms), 30-40 years for critical illness, 30-35 for income protection, while whole of life policies are intended to last until the holder's death. In practice, the effective average duration of policies is likely to be shorter because some holders lapse (see Chapter 5). As illustrated in Graph 1, within our sample, we found that over the lifetime of a product, commission ranges from 20% of projected premiums paid on critical illness and up to 34% on guaranteed acceptance over 50s insurance.

Table 2: Median annual premium, commission and commission rate, intermediated sales (2024)

Product type	Commission rate	Annual premium (£)	Commission (£)
Term assurance	220%	229	487
Accelerated critical illness	210%	279	568
Stand-alone critical illness	221%	266	578
Income protection	229%	252	575
Underwritten whole of life	114%	518	509
Guaranteed acceptance over 50s	390%	240	938

Source(s): FCA analysis of data provided by firms. Note: the majority of guaranteed acceptance over 50s commissions are set through intra-group arrangements and may therefore not reflect market based intermediary pricing.

4.10 Commissions vary significantly by product, particularly for underwritten whole of life and guaranteed acceptance over 50s. These results are discussed in more detail in Annex 2.

4.11 Firms stated that intermediaries can also receive non-commission benefits. The two most common being:

- Marketing Service Agreements (MSAs) are arrangements to cover the costs that the intermediary incurs from delivering conferences, marketing communications and website information. The aim is to deliver education around product features and propositions to increase understanding and awareness.
- Non-contractual training support intended to improve product awareness and highlight underserved market segments.

Intermediaries negotiate commissions but are bound by consumers' price sensitivity and insurers' multi-intermediary distribution approach

4.12 As discussed above, intermediaries provide a service to customers and insurers, for which they are remunerated through commissions.

4.13 Network level intermediaries negotiate distribution agreements (and commission rates) on behalf of their members. As such, they play a role in increasing the bargaining power of distributors. Network level intermediaries have discretion as to how much commission they retain vs how much is distributed to their members. We have seen evidence that networks retain anywhere between 3 and 30% of commission, reflecting the level of service provided to their members and associates.

4.14 The fact that commission rates influence premiums and that commissions remunerate intermediaries, does not necessarily imply that the premiums paid by customers do not represent fair value. Many customers will benefit from commission structures that remunerate intermediaries for their expertise as well as the time and effort taken to advise on and arrange cover that meets their demands and needs. Likewise, manufacturers and intermediaries of non-investment insurance products must account for distribution arrangements, including remuneration, as part of their fair value assessments required under PROD 4.

4.15 However, in response to our request for information, insurers stated that intermediaries frequently seek to negotiate higher commission rates.

4.16 We would be concerned if we found evidence that intermediaries are using their position in the market to put upwards pressure on commission rates, resulting in higher prices for customers. This would be inconsistent with firms' fair value obligations under PROD 4. We consider this further in the following Chapters and in Annex 2.

Consumer price sensitivity incentivises intermediaries to keep premiums down

4.17 As outlined in our interim report, we have found that consumers usually only consider their protection needs following a trigger such as a life event. As engagement is scarce and time-bound, competition in intermediation focuses on contacting consumers when they're sufficiently engaged to make a purchase.

4.18 Once consumers are engaged, we understand they are generally price sensitive, meaning that their purchasing behaviour changes in response to price differences.

4.19 Our consumer research shows that 38% of those that had purchased a policy in the last 12 months included "best price or deal" as one of their reasons for choosing the provider. 86% of those that purchased a policy in the last 12 months, claimed to have shopped around and compared different policies and options. Likewise, 92% had used information sources to help them in their review, with 77% also using professional support.

4.20 Insurers and intermediaries said that price is the main deciding factor when choosing a provider, and other features are secondary. Intermediaries show different policy options ranked by price, and customers tend to choose the cheapest premium unless they need specific product features. Outside of the advice process, PCWs said that their users generally sort by price and only look at other features if the prices are similar. Insurers said that the use of portals and PCWs by intermediaries and consumers has increased the emphasis on price and that their position in the rankings has an impact on sales.

4.21 Additionally, affordability has been flagged by insurers and intermediaries as a key barrier to purchasing pure protection products. Firms also said that it's a main cause of terminating an insurance policy before its intended term (also known as lapsing – discussed further in Chapter 5). Our consumer research also shows that, amongst non-holders of pure protection products who have considered their protection needs, the reason given most frequently for not holding cover was that it is too expensive (19%), followed by having other financial priorities (18%). This reinforces the importance of price in consumer choice.

4.22 As consumers exhibit price sensitivity, intermediaries tend to place emphasis on pricing as a key competitive factor. We have seen evidence that intermediaries closely monitor premium levels available to them and actively seek to limit any price differential with their competitors.

4.23 We have also found that intermediaries can sacrifice some or all their commission to reduce the premium payable by the customer. This happens infrequently (only between 0.5% and 2% of cases) but intermediaries state it is used to respond to competitive conditions by price matching other quotes the customer may have received.

4.24 Although, consumers also value other aspects of a pure protection policy offering, not just price. Our research shows that, when asked what mattered to them most when choosing a policy, 68% said a balance of price, cover and policy features. This reflects evidence we found that intermediaries also consider other factors, besides commissions, when selecting what insurance brand to suggest. Product range, flexibility, underwriting and willingness to accept claims were all important considerations.

Insurers have a range of options as to which intermediaries they work with

4.25 Insurers have incentives to negotiate lower commissions with intermediaries. Given consumer price sensitivity, insurers stated that price competition is intense. As described in Chapter 3, we have found that competitor pricing forms a key aspect of insurers' pricing considerations.

4.26 Consumer price sensitivity means insurers would be less able to pass on cost increases in the form of higher prices and instead would need to absorb these costs, leading to lower margins. As described in the interim report, insurers have modest margins.

4.27 In addition to these incentives and insurer's fair value obligations under PROD 4, we have found that insurers have some ability to push back on higher commission requests, to different degrees.

4.28 As discussed in Chapter 2, insurers typically work with multiple intermediaries, so they are not reliant on any one firm and can walk away from intermediaries requesting higher commission rates. Although, insurers did state that the larger the intermediary network (in terms of population of intermediaries represented), the harder it would be to do so. Likewise, insurers are limited in how many intermediary networks they can walk away from while still maintaining broad market access.

4.29 Insurers also stated they will only accept commission requests if this can be justified by the quality of service provided. Similarly, insurers explained that, where they accept higher commission rates, these terms will be reviewed should intermediary quality fall.

4.30 Intermediaries told us that they seek to achieve wide market coverage and they want to include established providers with large sales volumes and brand recognition, as well as some smaller providers. This is likely to give major insurers greater leverage to resist higher commission demands.

Insurers state that average commission rates have risen but monthly premiums remained stable in nominal terms

4.31 As highlighted in our interim report, we found that average monthly premiums for new business have remained relatively stable in nominal terms across most products between 2022 and 2024.

4.32 Gross commission revenues also remained stable in nominal terms over the period 2021-2024. Insurers stated that average commission rates have risen by between 10% and 20% over the past decade. Based on the data provided by our sample of insurers and intermediaries for the period 2021-2024, we have found stable commission revenues and premiums, while the number of policies sold has decreased slightly. This is consistent with a slight increase in commission rates, although we do not have data to robustly estimate the magnitude.

4.33 However, as described in the interim report, our analysis of intermediaries' profitability does not indicate that firms in our sample are earning high profits.

