FINANCIAL CONDUCT AUTHORITY

Market Study
MS24/2

Premium Finance Market Study

Final Report

February 2026

Contents

Chapter 1

Executive summary

1.1 Premium finance is an important way for customers to spread the cost of insurance. It was used for around 48% of motor and home policies in 2023 – around 23 million policies. Some customers prefer to pay monthly, while others use premium finance because they cannot afford to pay for a whole year's cover up front.

1.2 We launched this market study in 2024 because we were concerned that some customers were not getting fair value and that competition was not functioning effectively. We also recognised that premium finance serves an important purpose, in providing flexibility to customers on payment terms, enabling those who cannot afford to pay annually to access insurance and enabling access for some higher risk or underserved customers.

1.3 In July 2025 we set out our interim findings, inviting feedback on our analysis and explaining the next steps we wanted to take before reaching our conclusions. We set out that we were not considering taking interventions to (a) place a single market wide cap on APRs; (b) mandate that insurance is offered at 0% APR; or (c) ban commission. We said we would investigate higher-priced products more closely to determine whether they are offering fair value; examine commission and clawback more closely; and investigate whether customers can effectively compare premium finance and other credit products before reaching a conclusion on possible interventions.

1.4 This report sets out our final findings and conclusions. We explain the actions we have already taken and our ongoing focus through our existing regulatory framework, making sure customers receive fair value from premium finance.

1.5 We will continue our focus through the Consumer Duty where we have concerns around fair value. We have already seen some positive changes and developments as a result of our supervisory engagement with firms through the course of this market study and will continue our ongoing supervisory approach on outlier firms to drive improvements where needed. Our headline findings are as follows.

APRs have already reduced by 4.1 percentage points on average since 2022, saving customers an average of £8 on a typical motor policy and £3 on a typical home policy per year. For firms we directly challenged, the average APR reduction was 7.0 percentage points. Across the market, customers are now saving approximately £157 million per year.

1.6 The Consumer Duty already sets out clearly how firms need to act to deliver good outcomes for retail customers, through well-designed products and services that provide fair value – and through effective communication with customers to support their decision making and understanding.

1.7 Fair value rules require that the total price a customer pays must be reasonable relative to the overall benefits they receive, and firms need to demonstrate this. There is a clear benefit to customers of premium finance – the ability to spread out their insurance payments, either because they prefer to, or because they cannot afford to pay upfront. Price is an important factor when considering value, but other factors include the flexibility customers get on their payments and the option to pay a lower upfront deposit.

1.8 We have already seen some changes in the market since our market study commenced, and particularly since our interim report in July 2025. Since the end of 2022, over half of the firms in our sample that charge for premium finance have improved customer outcomes through lowering their prices or fees in response to more regulatory attention to fair value, reductions in the UK base rate, or with a view to providing better value. We have seen a mix of lower interest rates, arrangement fees and late payment fees. This is reflected in the decline in the weighted average APR charged by firms in our sample.

1.9 Overall, we expect these changes in APR to result in a weighted average saving of approximately £8 per motor policy and £3 per home policy purchased using premium finance, corresponding to a reduction of 16-17% in the cost of credit. We expect these savings to total approximately £157 million across the market per year.

Figure 1: Weighted Average Change in Premium Finance Prices since 2022

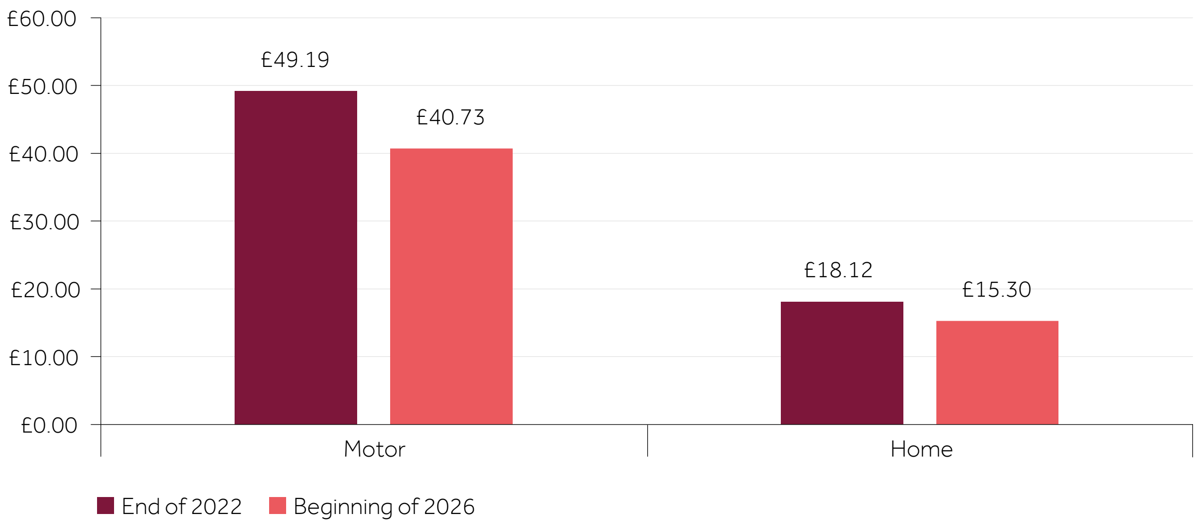


Figure 1 sets out data from an analysis of 14 insurer firms, 8 intermediary lender firms, and 4 intermediary brokers. Weighted average prices in 2026 reflect all price changes made by these firms since 01/01/2023 until 01/01/2026. Price changes are weighted by each firm's premium finance volume share within its cohort in 2022. Savings are calculated using representative motor and home premiums of £400 and £220 respectively, assuming a 10% deposit, 12% insurance premium tax, and 11 payments. This information is taken from firms' qualitative and quantitative submissions made in response to our data requests, FVAs, and bilateral engagements. There are firms outside of those we looked at that have also made changes.

1.10 We have seen more significant reductions and savings in the cohort of firms that we have directly challenged. Three firms we challenged reduced their premium finance APRs, leading to a 7 percentage point average reduction in APR from 38% to 31%. We have also seen movement to a 0% model pending ongoing pricing considerations.

The market is meeting the needs of many customers, but high prices persist. We want to see firms continue to focus on fair value and we will continue to review individual firms' fair value assessments. We will monitor prices and act against individual firms if necessary.

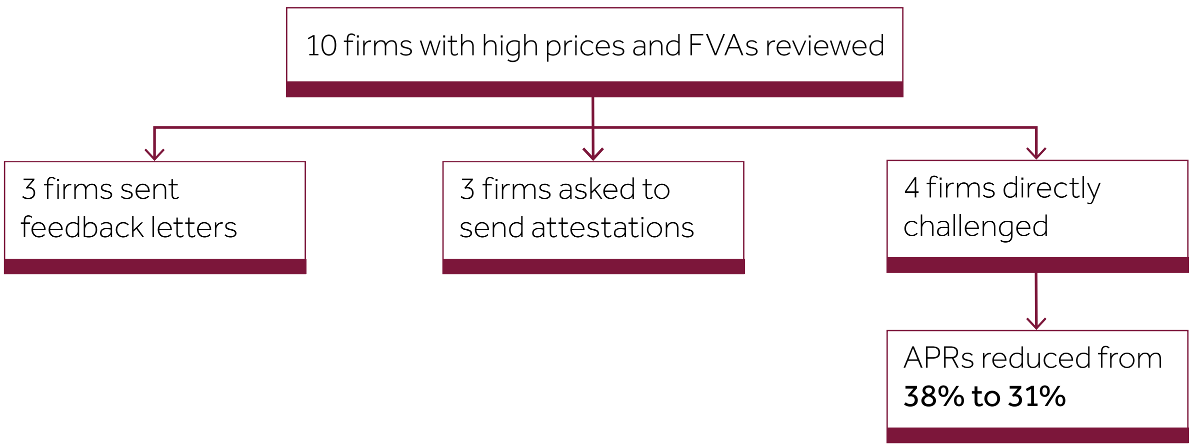
1.11 As part of our market study, we selected a group of firms that offered higher priced premium finance to review more closely for fair value, covering approximately 30% of the market in 2023 by loan balance.

