FINANCIAL CONDUCT AUTHORITY

Market Study

MS24/2.2

Premium Finance Market Study Update Paper

July 2025

Contents

Chapter 1

Introduction

1.1 This update paper summarises the initial findings of our premium finance market study, launched in October 2024 as part of our wider work on motor and home insurance. We were concerned that premium finance may not represent fair value for some customers and that competition may not be functioning effectively.

1.2 Our findings are based on evidence and data we have gathered from a Request for Information (RFI) from a sample of firms, these are split across insurers, intermediary lenders and brokers, such as price comparison websites (PCWs), and specialist premium finance providers (SPFPs). We have also used existing FCA datasets, including the General Insurance Pricing Practices (GIPP), regulatory data returns and the Financial Lives Survey (FLS).

1.3 We are publishing this alongside three papers providing details of the analysis we have conducted so far. Our findings may develop further in the next phase of the market study, focusing on those areas where we still have concerns.

1.4 We are seeking comments and feedback to further inform the next phase of the market study. We will proactively engage with the market to support our future work. We invite all views to be sent by 5pm on Tuesday, 30 September 2025.

Chapter 2

Summary of first phase findings

Premium finance is an important way of paying for insurance. In 2023 it was used for around 48% of motor and home policies. For some of these consumers, premium finance is a choice. But for many, especially those in more vulnerable groups, it is a necessity because they cannot afford to pay annually.

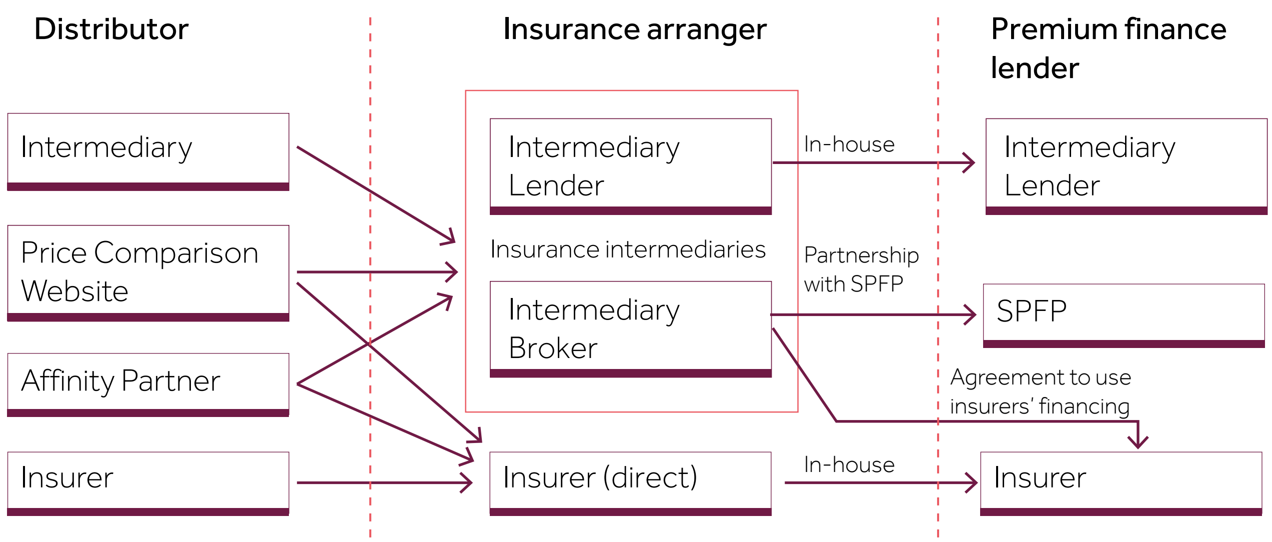
2.1 For many consumers premium finance is an easy way of spreading the cost of insurance. It's fully integrated into almost all ways of purchasing insurance and, while other credit products can be used, premium finance can be highly convenient.

2.2 A growing proportion of consumers are unable to pay in a lump sum or use alternative forms of credit to purchase insurance. In 2024 60% of motor and 41% of home (buildings and contents combined) policyholders who paid by instalments did so because they could not afford to pay in a single annual payment. Many of these customers also have a wide range of characteristics that suggest low levels of financial resilience.

2.3 How premium finance is provided depends on the relationships in the distribution chain and who the consumer is buying their insurance through.

2.4 Premium finance is provided through a wide range of different commercial models. For the largest brokers and insurers, premium finance is self-funded and sold alongside the insurance that they arrange or manufacture. Smaller brokers arrange premium finance for their customers through specialist premium finance providers (SPFPs). SPFPs lend funds to consumers and brokers receive a commission.