Restricted panels can be associated with higher commission rates, but do not generally equate to higher premiums

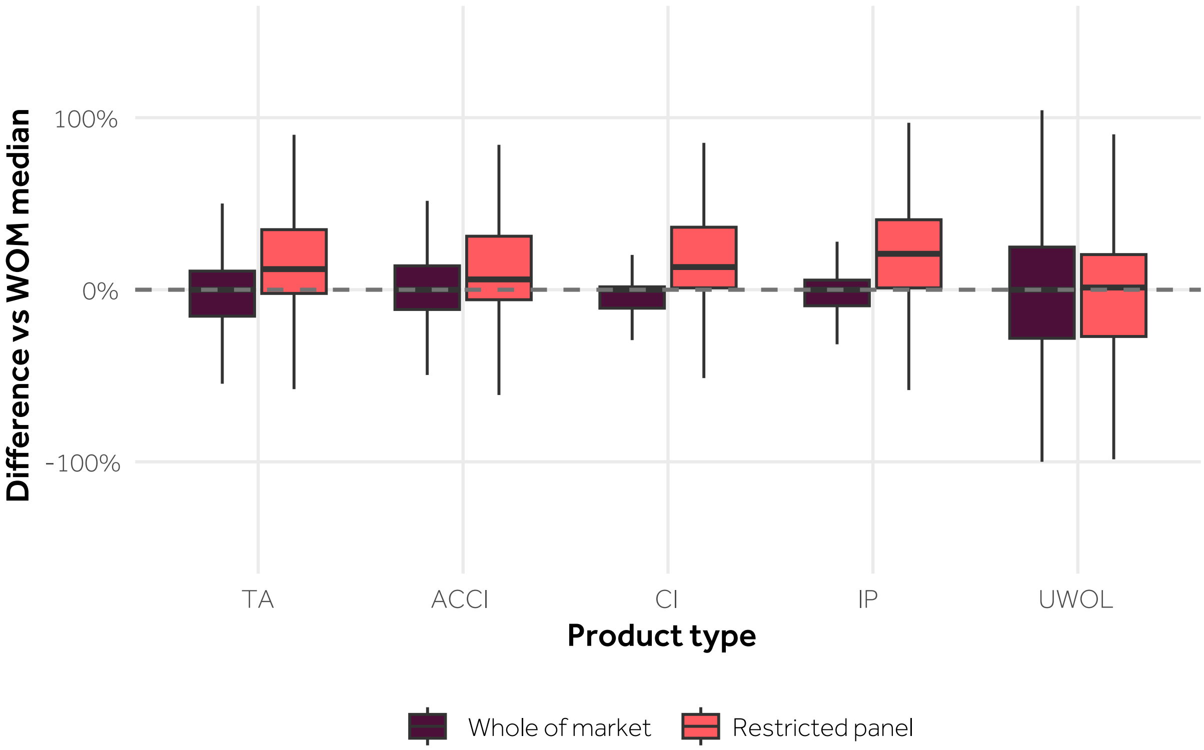
4.34 Some insurers told us that certain distribution arrangements may be associated with higher commission rates which are not always justified by higher quality intermediary advice or service. In particular, restricted panel arrangements were highlighted as requiring higher commission payments in order for insurers to secure or retain a place on a panel.

4.35 Intermediaries stated that restricted panels are often operated for efficiency reasons. Limiting the range of insurers on a panel can allow advisers to develop greater familiarity and expertise with a smaller set of products, including policy features, underwriting approaches and claims processes. This may reduce operational complexity and distribution costs, as advisers need to maintain detailed knowledge of fewer products.

4.36 To better understand outcomes associated with different distribution arrangements, we examined premiums and commission rates across policies sold through restricted panel and whole of market panel arrangements. Policies sold through whole of market panels are a useful comparator as these panels allow intermediaries to recommend products from a broad range of insurers. These policies therefore provide a reference point against which outcomes observed under restricted distribution arrangements can be considered, while holding constant the role of intermediated advice.

4.37 Graph 4 below shows the distribution of commission rates for policies sold through restricted panels and whole of market panel arrangements, by product type. On average and across product types, commission rates are higher for policies sold through restricted panels than those sold through whole of market panels.

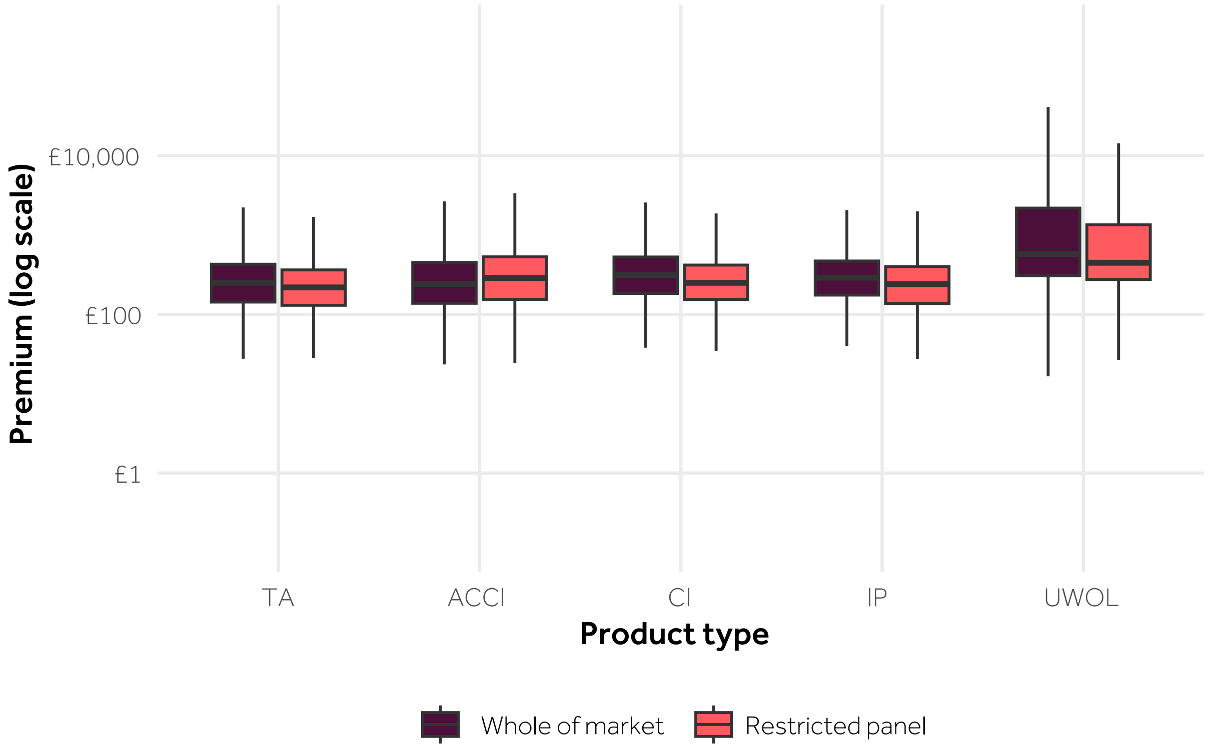
Graph 4: Distribution of commission rates (%) for policies sold through restricted panels and whole of market panels, by product type (2024)



Source(s): FCA analysis of data provided by firms. Note: The chart shows the distribution of commission rates for policies sold in 2024 relative to the median commission rate for policies sold through whole of market panels, within each product type. For each product type, the median commission rate for policies sold through whole of market panels is re-centred to zero (shown by the dashed horizontal line). The distributions for policies sold through restricted panels are shown relative to this reference point. The horizontal line inside each box represents the median; the top and bottom of each box represent the 75th and 25th percentiles respectively; and the vertical lines (whiskers) extend to the most extreme values within 1.5 times the interquartile range. The product types shown are term assurance (TA), accelerated critical illness (ACCI), stand-alone critical illness (CI), income protection (IP) and underwritten whole of life (UWOL). We have not included guaranteed acceptance over 50s because the majority of guaranteed acceptance over 50s commissions are set through intra-group arrangements and may therefore not reflect market based intermediary pricing.