1.12 Of these firms, we were pleased that many had robust fair value assessments that clearly demonstrated how their product meets customers' needs and showed how their customers are receiving fair value.

1.13 Examples of good practice include objectively assessing prices, including APRs and fees, considering the quality of the product beyond its core benefits, and monitoring outcomes in particular for customers in vulnerable circumstances. Where this is the case, we do not propose intervening further.

1.14 However, data shows that there are still some customers paying high prices. Where we have seen high prices persist, we've already directly challenged firms to test how fair value is being delivered and in some cases have asked firms to make changes, such as to their process for reviewing and monitoring the distribution chain for value.

1.15 This work continues, but it has already led to some firms reducing their prices and fees, amending the thresholds at which they perform more in-depth pricing reviews and, in some cases, even moving to a 0% rate as they consider ongoing pricing and fair value.



1.16 This approach has already shown that changes can be driven through direct supervisory engagement and reliance on the Consumer Duty, which sets clear expectations around fair value. As a result, we do not believe further rule changes or other market wide interventions are needed at this stage. Instead, we will continue our focus through the Consumer Duty. Where we have fair value concerns, we will conduct supervisory engagement and intervention where necessary to drive improvements for customers.

1.17 We will maintain our monitoring of prices of premium finance using regulatory data firms submit to us and will continue to approach outlier firms for more targeted review.

Credit risk is not double counted in the premium and the interest charges of premium finance.

1.18 We have not seen any evidence of credit risk for monthly payers being priced for twice – in the insurance premium and premium finance. We continue to remind firms that our PROD sourcebook states that the FCA will consider firms increasing the insurance premium based on customers using premium finance as an example of not providing fair value (unless they have an objective and reasonable basis for making the change).

Customers get the information they need to compare insurance with premium finance on a PCW.

1.19 PCWs rank insurance quotes with premium finance by the overall cost of insurance, which includes the core premium and any additional premium finance costs. Customers focus on the overall cost, so this presentation aligns with customers' needs.

1.20 After selecting an offer, customers can compare between the total cost of paying the premium upfront and the total cost with premium finance. This includes information about the deposit, number and size of repayments, and the APR.

Mandating 0% APR is not warranted and current rules are sufficient to address isolated cases of poor behaviour.

1.21 Our analysis of the premium finance market finds that a price cap or ban is not warranted. Some providers already choose to offer premium finance at 0% APR and those who offer with-interest policies can do so sustainably while delivering good customer outcomes.

1.22 Premium finance can provide benefits to customers and an intervention to mandate 0% APR may restrict access, in particular for those with vulnerable characteristics. Insurance providers would likely increase premiums to recover lost premium finance revenue and make up for the costs of increased take-up. These costs and higher operational load may also lead to firms restricting their lending or exiting from the market, limiting access to insurance for customers who cannot afford to pay annually.

Brokers can have strong bargaining power – but the principles of fair value should deliver good outcomes for customers.

1.23 17% of premium finance policies are provided by specialist premium finance providers (SPFPs), who distribute to customers through premium finance brokers.

1.24 Brokers play an important role in the distribution chain. They manage customer service and the customer journey, process deposit payments, adjust payment details and handle cancellations. They also carry bad debt risk through recourse agreements. Furthermore, brokers often give access to premium finance to niche customer segments that may find it difficult to be served by mainstream providers.

1.25 We found that interest rates are higher through brokers compared to insurers or intermediary lenders. In 2023, customers paid an average interest rate of 13% through brokers, compared to 10.4% and 10% through intermediary lenders and insurers.

1.26 Brokers may be able to charge higher customer end prices through bargaining power, although this is constrained by competitive pressure where they use the PCW channel. Brokers have access to end customers and can negotiate elements of contracts with SPFPs on the components of price, including the net rate (the proportion of interest that SPFPs retain) and their own commission level. Brokers can gain favourable contractual terms, such as low net rates, upfront commission payments and marketing contributions from the SPFP.

Chapter 2

Market Context and Approach to Analysis

2.1 We launched this market study in October 2024 and published an update paper in July 2025, where we set out our understanding of the size and structure of the premium finance market.

2.2 We received feedback on our analysis from 14 stakeholders, including insurance brokers, SPFPs, PCWs, consumer groups, trade bodies and industry professionals. The feedback confirmed our understanding of the market, which informs our findings in this report. Premium finance is an important way for customers to spread the cost of insurance. In 2023, it was used for 48% of motor and home insurance policies, accounting for 15 million motor and 8 million home insurance policies.

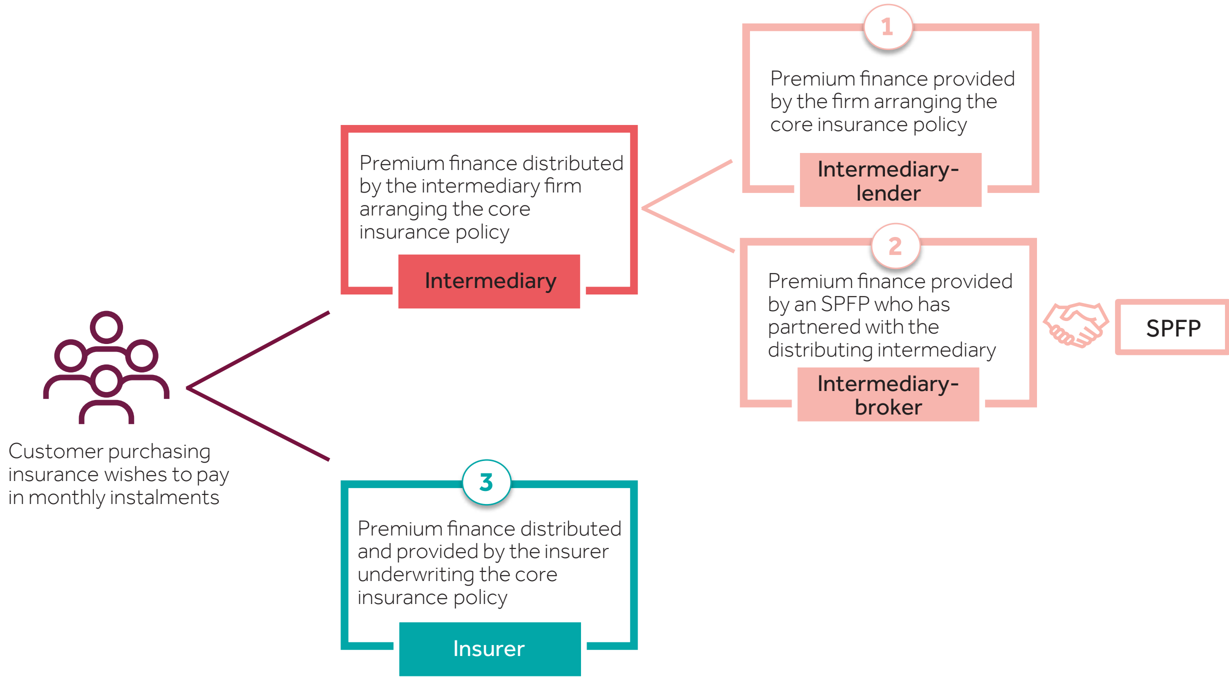
2.3 While some customers prefer to spread the cost of insurance for convenience, others use premium finance because they cannot afford to pay upfront. In 2024, 60% of motor and 41% of home (buildings and contents combined) policyholders who paid by instalments did so because they could not afford to pay in a single annual payment.

2.4 Premium finance has different distribution models:

- insurers can provide premium finance directly to customers
- intermediaries that distribute insurance can provide premium finance (intermediary lenders)
- other intermediaries that distribute insurance that do not provide in-house premium finance can enter into partnerships with SPFPs (intermediary brokers)

2.5 Across home and motor insurance premium finance, insurers and intermediary lenders sold 58% and 26% of policies in 2023 respectively. The remainder was through intermediary brokers using SPFPs, which accounted for 17% of home and motor premium finance policies in 2023.

Figure 2: A stylised illustration of different ways in which a customer can buy premium finance through insurers and different types of intermediaries.