Figure 1: Interactions between players in the premium finance market



* Distributors have a range of sales channels including online, telephone and in-store.

There is wide variation in the rates firms charge for paying by instalments, with significant differences according to how the insurance is distributed. Typically, when firms charge extra for premium finance, the Annual Percentage Rates (APRs) are in the range 20-30% but almost 20% of consumers pay over 30%.

2.5 Around 60% of consumers pay headline APRs that are between 20 and 30%. This would cost an extra £19-28 on an illustrative home policy (with a premium of around £220 and standard rate Insurance Premium Tax (IPT) of 12%) and £35-£51 on an illustrative motor policy (with a premium of around £400 and standard rate IPT of 12%). This suggests it costs consumers typically between 8 and 11% more to pay monthly rather than annually.

Figure 2: An illustrative home insurance premium finance arrangement

Total cost of credit	Premium finance cost as a proportion of price	Premium finance cost as a proportion of loan	APR
£24	10%	11%	25%

Illustrative, based on simplified repayment structure. Note that, for presentation purposes, these figures have been rounded.

2.6 Interest rates on consumer credit vary across products and between consumers, but these APRs compare to monthly advertised interest rates in 2023 of 35% for overdrafts, 11% on a £5k personal loan and 23% for credit cards issued by financial institutions as reported by the Bank of England. Our own data, which captures a larger proportion of the market including cards marketed as "credit builders", shows average APRs on new credit card agreements ranged between 26-32% at the end of 2023.

2.7 Almost 20% of premium finance customers are paying APRs above 30%. Such higher prices are more common when premium finance is distributed by brokers and funded by SPFPs. The relationship between brokers and SPFPs is crucial in providing smaller firms with access to debt at wholesale rates. This moves the cost of funding closer to that of larger self-funding firms, enabling smaller firms to offer monthly payments more competitively than they would otherwise.

The cost of paying monthly also differs substantially between motor and home insurance. More than a third of home insurance customers pay no more for paying monthly than annually, compared with less than 3% of motor insurance customers.

2.8 When looking only at those policies where a firm charges extra for monthly payment, the amount paid for credit in motor is on average higher for consumers than in home insurance. Some firms have indicated that cancellations and changes of policy tend to occur at a higher rate in motor than home, which leads to higher costs for providing motor insurance premium finance.

2.9 0% finance options for home insurance seem to be more common than in motor insurance because:

- There is greater prevalence of buying direct from the insurer rather than through a price comparison website (PCW). Direct sales enable firms to more easily offset the funding and operational cost of offering monthly payments within the overall premium of the insurance product itself. Where price competition is very high, such as in the PCW channel in motor insurance, it may be more difficult to recover the costs of monthly payments through the headline annual premium. That's because that would mean the headline price does not appear as competitive in PCW rankings.
- There is a higher proportion of existing relationships with the customer, such as through a customer's mortgage provider. These consumers may be less likely to switch, giving firms more flexibility to move to a 0% model without loss of those paying annually.

Premium finance providers incur a material level of costs so that consumers can pay monthly. Despite this, revenues materially exceed costs for some providers.

2.10 All firms offering premium finance incur some operational costs, for instance staff, IT and compliance. Lenders also incur either funding costs (that is, how much it costs them to raise the money based on the external interest rate environment), or must sacrifice investment income by delaying the date of full payment.

2.11 Consumer credit products are priced to compensate firms for high levels of bad debt or default, among other costs. Losses from non-repayment of premium finance can be mitigated by cancellation of the insurance policy. Nevertheless, we find that some bad debt is incurred by premium finance lenders (with the ratio of bad debt to loan balance ranging from 0.6% for SPFPs to 1% for intermediary lenders) but not at the levels of other consumer credit products (1.9% for credit cards based on a sample of retail banks). However, the intermediary brokers in our sample incurred the highest level of bad debt costs compared to other firms (around 3%) when there are recourse arrangements with SPFPs.

2.12 Bad debt costs occur in part due to the time lags between customers defaulting on their payments and the policy being cancelled. This gap is important for consumer protection purposes. For example, our rules on forbearance and expectations for firms dealing with customers experiencing financial difficulties affect the time between non-payment and cancellation of the insurance policy.

2.13 Despite these costs, where firms charge for premium finance, revenues appear to materially exceed costs for some providers. Whereas the profit margin earned on a core insurance policy may be relatively low, we see margins on premium finance that are somewhat higher. Different business models will have different ways of recovering costs. In some cases, they recover all costs through the insurance product itself, or recoup returns on lower margin insurance product through higher APRs.

