

# **MS24/2.2 Premium Finance Market Study Technical Annex**

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# Contents

Annual Percentages Rates (APR) .....	2
Data Sources.....	3
Information gathered from market participants .....	3
Financial data collected from firms .....	3
Financial Lives Survey (FLS).....	4
General Insurance Pricing Practices (GIPP) Evaluation.....	4
REP021e composite dataset .....	5
General Insurance Value Measures data.....	5

# Annual Percentages Rates (APR)

The Annual Percentage Rate, or APR, presents the total cost of credit on an annualised basis. It is designed to enable consumers to compare the cost of different credit products on a like-for-like basis. Firms are required to provide an APR in their financial promotions (by way of a representative rate that would apply to at least 51% of resulting agreements), pre-contractual and contractual information. For credit agreements not secured on land, the calculation and underlying assumptions are set out in CONC App 1.2.

Interest on credit agreements is usually charged on a compound basis – increasing day on day. The APR represents the interest that would accrue over a year should a customer make no payments to reduce the initial loan amount or accruing interest during the year.

However, in many credit agreements, customers will make regular instalment payments to reduce the outstanding balance of the loan and the interest that accrues on it. Often the instalment payments will be structured to clear the loan balance completely over a defined contract period. As a result of the regular repayments, and lower accruing interest on the outstanding balance, the total interest paid is often lower than it would be in comparison to the APR rate.

In the case of premium finance with interest, where the majority of agreements are for less than 1 year and typically repaid over 9-11 monthly instalments, the difference between the total interest charged as a proportion of the loan and the APR can be significant.

For example, a customer purchasing a home insurance policy with a premium of £246 (including Insurance Premium Tax (IPT) rate of 12%), could pay a 10% deposit (£25) and borrow the remaining £222 as premium finance. Assuming a 10 month credit agreement with an APR of 25%, the customer would make 10 instalments of around £24.50, paying £270 in total, including approximately £24 in interest, equivalent to 11% of the loan amount. Note that, for presentation purposes, we rounded these values to the closest integer.

# Data Sources

The evidence presented across our papers is based on a number of data sources which we describe below.

## Information gathered from market participants

As part of the market study, we requested information from:

- 11 underwriters (insurers)
- 28 intermediaries (both lenders and brokers for premium finance)
- 5 specialist premium finance providers ('SPFPs')
- 4 Price Comparison Websites ('PCWs').

Our engagement with firms has included analysis of all agreements used to pay for insurance premiums, both where it is free to the customers and where a charge has been made.

## Financial data collected from firms

We selected a sample of 26 firms (some of which include multiple legal entities) split across the four cohorts described above. There are three cohorts of firms which lend premium finance (lenders), namely insurers, intermediary lenders and specialist premium finance providers (SPFPs), and one cohort of firms that brokers premium finance (intermediary brokers) alongside insurance policies. The financial data we used relates to the period 2018-2023. Unless otherwise stated, all financial data is expressed in nominal terms.

We estimate that we have captured approximately 84%, 91% and 98% of the market based on outstanding balances across the insurer, intermediary lender and SPFP samples respectively. The intermediary broker market is less concentrated, and our sample covers approximately 49% of the market based on the commission amounts charged for retail premium finance in 2023. While this provides a substantial view of market activity, it may not fully reflect the characteristics or behaviours of the remaining 51%. As such, findings for brokers should be interpreted with some caution, particularly when drawing conclusions about the full population of brokers.

We also gathered qualitative and off-the-shelf documents to contextualise the insights arising from our financial data analysis. These included a questionnaire as part of our information request, as well as management accounts, internal financial documents and fair value assessments (FVAs).

Unless expressed otherwise, we have used weighted averages in our analysis. This means that, for a cohort of firms, we have taken the total across all firms in the cohort and applied this to each metric in the calculation. For example, weighted average margin for insurers represent the total revenues across insurers, minus total costs for insurers, divided by total revenues for insurers. While weighted averages may not capture all the differing nuances in trends for each individual firm, they are the most representative way of presenting our findings for the purposes of this paper that ensures firms' anonymity.