2.6 To understand whether firms are delivering fair value to customers, we have needed an understanding of the market landscape and competitive environment. This Market Study has given us a valuable opportunity to examine individual firms' products and fair value assessments within the context of how the market functions, its structure, and its competitive dynamics.

2.7 Alongside detailed firm level scrutiny, we have analysed broader elements of the market, including distribution models, pricing approaches, and the impact of recent changes in the market. This wider view of the environment helps us understand firms' rationales for their decisions and strategies.

2.8 Chapter 3 of this report sets out our central approach to using our Fair Value rules as a powerful tool to ensure customers are getting good outcomes. We set out our findings of good and poor practice based on our review of fair value assessments, and the actions we have already taken to drive improvements in individual firms.

2.9 In Chapter 4, we show our analysis of outcomes for customers using the interest-free and with-interest pricing models for premium finance and explain how either model can provide fair value. We consider whether customers are presented with the information they need to choose the most suitable policy for them. We provide additional rationale on why we do not believe a market-wide ban or cap on APRs is needed as a remedy.

2.10 In Chapter 5, we explain how commission arrangements work for intermediary brokers in detail and explain the role of brokers in the market. The dynamics between intermediary brokers and SPFPs are particularly important context for our understanding of their rationales for fair value. We also consider commissions more broadly, including an explanation of why premium finance is different from motor finance, and an update on recent changes in the retail premium finance market following the exit of Close Brothers.

2.11 Finally, we set out our next steps. Our monitoring of the premium finance market does not end with this report, and we will continue to rely on the Consumer Duty and take action where needed to drive improvements in firms.

Chapter 3

Fair Value in Premium Finance

Outcomes of our fair value work

3.1 Under the Consumer Duty fair value outcome, firms must ensure the price the customer pays for a product or service is reasonable compared to the overall benefits. Firms must monitor and assess this through producing a FVA in line with Handbook requirements. It is important not to consider the price and value outcome in isolation. It should be considered alongside the other outcomes and cross-cutting obligations under the Consumer Duty (i.e. products and services, consumer understanding and consumer support).

3.2 Since the market study began, and since publication of our interim update report last summer, we have already seen changes. Several firms have reduced their fees and APRs. Firms in our sample have reduced average APRs from 23.3% in 2022 to 19.2% in 2026 while keeping customer benefits unchanged. On average, we expect this saves customers £8 per typical motor policy and £3 per typical home policy per year. Assuming similar premium finance volumes to 2022 and that firms outside of our sample have made similar price changes to those in the sample, these price reductions would generate a customer saving of £157 million annually.

3.3 Furthermore, we have seen more significant changes in the population of firms that we have directly challenged in the course of our supervisory work. Those firms have reduced their APRs by 7 percentage points on average, from 37.6% to 30.5%, saving the average customer £14 on a typical motor policy and £4 on a typical home policy. This is a larger saving than the population as a whole, giving us confidence that we can drive change through our existing supervisory tools.

3.4 Where we have concerns about fair value under the Consumer Duty, we will continue our supervisory engagement and use the full range of supervisory and enforcement powers to address concerns and support good customer outcomes.

Figure 3: Weighted Average APRs since the end of 2022

Firm type	Weighted average APR on 31 December 2022	Weighted average APR in 2026	Average Saving per Motor Policy	Average Saving per Home Policy
Insurer	19.9%	16.5%	£7.20	£2.64
Intermediary lender	28.9%	23.5%	£10	£3.74
Intermediary broker	35.1%	29.4%	£11.20	£3.08

Figure 3 sets out data from an analysis of 14 insurer firms, 8 intermediary lender firms, and 4 intermediary brokers. We include four vertically integrated firms, which are accounted for once in either the insurer or intermediary lender categories. Weighted average prices in 2026 reflect all prices changes made by these firms since 01/01/2023 until 01/01/2026. Price changes are weighted by each firm's premium finance volume share within its cohort in 2022. Savings are calculated using representative motor and home premiums of £400 and £220 respectively, assuming a 10% deposit, 12% insurance premium tax, and 11 payments. This information is taken from firms' qualitative and quantitative submissions made in response to our data requests, FVAs, and bilateral engagements. There are firms outside of those we looked at that have also made changes.

What we looked at

3.5 We committed in our update paper to look more closely at higher-priced products, the value these products provide and profitability. We identified potential outliers by selecting a subset of firms from our Market Study sample which displayed the highest interest rates and profit margins in order to review their fair value assessments. Outliers were selected from the group of firms that were issued data requests through the market study, rather than all firms involved in providing premium finance.

3.6 These factors were chosen because we believed that firms that are outliers on both interest rates and profit margins may be more likely to be firms whose customers are not receiving fair value. However, we recognise that being an outlier does not automatically imply a firm is not meeting or not providing fair value. Those who can evidence that higher margins and/or interest rates are justified by other benefits that customers are receiving, or against the other factors taken into consideration for the fair value assessment (for example factors relevant to the target market), will be meeting our fair value expectations. We expect firms to have assessed how fair value is being delivered – evidence this – and adjust where not.

3.7 We have seen changes made through our supervisory engagement. Some firms have improved customer outcomes by reducing APRs and fees whilst maintaining the same value of the product, including some now offering finance at 0%. Some firms have specifically looked at how fair value is approached across the distribution chain, to help inform their fair value assessments.

Summary of our findings

3.8 Firms' fair value assessments describe premium finance as providing the benefit of spreading the cost of the insurance premium.

3.9 Prices can vary widely across the market, and in many instances higher prices can be explained by differences in the target customer market, generating higher risk levels and operational costs. Where firms have been able to justify their pricing with clear links between these underlying factors and fair value and have incorporated this into their decision-making, we are less concerned about these higher prices.

3.10 However, we are concerned where firms cannot sufficiently explain their high prices, given the presence of lower priced but otherwise equivalent premium finance products in the market providing better value.

3.11 We would expect a firm's fair value assessment to be alerting them to these concerns. Where we see firms' fair value assessments falling short, they fall into 3 main cohorts:

- **Cohort 1: Firms with inadequate methodology.** There may be key details missing, such as definitions of a target market, or there may be an absence of a fair value assessment document. The impact of inadequate methodology is an inability to determine whether their offering provides fair value, and to make necessary changes if it is not. An assessment that doesn't consider the target market does not meet our fair value assessment requirements.
- **Cohort 2: Firms with an incomplete methodology.** These firms have undertaken analysis that can contribute to a robust fair value assessment but lack a firm basis and conclusions. For example, firms benchmarking against a favourable subset of products and using this as sole justification, or firms using profitability limits to conclude that a product is fair value without justifying why that specific limit is correct.
- **Cohort 3: Firms not implementing their fair value policies in practice.** We have seen firms that have policies for working with manufacturers/distributors, but do not follow them. For example, a manufacturer may set out in their assessment that they will challenge APRs above a set threshold, yet this does not happen. Such gaps can lead to poor customer outcomes and weaken distributors' responsibility to assess products and act on issues. This cohort also includes firms that identify concerns through fair value assessments and start analysis but fail to complete it or take corrective action.

Good and poor practice

3.12 In this section we describe what we have observed as good and poor practice from our review of the fair value assessments submitted. These examples are shared so that firms can learn from what we have observed. The examples are not intended to be prescriptive, firms should consider for themselves what is appropriate taking into account the circumstances of their firm. We have reviewed how firms are:

- accurately describing the benefits of the product for the target market, particularly relating to customers' preference and necessities to use the product

- objectively assessing the costs to the customer, including all aspects such as APRs and fees
- considering the quality of the product beyond the core benefits it provides
- ensuring customers in vulnerable circumstances are no worse off
- collaborating effectively across the distribution chain to ensure customers receive fair value
- ensuring that the premium finance product offers fair value on its own and in a package with an insurance product.