4.38 We also examined the distribution of premiums for policies sold through restricted panels and whole of market panels, see Graph 5 below. Across product types, premium values appear to be broadly similar between the two arrangements. For some product types, average premiums are marginally higher under whole of market panel arrangements, while in others restricted panel sales exhibit slightly higher average premiums.

Graph 5: Distribution of premiums for policies sold through restricted panels and whole of market panels, by product type (2024)



Source(s): FCA analysis of data provided by firms. Note: premiums are shown on a logarithmic scale. For each product type, separate box and whisker plots are shown for policies sold through whole of market panel arrangements and restricted panel arrangements. The horizontal line inside each box represents the median premium; the top and bottom of each box represent the 75th and 25th percentiles respectively (ie the interquartile range); and the vertical lines (whiskers) extend to the most extreme values within 1.5 times the interquartile range. The product types shown are term assurance (TA), accelerated critical illness (ACCI), stand-alone critical illness (CI), income protection (IP) and underwritten whole of life (UWOL). We have not included guaranteed acceptance over 50s because the majority of guaranteed acceptance over 50s commissions are set through intra-group arrangements and may therefore not reflect market based intermediary pricing.

4.39 We also examined whether premiums differ between restricted panel and whole of market panel sales for policies that are otherwise comparable. Specifically, we focussed on policies with the same product type and name, issued by the same insurer, with the same coverage amount and premium structure, and sold to consumers with similar observable characteristics. These characteristics include age at policy inception and key underwriting attributes, such as healthy life classification and immediate acceptance. By comparing premiums within these tightly defined like-for-like groups, we sought to understand whether premiums differ systematically by arrangement type, after accounting for observable differences in product design and consumer risk.

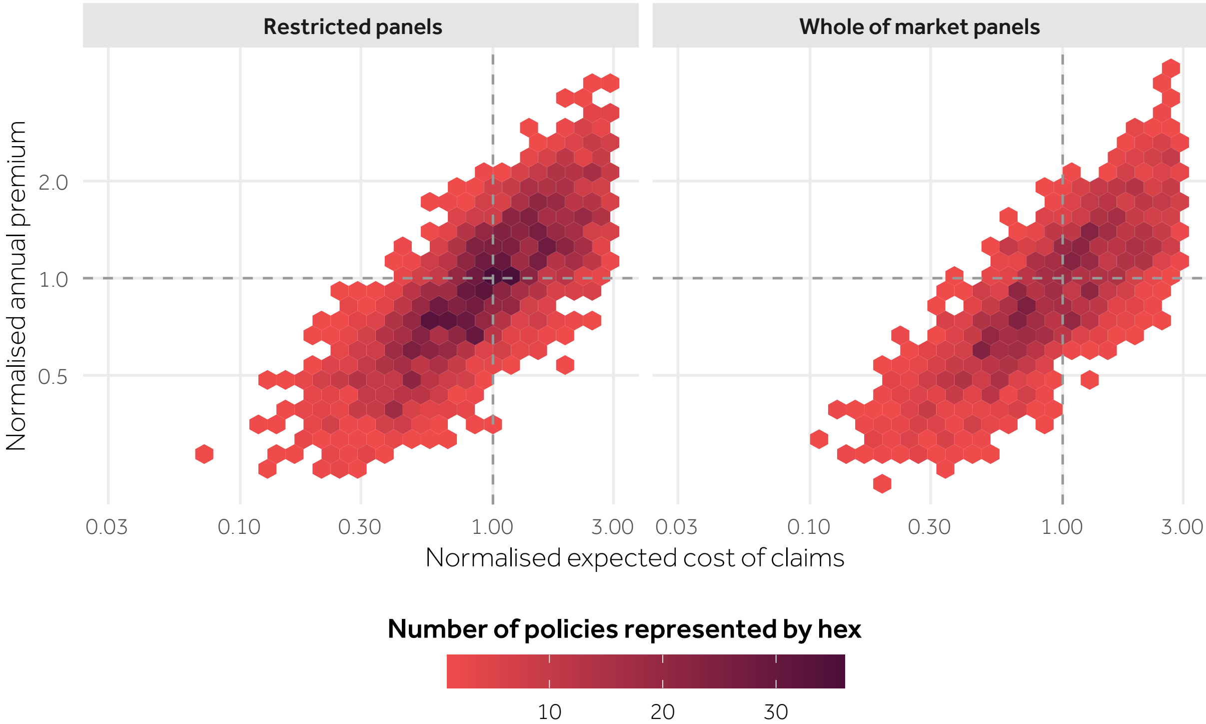
4.40 Graph 6 presents premiums plotted against commissions for one illustrative like-for-like group, comparing policies sold through restricted panel and whole of market panel arrangements. This demonstrates how premium outcomes compare between restricted panel and whole of market panel sales when observable policy and consumer characteristics are held constant. Within this group, premiums for restricted panel and whole of market sales appear broadly similar.

4.41 Graph 7 plots premiums against expected claims costs for the same like-for-like group. This allows us to compare premiums between distribution arrangements, controlling for underlying risk factors. The relationship between premiums and expected claims costs appears to be broadly similar for restricted panel and whole of market panel sales. There is no clear systematic shift in the distribution that would suggest higher premiums for policies sold through restricted panels.

Graph 6: Premiums and commissions under restricted panel and whole of market panel arrangements, for an illustrative like-for-like group (2024)

Source(s): FCA analysis of data provided by firms. Note: Both axes are normalised by dividing each value by the median (calculated across products sold on restricted panels and whole of market panels together), so that the median equals 1. The group includes income protection policies with the following characteristics: healthy lives, immediate acceptance, increasing coverage and premium, coverage up to £ 25,000, age up to 29.

Graph 7: Premiums and expected cost of claims under restricted panel and whole of market panel arrangements, for an illustrative like-for-like group (2024)



Source(s): FCA analysis of data provided by firms. Note: Both axes are normalised by dividing each value by the median (calculated across products sold on restricted panels and whole of market panels together), so that the median equals 1. Same group as the previous graph.

4.42 Findings were similar across the other groupings examined as part of this analysis.

We found limited evidence of price differentials between products with loaded and non-loaded premiums

4.43 Intermediaries typically negotiate commission rates with insurers, while insurers set the premium amounts. We have, however, heard of concerns about the practice of raising customer premiums for the purpose of paying an intermediary a higher commission. This approach is sometimes referred to as loaded premiums.