2.14 Our analysis shows premium finance margins (revenue less economic costs as a proportion of revenue) ranging between 14% to 62% across insurers, intermediary lenders, intermediary brokers and SPFPs in the period between 2018 and 2023. SPFPs averaged the lowest margins out of these four, with a weighted average margin of 24% between 2018 and 2023. Insurers had the highest weighted average margins of 53%. However, in 2023, intermediary brokers had the highest margin of 36% due to the other cohorts facing squeezed margins from higher funding costs.

While it is straightforward to compare the total cost of different offers for the bundle of insurance and premium finance, comparing premium finance alone with alternative credit products is more difficult.

2.15 Our ICOBs rules require that consumers are able to understand the cost of paying monthly versus annually. Our provisional finding is that these standards are being met within existing channels. Consumer decision-making focuses on the total cost of bundled insurance and premium finance. This allows them to compare differences in pound amounts and with access to tools that aid decision-making such as ranking tables.

2.16 By contrast, we find that consumers who want to explore paying for their insurance through credit options other than premium finance are likely to encounter some barriers when comparing between different credit products. This is because the distinction between cost of credit, interest rates and Annual Percentage Rate (APR) can be confusing.

As well as paying finance charges for premium finance, some monthly-paying consumers may face a higher charge for the underlying premium.

2.17 Concerns have been raised that in addition to paying finance charges for premium finance, the decision to pay monthly may be factored into the pricing of the underlying insurance premium. This practice has been described as 'double dipping' by some commentators. Our rules require that firms should not increase the insurance premium to customers using premium finance without objective and reasonable basis for the change.

2.18 Some insurers have said the choice of payment method is correlated with insurance risk for those paying monthly. If we see evidence of firms not having an objective and reasonable basis for taking such an approach, we will consider our supervisory approach on a firm-by-firm basis.

Chapter 3

Next Steps

3.1 As the Market Study progresses, we plan to carry out further analysis to:

- Look more closely at higher-priced products, the value these products provide, profitability, and the extent to which these prices are paid by vulnerable customers. Where we find products with prices which are not reflective of the value offered, we will be challenging firms to make sure they have considered all these aspects fully.
- Understand if the differing approaches outlined above in motor and home (including the 0% APR model) are providing fair value to consumers. We want to understand the effects on fair value and competition of the two approaches – the credit risk on the one hand being priced into the insurance cost for home insurance, or, on the other hand, it being priced transparently and separately in premium finance for motor insurance.
- Continue to examine the effect of specific features of the market such as commission and clawback arrangements. Where we find these are creating unnecessary friction, we will challenge firms to make sure they do not lead to poor outcomes.
- Investigate the extent to which consumers can effectively compare premium finance with other credit products. Where we think improvement could be made, we will seek to work with stakeholders to add to the tools already available to consumers.

3.2 Where we find that individual firms are falling below the standards set by existing rules including PROD, ICOBS and the Consumer Duty, we will use our supervisory and enforcement toolkit as appropriate, before considering whether any specific additional requirements are needed. If evidence provides justification for FCA intervention (such as introducing further rules and/or guidance), we will consider the potential benefits and costs to consumers and firms of amending our current regulatory framework. Any such changes will need to be designed to avoid unintended consequences, such as reduced access to premium finance.

3.3 While we will be conducting further analysis and taking action where necessary, we do not currently consider that the following steps would be proposed as remedies:

- Putting in place a single market-wide cap on APRs: we have seen that there are a wide range of business models, and some brokers and insurers service different kinds of consumers and face different commercial constraints. Our current thinking is that a cap on APRs may not be consistent with this range of business models, where some higher APRs may legitimately reflect costs for some consumers. On that basis, a cap may reduce the availability of premium finance and so limit access to insurance in a detrimental way. We will address APR outliers to understand why they are so different and whether any action could be required.

- Mandating insurance be offered at 0% APR: our analysis shows that providing a monthly payment scheme incurs economic costs and that requiring firms to recover these costs in a different way may not lower the overall price that any individual customer pays.
- Commission ban: smaller insurers and brokers often rely on specialist finance providers for financing and technological solutions to provide premium finance. Our current thinking is that it would not be appropriate to ban commission as we have rules in place already around remuneration, consumer understanding and the need to provide fair value. However, we will take action against any specific structures that we find are not meeting our rules.

FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk

Pub ref: 1-008454

All our publications are available to download from www.fca.org.uk.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Or call 0207 066 1000

Sign up for our **news and publications alerts**