Benefits of the product for the target market

3.13 Firms consistently describe premium finance as enabling customers to spread premium costs.

- **Good practice:** Some firms identified that there are two primary motivations for a customer seeking a premium finance product: preference and necessity. Firms that identified these different cohorts are better able to serve those customers and price appropriately.
- **Good practice:** Some firms identify niches of customers, such as customers who present higher insurance risks that mainstream providers won't underwrite. They then provide valuable explanations for who those customers are, and how they are receiving fair value despite prices higher than the rest of the market. Some firms have produced analysis to show that, for example, these customers tend to have higher credit risk. Early identification allows firms to identify the costs involved and what prices are fair.
- **Poor practice:** We saw that some firms define their target market with insufficient insight into the characteristics and motivations of their customers. In some cases, firms only identify that the product is meeting a preference from customers towards paying monthly without considering any additional factors that may be relevant to defining the target market, such as an inability to pay for a full annual premium. In other cases, the motivations are not explored at all, with the target market defined only as customers who are eligible to purchase insurance. In these instances, firms risk not understanding their customer base and so risk not being able to identify and mitigate potential harms.

Cost to the customer (prices)

3.14 **Good practice:** We saw multiple good practices in assessing APRs, which support a firm's understanding of how customers are receiving fair value. These include:

- detailed breakdown of costs, including variable and fixed costs per-policy and clear justifiable explanation for APRs
- thorough modelling to outline risk-based pricing
- adjustments to price based on changes to costs and/or customer outcome reviews
- consideration of market positioning based on thorough research of premium finance competitors, including other lines of personal credit, ensuring comparators are not favourable examples

3.15 **Poor practice:** Conversely, we saw some poor practices that did not enable the firm to provide effective insight to identify problems. These include:

- overly relying on benchmarking to justify their conclusions – firms should not hinge a conclusion on fair value solely on benchmarking, and if there is a strong reliance on benchmarking this should be backed up by other conclusive analysis
- poor quality benchmarking, such as picking favourable products and competitors to compare against, without regard for the different nature of pricing in consumer credit or customer base of competitors
- inappropriate use of APR limits, including lack of a clear justification of why such a limit represents fair value; having APRs bunched just below that limit; and, in some cases, having APRs above internally set limits
- conducting reviews of pricing that led to suggestions that improvements could be made, but then not being made in practice

3.16 We saw variability in whether firms price variably for different customers, or use a single APR for all customers. Whichever approach firms take, they should conduct analysis that supports a robust conclusion that they are providing fair value to customers.

3.17 **Good practice:** Regarding fees, some firms fully analyse any fees charged in terms of both the cost to administer services and the benefit that customers would derive. In some cases, this helped firms to identify whether these fees could be reduced or removed to better serve customers.

3.18 **Poor practice:** Conversely, some firms conduct minimal analysis as to whether those fees contribute to fair value. Some firms justified fees purely by the cost of administering services with no consideration of the benefit customers derive or only citing cost-based rationales. A lack of analysis creates risks as it can make it difficult to identify whether there are such high and excessive fees that provide no benefits to the customer, or whether these fees could be justified in being charged multiple times.

Quality

3.19 **Good practice:** We have seen firms identify good sources of information to ensure they are providing a product that suits customers' needs. This includes:

- analysing complaint levels and conducting root cause analysis to understand how customers perceive their premium finance products
- analysing the rate at which customers fall behind in their payments, to assess affordability and whether prices are fair for the firm's customer base
- taking lessons learned from information sources and making necessary adjustments such as investing in customer service and staff training

3.20 **Poor practice:** Some firms consider only the core features of the product, such as overall price and customers' ability to flex their initial deposit to get a monthly payment that suits them, without considering the additional services the firm provides that impact how customers perceive their products and the quality they receive.

3.21 By considering the quality of the product beyond the core benefit, firms can provide a better service to customers. They will understand how customers perceive the benefits and quality of the product, and this will enable them to identify how to improve their offering to attract customers.

Vulnerability

3.22 **Good practice:** Some firms ensured that their processes supported proactive identification of customers displaying characteristics of vulnerability, in addition to customers being able to self-identify. This supported those firms being able to create tailored customer journeys, including enhanced approaches to arrears management. For example, signposting to Citizens Advice and other helpful sources when a customer in vulnerable circumstances falls into arrears.

3.23 **Good practice:** Some firms adjusted their overall approach to their product and fair value assessment when it was identified that they serve a particular niche of customers which will have a higher incidence of vulnerability. These firms had clear explanations of their cost base, customer risk profiles, adjusted benchmarking, and other such factors to assure themselves that the prices customers pay are fair.

3.24 **Poor practice:** Some firms have limited process around vulnerability. This included relying on self-identification, limited metrics for defining vulnerability, focusing too narrowly on single drivers of vulnerability, and therefore not being able to follow through to secure good outcomes for their customers. If customers' vulnerable circumstances are not identified, those customers are at risk of poorer outcomes such as higher prices, and higher risk of falling into arrears.

Collaboration between manufacturers and distributors

3.25 Distributors and manufacturers of premium finance products should work together to deliver good outcomes for customers.

3.26 Practices relating to these requirements are particularly relevant to SPFPs and brokers. The intermediated nature of the SPFP model means that, as manufacturers, SPFPs have a responsibility to work with distributors to ensure the distribution chain is offering fair value.

3.27 We observed the following practices from SPFPs as manufacturers and brokers as distributors:

- **Good practice:** SPFPs have some good procedures in place to discuss and analyse brokers' fair value assessments. Examples include providing frameworks for brokers to follow, conducting regular reviews of brokers' practices and prices, and setting additional requirements from brokers if they want to charge higher prices.
- **Good practice:** Many manufacturers and distributors work well together. We saw manufacturers clearly identifying who the distributors are, laying out a clear explanation of what benefits/ services distributors add. In these instances, manufacturers play a key role in ensuring good outcomes for customers, actively reviewing distributors' offerings, setting criteria for where concerns may arise, and actively challenging distributors when those criteria were triggered to adjust the offering.

- **Poor practice:** Some manufacturers and distributors had policies designed to avoid adverse outcomes for customers, but these were not adhered to. For example, policies for manufacturers to effectively challenge distributors charging APRs above a set limit but without this happening in practice.
- **Poor practice:** There is often an over-reliance on the SPFP to assure brokers that their offering provides fair value. In some cases, this leads to confusion as to each firm's individual responsibilities for assessing fair value of the product or service, including the individual components of the total price to demonstrate the relevant product provides fair value. Some brokers, typically smaller ones with lower customer volumes, made no attempt to understand the implications of the manufacturer's fair value assessment for their broking activities. We recognise the complexity that can arise when applying Consumer Duty rules across distribution chains and encourage firms to refer to their obligations in the Handbook. We recognise the complexity that can arise across distribution chains, particularly for smaller brokers, and encourage firms to refer to our update on Consumer Duty requirements and contribute to the consultation in H1 2026 on clarifying how the Duty applies to firms across distribution chains.

Cross-subsidisation

3.28 Firms must consider the fair value of both the premium finance and the underlying insurance, and the package of the two.

- **Good practice:** Some firms make sure premium finance and insurance products complement each other to deliver value. This includes minimising insurance costs to offset premium finance charges and associated profits. Such practices support good customer outcomes and help firms recognise the commercial benefits of affordable premium finance, which also increases access to core insurance products.
- **Poor practice:** Some firms made no reference to the product package in their fair value assessments. In such cases it is unclear whether the firm has considered the value of the products as a whole, and whether they have therefore identified opportunities to ensure that the products work together to provide fair value to the end customers.

Chapter 4

Pricing Models for Premium Finance

Introduction

4.1 This chapter analyses the two main pricing models used for premium finance, with-interest and interest-free, to understand:

- the distribution types of the two pricing models
- the rationale for providers choosing one model over the other
- the impact on competition and customer understanding from both models being prevalent in the UK market

4.2 Our analysis of the market, from both the interim report and this paper, finds that competition can work effectively under both pricing models, with customers being able to choose their policy effectively. This eliminates the need to implement market-wide intervention such as a ban or APR cap on with-interest premium finance.

4.3 To further reinforce our position, this chapter looks to outline the potential market impact of a ban or APR cap on the with -interest pricing model. Our impact analysis shows that significant market changes and premium uplifts would make the majority of customers no better or worse off than before, including monthly payers.