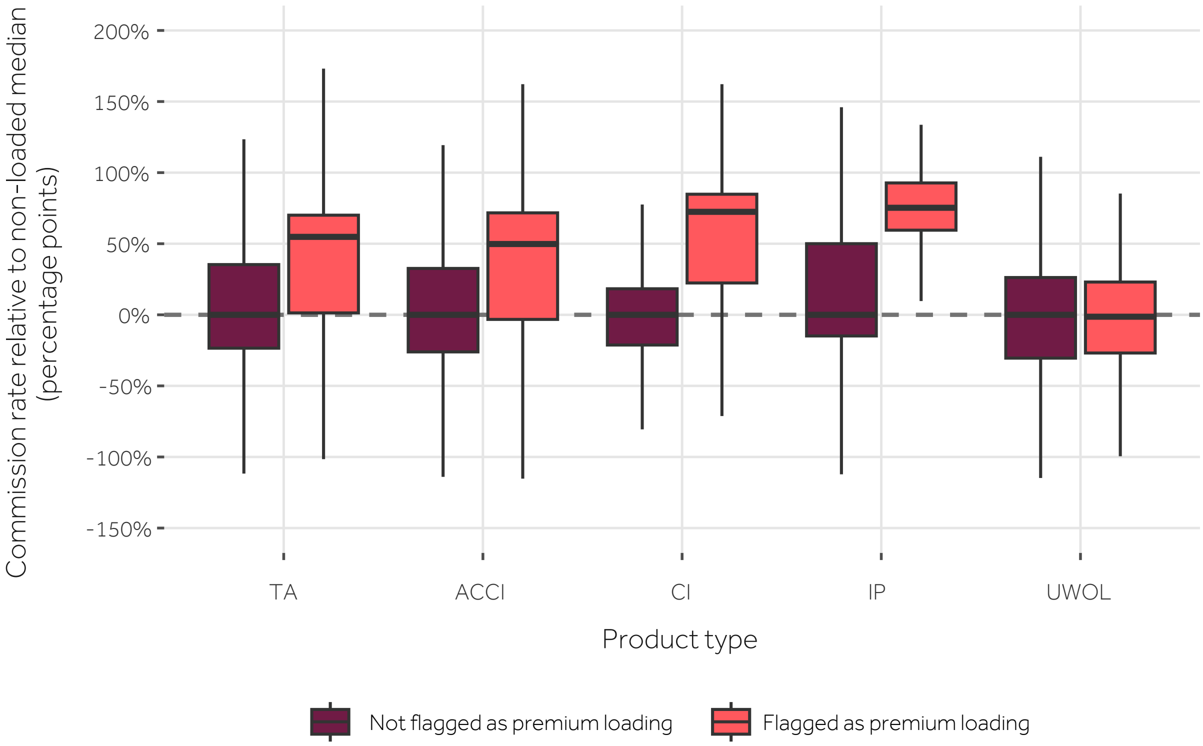
4.44 In our sample, insurers self-reported that about 26% of intermediated new sales in 2024 involved loaded premiums. We would be concerned if we found evidence of this practice resulting in higher premiums for customers which cannot be justified by improved quality or service. This would be inconsistent with firms' fair value obligations under PROD 4.[5]

4.45 To understand the impact of loaded premiums at a market-wide level we compared commission rates and annual premiums for policies with loaded and non-loaded premiums, for each product type, to observe differences between loaded and non-loaded products at an aggregate level. Then we analysed outcomes for groups of consumers with more directly comparable characteristics.

5 Manufacturers and distributors of non-investment insurance products also have obligations under PROD 4 to ensure distribution arrangements, including commission, do not adversely impact the overall value of the products for the customer.

4.46 Graph 8 below shows the distribution of commission rates for loaded and non-loaded premiums, by product type. For most products, the distribution of commission rates shows that, on average, policies with loaded premiums have higher commission rates (approximately 25% higher).

Graph 8: Distribution of commission rates (%) for policies with and without loaded premiums, by product type (2024)



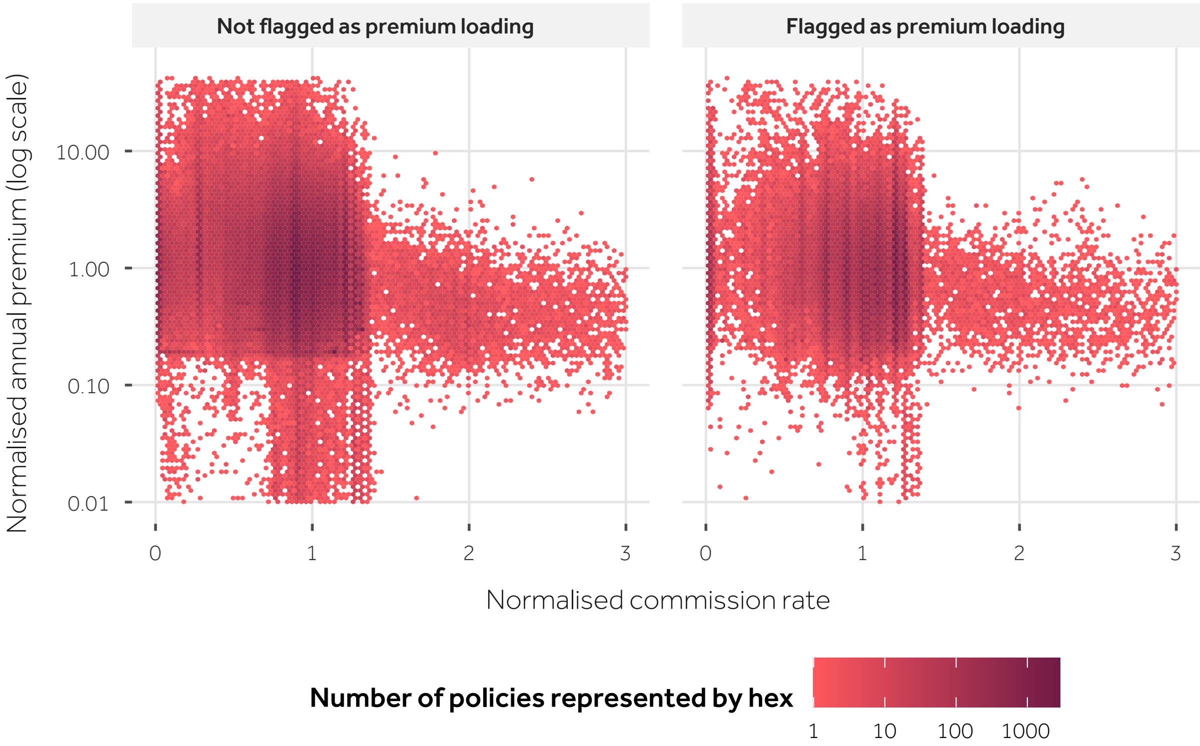
Source(s): FCA analysis of data provided by firms. Note: The chart shows the distribution of commission rates for policies sold in 2024 relative to the median commission rate for policies that do not have loaded premiums, within each product type. The horizontal line inside each box represents the median; the top and bottom of each box represent the 75th and 25th percentiles respectively; and the vertical lines ("whiskers") extend to the most extreme values within 1.5 times the interquartile range. The product types shown are term assurance (TA), accelerated critical illness (ACCI), stand-alone critical illness (CI), income protection (IP) and underwritten whole of life (UWOL). We have not included guaranteed acceptance over 50s because the majority of guaranteed acceptance over 50s commissions are set through intra-group arrangements and may therefore not reflect market based intermediary pricing.

4.47 However, annual premiums for loaded products appear to be within a similar range as non-loaded products. While we found that policies with loaded premiums can appear more expensive for middle-priced products, there are almost aways more expensive non-loaded products available.

4.48 This is shown in Graph 9 below, which plots the annual premiums of individual policies and commission rates for term assurance, for policies with and without loaded premiums. If loaded premiums were generally higher than non-loaded premiums, we would expect to see loaded premiums more concentrated in the top part of the chart compared to non-loaded premiums. Instead, the distribution of annual premiums is similar between the loaded and non-loaded, with both loaded and non-loaded policies showing a wide range of annual premium values.

4.49 Term assurance policies with loaded premiums don't appear to have higher annual premiums than policies with non-loaded premiums even if they have, on average, higher commission rates. We have found a similar pattern across all pure protection products.