Firms use different methodologies, judgements and assumptions when estimating certain financial metrics. We have taken these into account and applied our own judgements and assumptions where necessary. Where appropriate, we have excluded individual

firms from pieces of analysis. This is to ensure each piece of analysis, while still representative of the market, reflects data that can be compared like-for-like.

We also gathered information on the distribution of APRs split out by home and motor insurance. This includes summaries of the distribution of APRs. The bands for this include 0% (interest-free), between 0% and 5%, 5% and 10% and so on, and 25%+.

## Financial Lives Survey (FLS)

In our papers, we also use data from the Financial Lives survey (FLS). The FLS is our nationally representative survey of UK adults. It is the UK's largest tracking survey of UK adults' financial behaviour and their perceptions and experiences of the UK financial services industry.

The Handbook defines [retail premium finance](#) to exclude credit agreements which do not result in the customer paying any amount in addition to the price of the policy. The FLS asked survey participants if they pay for insurance in instalments, rather than if they use retail Premium Finance. FLS responses may therefore include customers who are on interest-free plans as well as those for whom a charge is made for credit. Consequently, wherever these papers refer to customers who pay in instalments, this may include both customers who use premium finance and those on interest-free plans.

Some of the analysis in our papers comes directly from the published [FLS 2024 reports](#). Other analysis presented in these papers has been conducted specifically for the purposes of this Market Study, either using FLS 2024 data, or by combining FLS 2022 data with the General Insurance Pricing Practices (GIPP) Evaluation data.

## General Insurance Pricing Practices (GIPP) Evaluation

As part of the evaluation of the remedies proposed following the GIPP market study, the FCA requested transaction level data from 16 home insurance firms and 13 motor insurance firms. In 2022 (the year of intervention) the market shares of the insurers in the sample, based on Gross Written Premium, was calculated at approximately 80% and 57% for home and motor respectively. In Q2 2024, the FCA collected insurance policies directly from in-sample firms through an c.10% quasi-random sample of each firms' consumers from the beginning of Q1 2019 to the end of Q1 2024.

Transactions are flagged by:

- Whether they are motor or home, and within home whether they are for building, contents or both.
- The distribution channel of the policy - whether it was sold directly by the insurer, through an intermediary, through an affinity partnership or through a price comparison website (PCW).
- The policy inception date which enables us to identify whether the policy is new vs renewed and the associated tenure if policy was renewed.
- The name of the intermediary, if applicable.

The GIPP evaluation dataset has variables specifically of interest for premium finance:

- Payment frequency, with the vast majority being annual or monthly.
- The associated cost of financing, and the associated APR.
- The specialist premium finance provider (SPFP), if applicable.
- The associated premium finance commissions, if applicable.

The usability of the variables for premium finance depends on the submitting firms observing the details of any premium finance relating to the underlying insurance. For plans using SPFPs, our other data sources which include information directly from SPFPs provides a more comprehensive coverage.

## REP021e composite dataset

REP021 is an FCA regulatory reporting requirement for firms involved in setting the price of home and motor insurance.

This includes insurers, managing agents and intermediaries. REP021e is a subset of this reporting which includes data on costs of paying monthly. REP021e data provides volumes in each APR banding by home and motor. The APR bands include 0% (interest-free), between 0% and 10%, 10% and 20% and so on, and above 50%.

In order to better understand the SPFP segment of the market, we requested similar information to REP021e from SPFPs as part of our information request to firms. This SPFP dataset is aggregated across home and motor.

Our composite dataset takes REP021e and replaces the intermediary broker entries with the SPFP data from our information request, which materially eliminates the risk of double-counting. As the SPFP dataset does not break down home and motor the composite dataset aggregates across home and motor.

## General Insurance Value Measures data

We have used this data to demonstrate the size of the UK home and motor insurance market in 2023.

For a wide range of retail general insurance products, we require firms to annually report various metrics relating to product value. Firms are required to report for relevant products sold to consumers in the UK where total retail premiums (written) are above £400,000 in the reporting period, and where there are more than 3,000 policies in force during the reporting period. The data includes firm-specific information on claims frequencies, claims acceptance rates, average claims pay-outs and claims complaints as a proportion of claims.

We committed to publish the GI value measures data in Policy Statement PS20/9 and we publish aggregate product level data for products where 5 or more firms submitted data, and where the data meets our standards required for publication.