Pricing models and their distribution

4.4 There are two main pricing models for retail premium finance, with potential implications for fair value and competition:

- **Interest-free ("0% APR") premium finance –** The total cost to customers for paying in instalments is the same as paying the premium up front. There are no additional interest charges, set-up costs, or administration fees. "Event" fees, such as for late or missed payments, may still be charged.
- **With-interest premium finance –** In addition to repaying the premium in instalments, customers pay interest as part of a regulated credit agreement. The interest charged is typically equivalent to an additional charge of 8-12% on top of the premium, net of any deposit.

4.5 Interest-free pricing models are more common for home insurance than motor insurance. In 2023, more than one-third of premium finance sold with home insurance was interest-free, compared with less than 3% of motor insurance policies.

4.6 Interest-free premium finance is also more common for policies sold directly by insurance providers, rather than via PCWs. Most firms offering interest-free home insurance premium finance, and the two which offered this for motor, only sold them directly. In 2023, although 38% of all home policies sold with premium finance were interest-free, this only applied to 17%-19% of home insurance sold on PCWs, depending on the PCW.

4.7 Our update paper highlighted that when providers charged interest, the rate charged for with-interest premium finance was on average higher for motor insurance customers than for home insurance customers, and with a wider spread. Some firms indicated this was due to higher operating costs for motor policies, such as more frequent cancellations and changes of policy. The higher rates charged for motor insurance are reflected within the right tail end of the distribution.

4.8 Over half of all combined home buildings and contents insurance policies and motor insurance policies taken out in in the 3 years up to 2024 were accessed through PCWs.

4.9 Our analysis of data from PCWs found that in 2023, policies available on PCWs typically charged interest at 4%-13% of the premium (around 10%-35% APR). There was a slightly higher average charge for motor (11%-12%) versus home (10%-11%). Approximately 4% of home policies and 12% of motor policies sold on PCWs had interest charges equivalent to more than 15% of the premium.

Figure 4: Spread of premium finance interest charges on illustrative PCW (as % of premium)

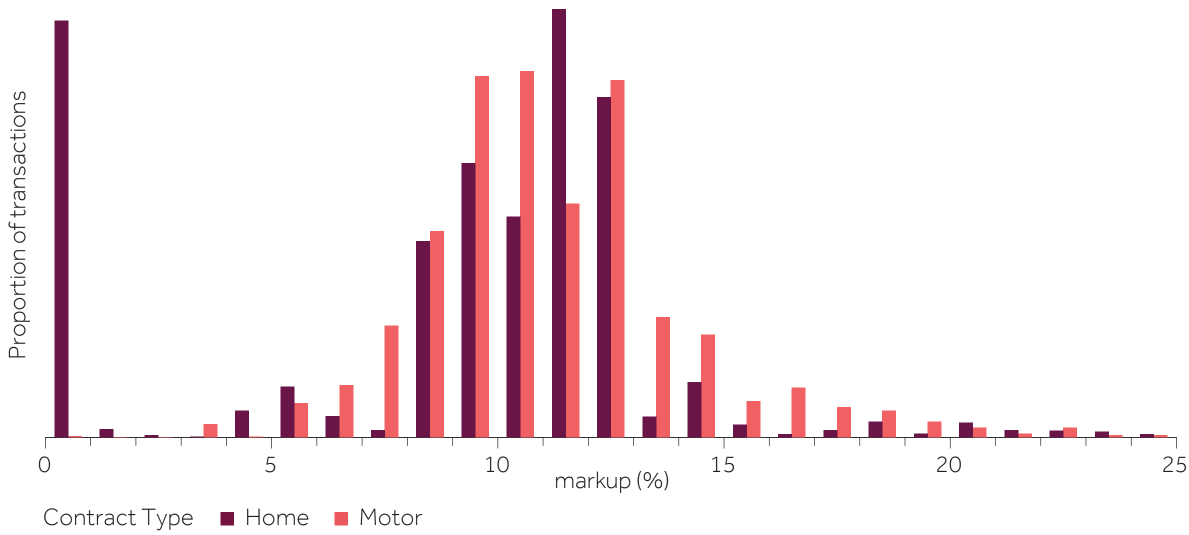


Figure 4 shows the spread of markups from a representative PCW in 2023. This includes customers who clicked through a monthly offer and then bought a policy. Source: Data collected from firms

4.10 The higher prevalence of interest-free, and lower interest rates for with-interest premium finance on home insurance reflect several factors.

- Mortgage lenders often require buildings insurance as part of mortgage contracts and often partner with insurers to offer tailored home policies. Because lenders deliver large volumes of new business, they typically require insurers to provide interest-free payment options to keep customers' charges straightforward and manageable.

- The operational cost to firms to provide premium finance is lower for home insurance premium compared to motor insurance. The analysis in our premium finance market overview paper found home insurance averaged £250 in 2023, inclusive of insurance premium tax (IPT). Motor insurance averaged higher at £460 in 2023, inclusive of IPT. We also found home insurance had higher customer retention, lower levels of cancellations and lower exposure risks to bad debt.

Price Model Selection and Price Setting for with-interest Premium Finance

4.11 When offered by a direct insurer, premium finance is nearly always provided as an in-house service, funded from the insurers' own working capital. This is the same for large intermediaries who have an affiliated insurer within their broader corporate group. In 2023 these providers supplied 81% of motor and home with-interest premium finance agreements. In both cases, the advantage of being able to use internal funds may lead to lower funding costs compared to firms that need to use external funds. This will happen in cases where insurers' and intermediary in-house lenders' opportunity cost of capital is lower than the sum of interest paid on external debt and additional facility costs that specialist lenders face.

4.12 Due to their target market, insurers and intermediary in-house lenders typically offer to a customer base with lower bad debt levels than the wider market. Their business model also allows them to offer monthly payment at lower cost by incorporating premium finance services on top of an insurance product. This is because the insurance product already covers most of the distribution and manufacturing costs, meaning the additional operational cost of self-funding is relatively low.

4.13 In contrast, independent insurance brokers do not have the same level of capital reserves. They are more reliant on cash flow from commissions, making it impractical to provide premium finance loans to customers, while also transferring the full premiums to insurers. Therefore, most independent intermediaries partner with SPFPs to provide financing.

4.14 In most cases across insurers, intermediary lenders, and intermediary brokers, prices for premium finance are set at the brand or product-level as a fixed percentage of the premium, net of any deposit received. This percentage is typically not varied based on individual customer characteristics such as credit risk, but we have heard feedback from some insurers who are looking to test or adopt this approach.

4.15 We found the main pricing factor cited by firms for premium finance is the associated cost. All firms incurred material costs, such as staff and administration, which varied by business model. For firms funding premium finance (insurers, intermediary lenders and SPFPs), funding costs are a critical pricing factor. Where firms were liable for customer defaults, bad debt was also a material cost, with intermediary brokers experiencing an average bad debt rate (bad debt as a percentage of loan balance) of 3% in 2023. This was higher than both credit cards and personal loans, which had bad debt rates of 1.9% and 1.8% respectively.

4.16 Firms consider the profit margin, alongside qualitative features such as service quality, to evaluate whether prices reflect fair value. Frequent examples from firms who justified higher prices from providing better service quality mentioned using more call staff hours to assist monthly paying users in setting up both the core insurance and financing policy arrangements. This creates a more personalised experience compared to the online customer journey that customers normally take.

Firms have separate but aligned strategies for pricing premiums and premium finance.

4.17 Firms' pricing of insurance and premium finance is normally heavily connected both commercially and strategically. Customers being able to pay premiums in instalments is a key driver of policy sales, and premium finance is integrated into the policy sales journey.

4.18 For insurers, it is common to have a target combined operating margin on a total portfolio level, including income from premiums, premium finance and other add-ons.

4.19 For intermediary brokers, premium finance interest can be a major independent source of income, directly and indirectly, through revenue sharing agreements with SPFPs. This reflects the fact that while most income brokers receive on a policy sale relates to commission from the insurance, the margin on the premium finance element is higher.