Graph 9: Relationship between commission rate (%) and annual premiums, term assurance new sales (2024)



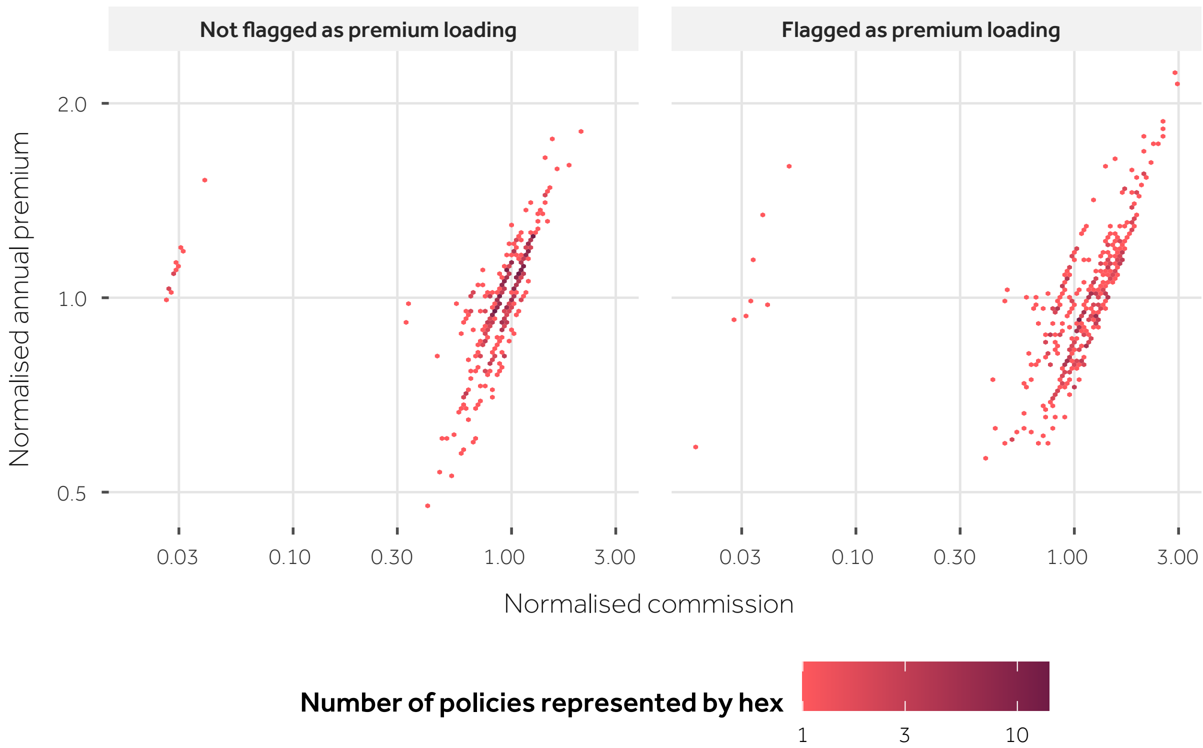
Source(s): FCA analysis of data provided by firms. Note: Both annual premium and commission rate are normalised to median = 1.

4.50 The data reflects actual product sales rather than product offering, so we cannot determine whether the same product would be more expensive with a loaded premium than its equivalent non-loaded version. The patterns above could indicate that customers evaluate policies considering the overall price, and, being price sensitive, might more frequently opt for non-loaded alternative products.

4.51 To better understand the impact of loaded premiums, we analysed specific products purchased by a more narrowly defined group of similar customers to compare like-for-like policies.

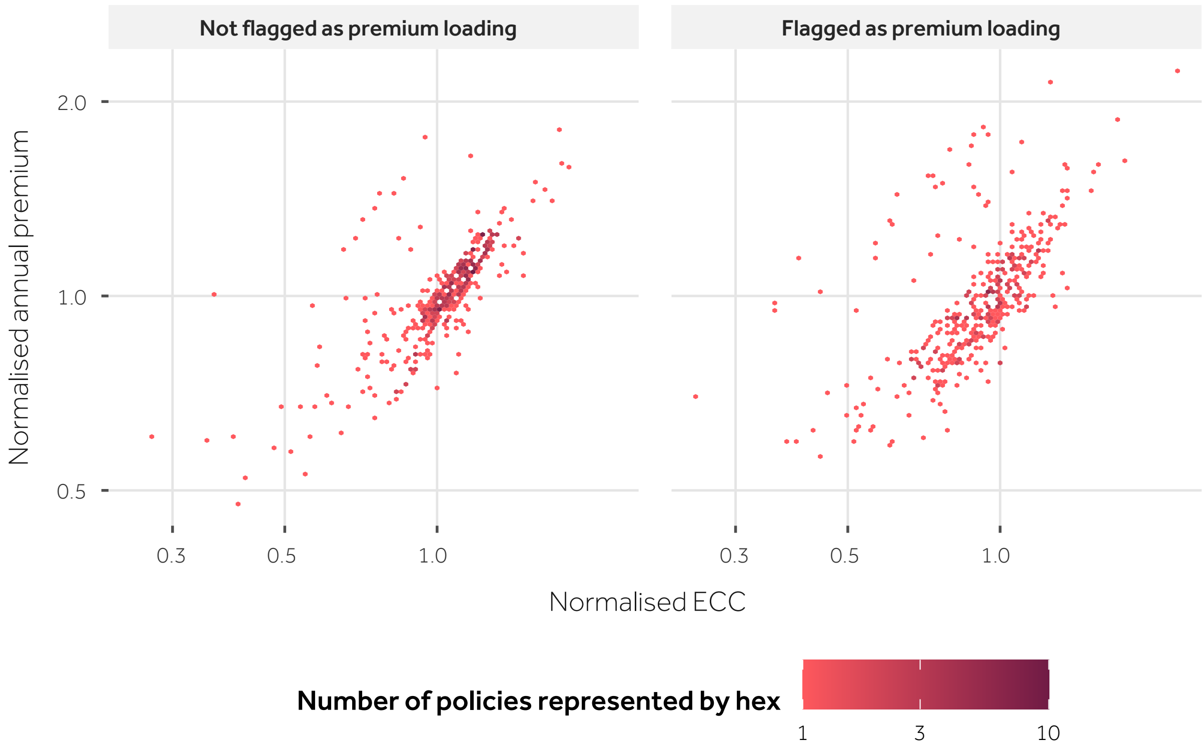
4.52 Graphs 10 and 11 below show examples of commission and annual premiums associated with a specific accelerated critical illness product with some of the highest number of comparable customers, with and without loaded premiums. This included customers with healthy lives who were immediately accepted, with level premium and coverage, with the same amount of coverage, same age group and same product.

Graph 10: Relationship between commission value and annual premiums (£) for an accelerated critical illness product with and without loaded premiums (2024)



Source(s): FCA analysis of data provided by firms. Note: shows policies with annual premiums up to £10,000, for visual clarity. Both axes are normalised by dividing each value by the median (calculated across loaded and non-loaded products together), so that the median equals 1. ACCI, healthy lives, immediate acceptance, level coverage and premium, £50,00 coverage up, 30 to 34 years of age.

Graph 11: Relationship between expected cost of claims and annual premiums (£) for an accelerated critical illness product with and without loaded premiums (2024)



Source(s): FCA analysis of data provided by firms. Note: Both axes are normalised by dividing each value by the median (calculated across loaded and non-loaded products together), so that the median equals 1. ACCI, healthy lives, immediate acceptance, level coverage and premium, £50,00 coverage up, 30 to 34 years of age.

4.53 Graph 10 above indicates that an accelerated critical illness product with loaded and non-loaded premiums have similar annual premium levels, though loaded products typically carry higher commissions. If loaded premiums resulted in customers paying higher prices, we would expect to see higher annual premiums for comparable policies with loaded premiums than non-loaded premiums. Instead, for any given level of premium, we found policies with both loaded and non-loaded premiums.

4.54 Graph 11 shows that the relationship between annual premium and ECC (which, as explained in Chapter 3, controls for some variation in consumer characteristics) for an accelerated critical illness product is similar for loaded and non-loaded premiums. For any given level of ECC, we see many different premium values for policies with both loaded and non-loaded premiums. We found the same results for other products for which we had sufficient data to do a like-for-like comparison.