4.20 Multiple intermediary brokers and lenders mentioned premium finance income allowed them to reduce the average commissions received from insurers and maintain a profit margin. Whilst this is a common practice across industry players, firms must be able to demonstrate how this practice provides fair value to their customers. We refer to our fair value analysis chapter on how firms have approached this.

The heightened claims risk of monthly payers is priced into the policy, not into premium finance, which reflects credit risk.

4.21 A customer's preference or propensity to pay monthly may be factored into the pricing of the underlying insurance premium. Firms indicated that while monthly-paying customers might pay both higher premiums and additional interest versus annual paying customers, this is not due to credit risk being double counted and priced into both the premium and premium finance.

4.22 Firms had different views on whether payment preference was statistically predictive of claims risk. Some firms stated that monthly payers are indicative of higher risk, with others stating it was not a relevant factor. Similarly, some firms had stated that they previously priced monthly customers a higher premium but have now stopped. One other firm said they price premiums higher for those paying monthly for van insurance but not for car or household.

4.23 For firms stating that monthly payers had higher risk, they state that this cohort would have a higher chance of making an initial claim, making multiple claims and making claims of higher value. Firms said this additional risk could add an additional 10% cost to the insurer, but this varied significantly dependent on customer characteristics. To account for this, one insurer mentioned pricing premiums higher for monthly paying customers while others chose not to.

4.24 In contrast, the interest charges for premium finance were not linked to claims risk. Instead, they reflected credit risk, bad debt write-offs, funding and foregone investment income, where these factors are typically priced across the customer book, rather than varying for individual customers. Our PROD sourcebook states that the FCA will consider firms increasing the insurance premium based on customers using premium finance (unless they have an objective and reasonable basis for charging higher) an example of not providing fair value.

Outcomes for customer choice under different pricing models

4.25 We were concerned that customers may inadvertently ignore the premium finance costs at the point of decision, potentially leading them to select a policy with a lower premium but not being aware that it has a higher total cost when considering the additional premium finance costs.

4.26 To understand how customers make choices based on information presented to them, we spoke to and analysed data from four PCWs. The data included information on both annual and monthly offers made to retail customers in 2023 and the policy purchased by customers. We identified the difference in total cost between monthly and annual offers covering over 250,000 transactions.

4.27 We found customers on PCWs are highly price sensitive to the overall cost of an insurance policy. When purchasing a policy with premium finance via a PCW, customers choose the first or second cheapest overall cost option between 63% and 67% of the time, depending on the PCW. In contrast, customers chose a motor policy with the lowest premium finance interest charge in only 3%-4% of cases, depending on the PCW. Therefore, premium finance costs mattered insofar as how they affected total price. This provides a strong incentive for insurance providers on PCWs to keep total costs, including that of premium finance, low.

4.28 Customers searching for annual offers were slightly more likely to choose the first or second cheapest overall cost option, and did so between 67% and 73% of the time, depending on the PCW. This lower rate of premium finance customers choosing the first or second cheapest option is consistent with them selecting offers with lower deposits but higher total cost. Customers who click through on an annual policy can still be offered premium finance by the insurance provider. Information on the final sale is collected by some PCWs but is not validated by the PCWs.

4.29 Customers can sufficiently compare insurance offered with interest-free or with-interest premium finance when ranked by total costs of an insurance policy on a PCW. We are satisfied that:

- as monthly quotes are ranked by total cost, insurance providers cannot achieve a higher ranking on PCWs by seemingly offering interest free and covertly charging for premium finance as a separate fee that is not accounted for in the ranking
- customers can easily compare total costs of insurance policies in a PCW when making their choice

4.30 After a customer clicks through on an offer the customer is presented with additional information from the insurance provider. Evidence gathered from insurance providers showed that the additional costs of premium finance are generally presented in a clear and comprehensive manner at both point of sale and renewal. They are typically shown a direct comparison between the total cost of paying the premium upfront and the total cost with premium finance. The premium finance option is broken down further to display the required deposit, number of repayments and size of each repayment, and the APR.

4.31 Given this, customers who buy monthly insurance by clicking through a monthly offer can make effective decisions by comparing the total cost of insurance purchased with interest-free or with-interest premium finance on a consistent basis.

Optionality on payment frequency for customers on PCW channels

4.32 The above analysis focuses on cases where a customer purchases the initially selected policy without making subsequent changes prior to purchase. We recognise that customers may make changes. For example, a customer who clicks through an annual offer and then chooses to purchase a monthly policy will be shown the costs of the premium finance for that policy. However, the total cost of this policy will not have been chosen in a comparison against other monthly offers, and these customers may have been better off searching monthly initially and choosing an offer with a low total cost ranking.

Our conclusions on Consumer Duty outcomes for with-interest and interest-free policies

4.33 Given that customers choose policies based on the total price, and providers of both with-interest and interest-free models are incentivised to keep these low to appear higher up in rankings, we find that both pricing models are compatible with the Consumer Duty as customers are effectively able to compare and make informed decisions. Importantly, firms offering with-interest premium finance can offer a lower premium to compete against interest-free policies who have an increased underlying premium.

4.34 We have seen that insurance providers incur additional costs for providing premium finance under both models when customers pay monthly, charging monthly paying customers a higher total price to reflect these costs rather than the cost being spread across insurance providers' entire customer base of monthly and annually paying customers, ensures that pricing remains proportionate and transparent. This is consistent with our fair value expectations.

4.35 However, as set out above, where we had concerns with individual firms' fair value assessments, we have challenged them to drive change where needed.

Our analysis of an interest rate ban or cap in the premium finance market

4.36 Some external stakeholders have argued for us to mandate 0% APR (a ban on with interest pricing) or to impose some form of a price cap.

4.37 In our update paper in July, we explained that we did not propose to do so. We set out in this section the potential impact of a ban or cap. We conclude that even if a ban or cap were to be implemented, monthly paying customers would not uniformly benefit from the removal of with-interest pricing, with annual payers likely becoming worse off. We are also concerned that such an intervention could limit choice for customers.

The direct effect on premiums from a ban on with-interest premium finance

4.38 We estimate that a ban on with-interest home and motor premium finance would increase premiums for all policyholders through two mechanisms:

- firms attempting to recover lost income
- firms attempting to make up for an increase in associated costs with premium finance as annual payers move to paying monthly

4.39 First, firms using the with-interest model earned total premium finance revenue of around £1bn in 2023. This reflects a combination of interest income from firms directly lending to customers, commission income related to brokering premium finance arrangements and associated fees.

4.40 Second, the costs of providing premium finance have a material impact on firms' financials. They would face further increases in costs from offering a 0% model, caused by an expected substantial increase in the number of annual payers switching to paying monthly to take advantage of the interest-free offering. These increases in costs reflect the same costs we identified in our profitability interim report, with firms facing an uplift on funding, bad debt and operational costs, and loss of investment income.

4.41 Firms could respond by accepting a reduction in profits but this would often lead to them not meeting their Combined Ratio (COR) or margin targets. We anticipate that, should a ban be introduced, a significant proportion of monthly-paying customers would be worse off due to an increase in their premium offsetting the elimination of their interest rate.

The effect on access to monthly payment and insurance

4.42 A ban on with-interest premium finance could take two forms. First, a requirement that when monthly payment is offered to a customer it is interest free. Second, an obligation to offer a 0% finance option whenever offering an annual policy. In the first case we would expect that some higher credit risk customers may lose access to premium finance, potentially causing loss of access to the insurance itself if they cannot purchase it upfront. A premium finance provider may choose to restrict monthly payment to low risk, and low cost, customers. In the second case, rather than being obliged to offer interest free finance to high credit risk customers, a firm could choose to not offer insurance to those customers at all.

4.43 The risk that a ban may exclude high credit risk and potentially vulnerable customers from access to either premium finance, or insurance as a whole, is a relevant factor in deciding whether any remedies are needed to ensure the market works well for customers.

4.44 While we have not tested the impact in full (given we set out in July that we did not intend to proceed with a ban) we note that SPFPs represent a significant proportion of the market who serve specific niche customer segments that may find it difficult to be served by mainstream lenders. One such example includes an SPFP's partnership with an intermediary broker who focus on customers with motorbikes and modified cars. An intervention which impacted the ability of specialist providers to offer cover would impact availability across the market and is not a remedy we intend to proceed with.