4.55 Loaded premiums can be used by intermediaries to negotiate higher commissions with insurers, which is reflected in the overall price customers pay. However, loaded premiums are just one of the many drivers of price dispersion. We have found that policies with non-loaded premiums exhibit the same levels of dispersion.

4.56 Manufacturers and intermediaries of non-investment insurance products must account for distribution arrangements, including remuneration, as part of their fair value assessments required under PROD 4. This would include accounting for practices such as loaded premiums.

4.57 Overall, we have found little evidence indicating that the loaded premiums we currently observe in the market equate to higher prices for customers compared to non-loaded products.

Chapter 5

Outcomes driven by commissions

5.1 In this Chapter we describe how indemnity commissions have the potential to create the incentive for intermediaries to churn customers or to prioritise the sale of products with higher associated commissions. We explore observed rates of lapsing, particularly after the end of clawback periods. We also discuss the controls put in place by insurers and intermediaries to prevent lapsing and to tackle commission bias.

Policy lapses may be driven by changes in circumstances or beneficial switching, but may also reflect intermediary incentives to churn policies

5.2 As part of our assessment of consumer outcomes associated with the sale of pure protection products, we analysed lapse rates.

5.3 A policy lapse is the termination of an insurance policy before its intended term, either because the customer actively chooses to cancel the policy or stops paying the premiums. This may be because the sale was unsuitable (or unaffordable) but may also be because the consumer's circumstances changed.

5.4 Lapse rates are one of the metrics firms may use to assess whether customers are being matched with products that meet their demands and needs. Low lapse rates accompanied by high reported satisfaction are more likely to suggest consumers are being matched with products that fit their demands and needs. In contrast, high lapse rates, particularly in the early stages of a policy, can signal issues with customer satisfaction, the affordability of premiums or the quality of the sales process.

5.5 We found that average lapse rates throughout the lifetime of a product ranged from 1% to 7% for all policies in force and from 2% to 7% for policies sold by protection specialists, mortgage advisors and financial advisors[6]. Firms stated that lapse rates are reasonable, with some parts of the distribution chain characterised by higher associated lapses. While we do not have data on actual policy duration, tenure data on policies in force shows that a substantial amount of pure protection products are held by longstanding customers. Of the 12.4 million policies in force from the insurers in our sample at the end of 2024, more than half (53%) had been in force for at least 5 years, and about a quarter (24.3%) had been in force for at least 10 years.

5.6 Of the policies that lapse, a subset of them likely involve customers switching. Switching occurs when a customer replaces one policy with another, either by themselves or with encouragement from an intermediary or insurer.

6 Weighted average across tenures, as of 2024.

5.7 Within a given policy term, customers' demands, needs and circumstances may change. It is therefore important that intermediaries can help customers re-assess their demands and needs and offer more suitable products. Switching can result in customers finding more suitable products or getting a better deal in the form of lower premiums. This can be pro-competitive if it results in downward pressure on prices.

5.8 The expression 'rebroking' is typically used by protection firms to indicate when a customer switches to a policy that better suits their needs. Meanwhile, 'churn' is used to refer to an intermediary encouraging a customer to switch to a policy that does not better suit their needs and demands or offers less value (inherently possible given premiums tend to rise as a customer ages). Churn can be driven by the incentive to earn repeat commissions from sales to the same customer. As described below, churning is not permitted by our rules.

5.9 We did not collect the detailed individual data needed to assess switching motivations, given the likely resource required to provide the data and carry out the analysis. Instead, we looked at intermediary practices and insurer data on lapses.

Measures to reduce churning appear to work well overall, but we cannot rule out that some level of churn is taking place

5.10 While customers are price sensitive, making them susceptible to poor sales practices offering cheaper products, insurers impose constraints on intermediaries that materially restrict their ability to sell unsuitable (or unaffordable) policies.

5.11 Insurers stated that upfront costs are significant and that policies tend not to become profitable until around year 6. We have also found that insurers model profits over a 20-to-30-year horizon. High lapse rates would prevent insurers from recovering upfront costs and actual profit being lower than modelled, so they have strong incentives to ensure sold policies are suitable.

5.12 Likewise, insurers must meet PROD 4 obligations, requiring them to select appropriate distribution chains and keep the appropriateness of these channels under review. Where issues are identified, insurers are required to take remedial actions.[7]

5.13 As a result, insurers undertake extensive due diligence checks on intermediaries and monitor their performance regularly throughout the length of the distribution agreement.

5.14 We found that most UK protection insurers operate a Distribution Quality Management (DQM) system which continually monitors the quality of business submitted and intermediary conduct. DQMs trigger action to reduce exposure to firms where concerning trends and metrics arise. Persistency metrics, including policy retention and lapse rates, are a key metric of the DQM framework. If underperformance is found, insurers have a range of options to correct this, such as moving commission to non-indemnity models or suspending business. We observed some examples of this monitoring inducing insurers to terminate relationships or to work with intermediaries to reduce their lapse levels.

7 PROD 4.2.39AR

5.15 We have also found that clawback periods are commonly tied to commission agreements. The clawback period describes the period in which, if a customer lapses, cancels or if the policy materially changes, a proportion of upfront commission is repaid by intermediaries to insurers. These repayments are the unearned commission on a policy. For example, if an intermediary received £400 commission with a 4-year clawback, if the customer lapses after 1 year, the intermediary would be required to repay £300 of 'unearned' commission.

5.16 Generally, clawback periods are set by insurers and are not subject to negotiation. We have seen evidence that clawback periods have shifted from 2 years to 4 years on average. Most firms explained that periods longer than 4 years are viewed as too long as customers circumstances are likely to change.

5.17 Therefore, we consider that clawback periods dampen the incentive for intermediaries to churn customers as they will need to repay part of their commission if a customer lapses during this period.

5.18 We have also seen evidence that insurers have introduced product features that seek to increase customer engagement and thus reduce attrition, such as services like virtual GPs.

5.19 We found that network level intermediaries receive a proportion of commission that is also subject to clawback, therefore they have incentives to reduce the clawback rates of their members. Some network level intermediaries stated that they set target clawback rates for their members which can be required to gain access to some panels. We have also seen evidence of some network level intermediaries targeting poor sales practices to reduce members' clawback rates, removing firms that do not improve performance.

5.20 Insurers stated that clawback rates remain stable at approximately 15-20% of commission, this does not support high levels of churn taking place.

5.21 Likewise, we found that intermediaries undertake proactive reviews several years after purchase. This is commonly aligned with mortgage maturity (typically two-to-five-year fixed terms). This creates natural points for customers to reconsider protection needs and an opportunity for intermediaries to present an alternative product to a customer (although simply switching to a new two- or five-year fixed mortgage would be unlikely to justify switching protection on its own). Reactive reviews also occur and are triggered by missed payments, cancellations, or lapses, prompting intermediaries to check for changes in circumstances.

5.22 We also found that most sales (over 80%) made by each intermediary in our sample for the years 2012 to 2024 were to new customers and only the remainder were to their existing customers.