Additional considerations on a price cap

4.45 We have discounted a price cap, as set out in July. There is a high risk that a price cap will lead to firms matching their current interest rates to any price cap that would be set by the FCA.

4.46 For example, a cap set above the current average premium finance interest rates (12% for motor and 11% for home) would at best lead to minimal market changes, as only firms charging very high rates would be forced to reduce them, and at worst lead to poorer outcomes if it signals to lower-charging firms that this is an appropriate rate to charge for premium finance.

Chapter 5

The distribution chain in Premium Finance

Introduction

5.1 In our interim update July publications, we recognised that intermediary brokers play an important role in the distribution of insurance and of premium finance. We also noted that most of their premium finance income is commission. This chapter explores the role of intermediary brokers, the costs they incur compared to what they earn, the commission arrangements they have with SPFPs, the structure of their contractual terms and the implications these have on competition in the market. It also examines whether brokers have different incentives to other business models, and the transparency of commissions.

5.2 When a customer purchases premium finance from an intermediary broker, the total cost includes both the funding cost and any commission, though these are combined and presented as interest rather than itemised separately. In contrast, when a customer purchases from an insurer or intermediary lender, the total cost does not include an explicit commission element.

What economic value do brokers add?

5.3 Premium finance distributed by brokers from SPFPs accounted for 17% of policies sold in 2023. The nature of the service intermediary brokers provide can vary depending on the customer's circumstances. Intermediation in premium finance includes managing customer service, the customer journey and passing details onto the lender. Intermediary brokers do not typically advise or help customers choose between different premium finance offerings.

5.4 There are three important roles brokers play in the premium finance market, which benefit competition and customers.

- SPFPs' premium finance products are not distributed directly but instead only via intermediary brokers. Without this method of distribution, many brokers offering insurance would not be able to offer customers the choice to pay in monthly instalments. This is because intermediary brokers often lack the capital, regulatory permissions or systems required to offer monthly payments. The presence of intermediation improves customer choice, access to monthly payment options, and in particular, may assist customers who may find it difficult to be served by mainstream lenders. This increases competitive pressure in the market.

- Most of the agreements between intermediary brokers and SPFPs are on a recourse basis, which means the brokers take on the cost of bad debt in the event of policy cancellations. As a result, intermediary brokers often undertake affordability checks alongside lenders. Through these affordability checks, they can make sure customers fit the target market and lender's risk appetite, and that they are able to make repayments monthly.
- Intermediary brokers are often responsible for administrative tasks related to customer service and processing. Their responsibilities can include:
  - processing payments such as deposits and preferred payment dates
  - making mid-term adjustments in the lender's portal such as change in car or property, change in bank details etc
  - cancelling agreements, handling commission clawbacks when there are cancellations and chasing any shortfalls
  - maintaining offline (such as telephone) and digital journeys

What do brokers earn on premium finance?

$$Gross\ interest\ rate = net\ rate + commission\ rate$$

5.5 When a customer purchases premium finance through a broker and an SPFP, the total price paid usually consists of two elements: the net rate and the commission rate. These are both expressed as a percentage of the loan amount. However, they are not shown to customers separately; a customer will only see the gross interest rate. The net rate is retained by the SPFP to cover their profit, funding and operational costs, while the commission is earned by the broker as remuneration for selling and administering the premium finance product.

Interest rates and commissions

5.6 Interest rates – and by extension, commission levels – do not vary by individual customer within a broker's portfolio. However, they can vary between intermediary partners, depending on the nature of the commercial arrangement with the lender.

5.7 Intermediaries consider the following factors when negotiating commission arrangements:

- target market
- cost of customer acquisition (i.e. year one commission from premium finance may be offset by acquisition cost from PCWs)
- cost of onboarding, complexity of cases, quality of technology and systems used
- average insurance premium value and the risk of cancellations in the first year

Figure 5: Weighted Average Interest as a % of Motor & Home Premium Finance Loan Balance in 2023 (%)

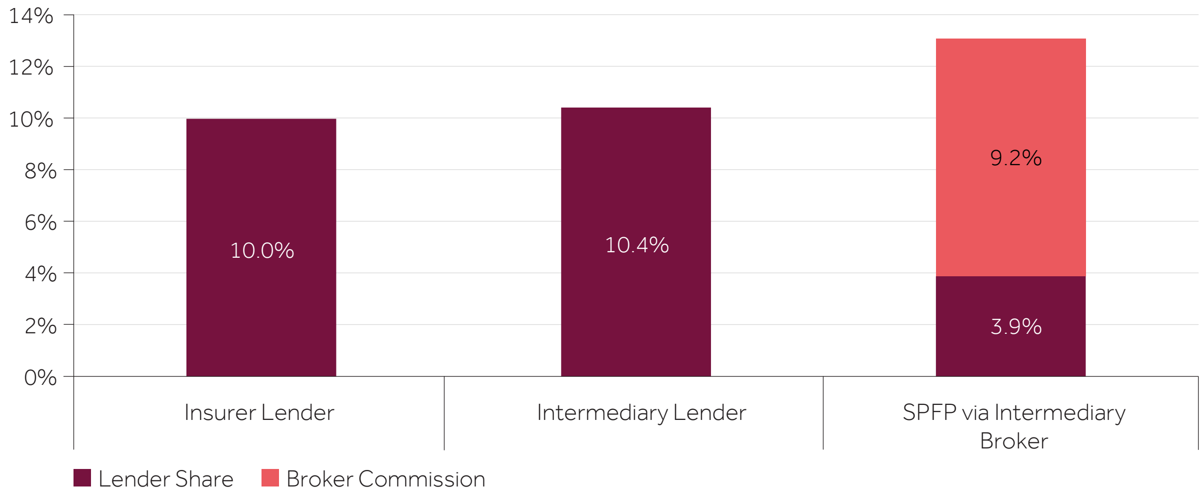


Figure 5 includes 11 insurer firms, 8 intermediary lender firms, 3 intermediary broker firms, and 3 SPFPs. We include three vertically integrated firms, which are accounted for once in either the insurer or intermediary lender categories.
Source: Financial data collected from firms

5.8 Accessing premium finance via an intermediary broker and an SPFP is typically the most expensive option for the customer when considering interest and fees per pound of loan. While we have observed some price reductions since 2023, there is still a large price differential for premium finance accessed via an intermediary broker versus when accessed from an intermediary lender or insurer.

5.9 We also observed that insurer lenders and intermediary lenders charge higher interest and fees per pound of balance than SPFPs (as indicated by the Lender Share in 'SPFP via Intermediary Broker' on Figure 5). This arises because insurers and intermediary lenders cover their own distribution costs, whereas all distribution of SPFPs' products is completed by intermediary brokers on their behalf.

5.10 When brokers distribute products manufactured by SPFPs, the SPFPs often implement controls to manage pricing and ensure regulatory compliance. One common mechanism is the use of interest rate caps, which limit the maximum Annual Percentage Rate (APR) that can be applied to customer agreements. If the APR exceeds a certain threshold, lenders often require brokers to follow additional governance processes, such as enhanced oversight, justification of pricing, or approval protocols.

5.11 Another example of SPFP-imposed controls in premium finance is the use of contractual bans on commission levels. These restrictions are designed to prevent brokers from setting commissions above a certain threshold and reduce the risk of excessive interest rate charges for the customer.

5.12 While lender-imposed controls such as interest rate caps, commission bans, and additional governance processes are intended to promote fair customer outcomes in premium finance, we have found that their effectiveness is mixed. In practice, we have seen that the additional governance processes triggered by high APRs often focus more on procedural compliance than on substantive customer protection. For example, brokers may be required to complete extra documentation or seek approval for higher prices, but these steps do not necessarily lead to a reassessment of affordability or value for the customer. As a result, the process can become a box-ticking exercise that satisfies internal controls without meaningfully improving customer outcomes. Moreover, these governance layers can add administrative burden without addressing the root causes of issues, such as commission structures, or product design. Through our fair value actions, we challenged firms where we had concerns about the nature and extent of their oversight over the distribution chain, resulting in several firms making changes to their processes to improve customer outcomes.