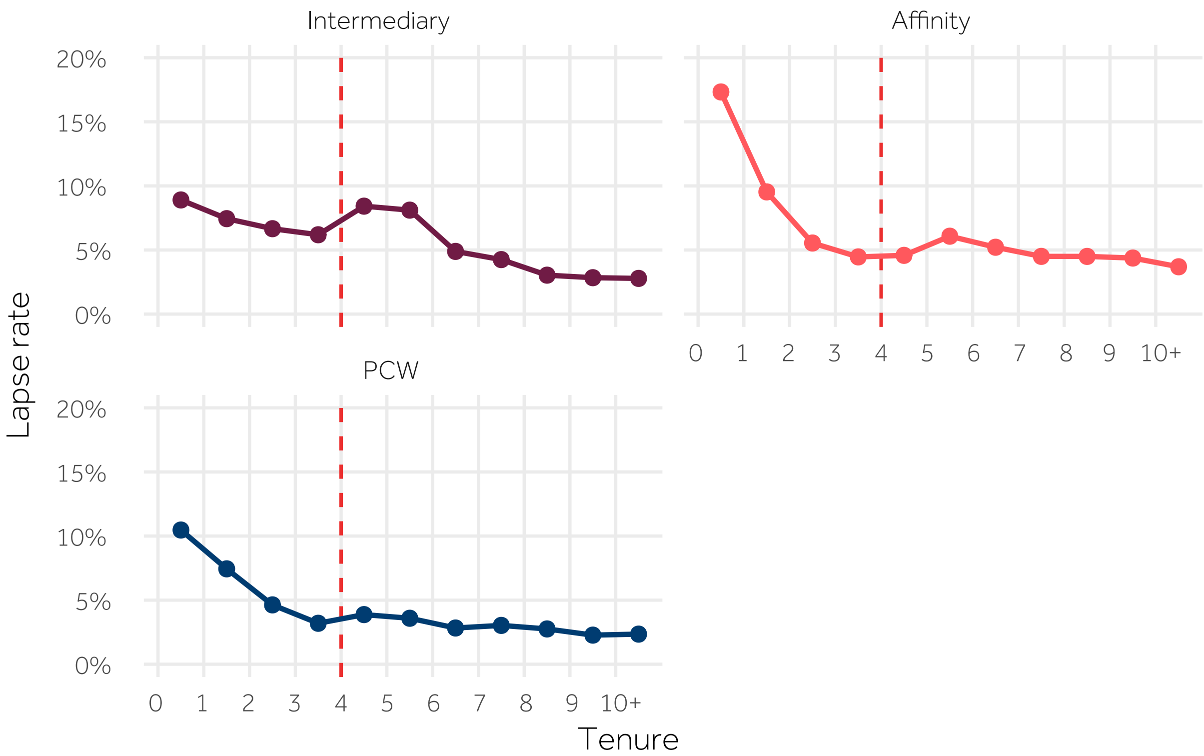
5.23 To assess this further, we analysed lapse rates before and after the end of clawback periods. If churning were taking place, we would expect to see spikes in lapse rates after the end of clawback periods when no commission is forfeited. Widespread behaviour of this kind could harm the individual customer that has switched. It could also add to insurer costs, at least some of which is likely to be recouped from consumers. If there were evidence of this, intermediaries would not be acting in good faith or helping consumers achieve their financial objectives as required under the Consumer Duty. They would neither be aligning with the requirements of PROD 4 or customer's best interests rule in ICOBS (ICOBS 2.5.-1 R).

5.24 As described in our interim report, we found a modest spike (of approximately 2 percentage points) in lapse rates on average after the clawback period ends (for both 4-year and 2-year clawback periods). This was driven mostly by term assurance, accelerated critical illness and income protection products. These products are often used to cover a mortgage or are sold through mortgage advisers. This suggests that part of the spike could be driven by customers renegotiating their mortgage and intermediaries using this opportunity to sell a new pure protection product.

5.25 To assess whether the potential harm from churn could be substantial, we produced a high-level estimate of an upper bound for the number of consumers who may be affected. This is an indicative estimate of scale, not a precise forecast. It is conservative because it is derived from lapses, and only a subset of lapses involve switching. Likewise, only some switching occurs after intermediary contact and only a fraction of that switching is likely to represent harmful churn. Based on the change in lapse rates before and after the end of 2-year and 4-year clawback periods, scaled by the number of policies in the year either side of clawback end, we estimate around 16,000 to 19,000 consumers may be affected (around 0.2% of our sample and 0.1% of the 16.2 million UK policy holders according to Financial Lives 2024 survey estimates).

5.26 We also found that these spikes are most common in sales driven by mortgage brokers, independent financial advisers (IFAs) and protection specialists (which in this context we refer to as intermediaries), rather than PCWs or affinities/partnerships (for example a bank or building society partnering with an insurer to sell policies under their brand), highlighted in Graph 12.

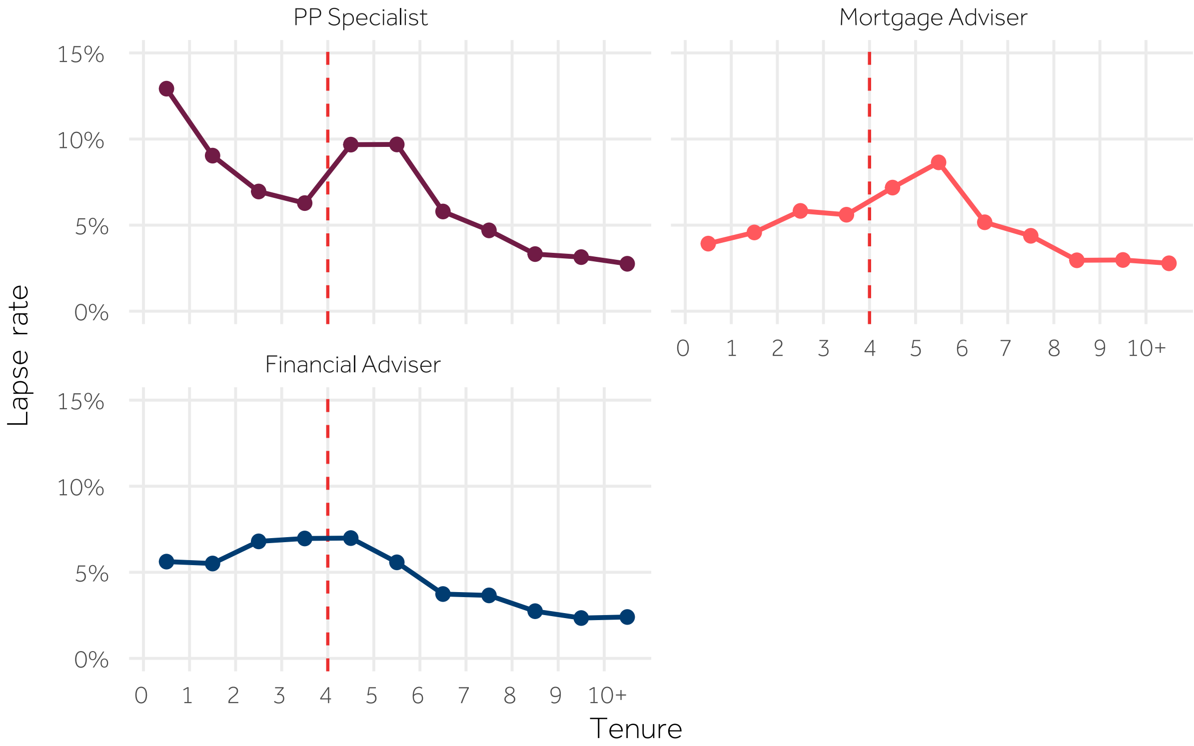
Graph 12: Observed spike in lapse rates following 4-year clawback, intermediaries, PCWs and affinities/partnerships (2024)



Source(s): FCA analysis of data provided by firms. Note: intermediaries include mortgage brokers, IFAs and protection specialists. Policies in force (2024), intermediated sales, indemnity commission, 4-year clawback.

5.27 However, there is no clear pattern suggesting spikes after clawback are more common or higher when comparing across protection specialists, mortgage advisers and IFAs. This is illustrated in Graph 13. There is heterogeneity amongst these types of firms, with observed spikes occurring between years 2 to 5.

Graph 13: Observed spike in lapse rates following 4-year clawback, protection specialists, mortgage advisers, IFAs (2024)

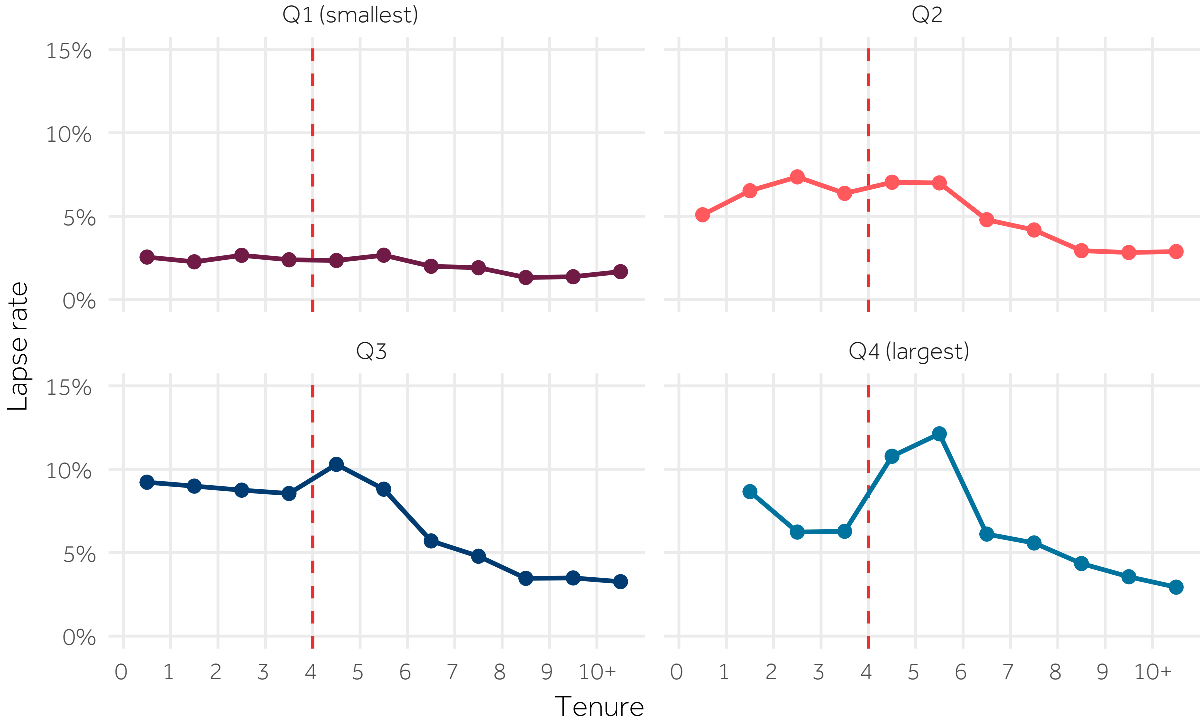


Source(s): FCA analysis of data provided by firms. Note: Policies in force (2024), indemnity commission, 4-year clawback, only includes mortgage brokers, IFAs and protection specialists.

5.28 We also noted there is a high rate of lapsing for some groups of intermediaries in the first year of the policy term. This result is mostly driven by lapse rates for non-advised sales, which may reflect the fact that pure protection products are complex to navigate without advice as customers need to assess the value of different policy options against their needs, demands and budget. Early lapsing could indicate a re-evaluation of the need for a policy and the customer switching, but also potentially the sale of products that did not meet the customer's needs and demands from the outset.

5.29 We heard concerns about certain intermediaries adopting poor selling practices and often failing to pay clawback commission debt to insurers. We looked at lapse rates by size of intermediaries to see if there were indications that smaller intermediaries might have higher lapse rates. However, we found that larger intermediaries which represent 20% of premiums have higher lapse rates and spikes than smaller intermediaries, as illustrated in Graph 14.

Graph 14: Observed spike in lapse rates after 4-year clawback, size of intermediaries, quartiles (2024)



Source(s): FCA analysis of data provided by firms. Note: Policies in force (2024), indemnity commission, 4-year clawback, only includes mortgage brokers, IFAs and protection specialists. Distributor FRN were ordered from smallest to biggest and then divided into four groups, each representing approximately 25% of the sales (in premium collected). The first group has almost 30,000 firms within it, the second around 1,100, the third around 100 and the fourth around 10 firms. The results are consistent if using number of policies in force rather than premiums.

5.30 Elixir, an industry group representing many insurers, also reported concerns about certain intermediaries engaging in poor practices, who often enter a cycle of selling new policies to cover clawbacks. These sales can then be of poorer quality (ie with higher lapse rates) leading to increased clawbacks (ie a vicious cycle) until the intermediary eventually exits the market, leaving insurers to write off outstanding commission clawback debt.

5.31 Their data shows that approximately £100 million of commission debt was written off by the industry group's members between 2019 and July 2025, with a further £36 million reported as outstanding. Much of this debt relates to intermediaries specialising in non-advised phone-based sales.

5.32 Although these figures represent less than 1% of collected premiums between 2021 and 2024, they highlight a risk within certain parts of the distribution chain. However, the practices, incentives and constraints discussed above appear to effectively prevent widespread churning.

Intermediaries and insurers seek to mitigate commission bias

5.33 As commission is negotiated bilaterally and can vary from one insurer to another, it has the potential to create the incentive for an intermediary to prioritise selling higher premium products. Also, because commission is calculated as a percentage of the total premium, it could incentivise intermediaries to deprioritise product features that provide value to customers but offer the intermediary little additional reward. If there were evidence of this, firms would not be acting in good faith or helping consumers achieve their financial objectives as set out under the Consumer Duty. Firms would also be breaching SYSC 19F.2, which requires that firms must act fairly, honestly and professionally in accordance with the best interests of their customers. The remuneration they receive must not conflict with the customers best interests.

5.34 Given the range and complexity of pure protection products, we understand that there is not a single 'best product' for an individual customer but rather a variety of products that can be tailored to a customer's demands and needs. Intermediaries do have discretion as to which product or policy to offer to a customer. They collect information on the customer's needs, financial situation and risk exposure. This information is usually entered into portals and product comparison websites which enable real-time quoting and policy generation. These platforms will also provide the intermediary with the associated total premium payable by the customer and commission.

5.35 However, as described in Chapter 4, customer price sensitivity and shopping around reduces the likelihood that intermediaries would risk losing a sale for a small difference in premiums.

5.36 We have also seen evidence that network level intermediaries put in place policies around commissions, such as equalisation. For example, intermediary networks can demand the same commission rate from all insurers, as a condition of securing a place on a panel for example. Alternatively, networks can pay the same (average) commission rate to their members irrespective of the product sold, while accepting different commission rates from insurers.

5.37 While not all intermediary networks equalise commissions, we have found that all intermediaries have controls in place to ensure there is no commission bias when their members select products to offer customers. For example, volumes of business per provider are tracked for each intermediary. Additionally, systematic file reviews are conducted to evaluate research performed and to assess the justification for suggesting a particular provider when alternative products may be more cost-effective or seemingly more appropriate.

5.38 Some insurers also offer higher commissions for products that require greater effort to explain and support, or which provide value to customers but would usually result in lower commission. These higher commissions are designed to prevent options being unduly selected against.

5.39 Some network level intermediaries have also implemented a commission cap policy that their members must follow. Where the calculated commission exceeds this amount, the excess must be sacrificed back into the policy to reduce the customers premium and bring the commission in line with the cap.

Pub ref: 2-009048.2