Net rates

5.13 Net rates are the proportion of interest rate retained by SPFPs to cover their profit and operational and funding costs. Net rates can vary based on a range of factors.

- Bank of England base rate, which directly affects borrowing costs and, consequently, the profitability of finance arrangements.
- Discrepancies between expected and actual average premiums and between forecasted and actual business volumes.
- Product specific features – for example, the number of instalments and the type of insurance product (such as home or motor).
- Nature of contractual arrangement – whether it's on a recourse or non-recourse basis. For recourse agreements, SPFPs typically retain lower net rates to compensate brokers for the administrative burden of sending payment reminders to customers in default and for carrying the risk of bad debt. Recourse agreements are also associated with higher commission to compensate for the transfer of credit risk, reflecting the additional exposure brokers take on.
- Changes in charges imposed by software providers for data transmission, as these costs may be absorbed by the SPFP or passed on to partners, depending on the terms of the agreement.

Figure 6: An illustrative example showing how a £45 broker commission is incorporated into a premium finance arrangement.

Illustrative Example

Annual price	**£750.00**
Deposit	£75.00
Deposit amount	10%
Loan	£675.00
Interest rate	10%
Total credit	£742.50
Charge for credit	**£67.50**
Broker commission	£44.55
SPFP retains	£22.95
Total cost to customer	**£817.50**

5.14 From the customer's perspective, there are typically no direct fees paid to brokers for arranging premium finance, nor do brokers usually charge event-led fees such as missed payment charges; these are generally levied by the SPFP. Instead, broker remuneration for premium finance comes primarily from commissions from the SPFP, which form a significant component of the overall cost of premium finance to the customer.

5.15 Broker commissions accounted for 55% of the total cost of credit for premium finance agreements when financed by SPFPs. When excluding fees charged to the customer (such as default fees), commissions accounted for 66% of all interest payments made by customers using an SPFP across home and motor insurance premium finance.

5.16 This suggests that more than half of the interest paid by customers for premium finance is ultimately passed on to brokers as compensation for their role in arranging and administering the finance, as well as for taking on the risks of bad debt in the event of cancellations where it is a recourse agreement. To contextualise what this means in absolute terms, the average commission per policy was around £45 between 2018 and 2023, across both motor and home insurance policies.

Figure 7: Intermediary Broker Commission as a Proportion of Interest (excluding fees) and as a proportion of loans issued (2023)

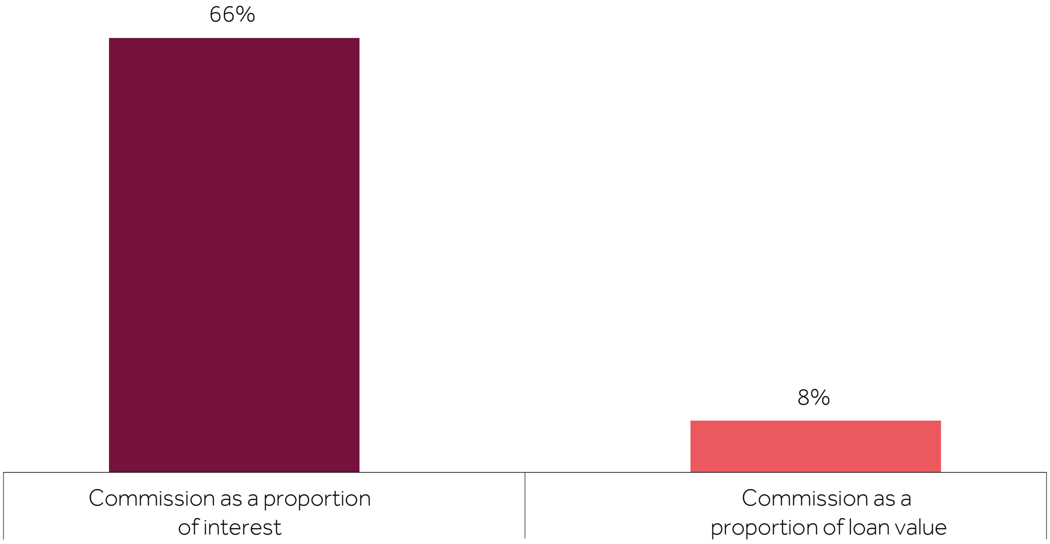


Figure 7 includes data on in excess of 100 intermediary broker firms provided by 4 SPFPs. Source: Financial data collected from 4 SPFPs

5.17 For comparison, we also consider the relationship between the commissions earned by brokers compared to the size of premium finance loans and found that commissions typically accounted for 8% of the total loan values for policies sold in 2023.

61% of the premium finance costs reported by intermediary brokers in 2023 were incremental costs.

5.18 Incremental costs are the additional expenses incurred from producing one more unit of a product. For premium finance, the incremental costs are those that the broker incurs from selling an insurance policy with premium finance that it would not have incurred had the insurance policy been paid for annually. The remaining premium finance costs were portions of indirect or joint costs which had been allocated to premium finance.

Figure 8: Intermediary Broker Premium Finance costs by Category in 2023

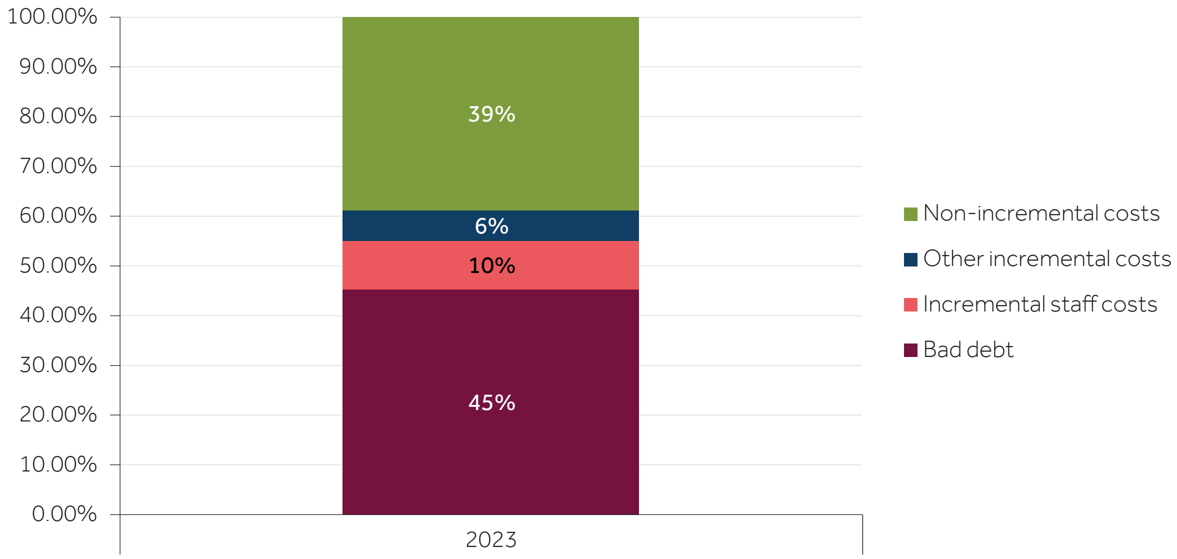


Figure 8 includes 4 intermediary broker firms. Source: Financial data collected from firms and fair value assessments

5.19 Intermediary brokers incur two main types of incremental costs: bad debt and staff costs. Bad debt costs are the primary incremental costs associated with premium finance and account for 45% of total premium finance costs reported in 2023. These costs arise when customers default on their monthly payments, and brokers assume responsibility for this due to recourse agreements.

5.20 Incremental staff costs include time spent explaining and selling premium finance, handling payment-related queries, and maintenance of financial ledgers including payment data provided by SPFPs. These costs account for 10% of total premium finance costs reported in 2023.

To what extent are brokers compensated for incurring costs?

5.21 In our July update, we calculated pre-tax profit margins of premium finance for brokers and we included allocations of several non-incremental costs. Those are costs that firms incur regardless of their decision to offer premium finance, such as central overheads, PCW commissions, or marketing and advertising costs. After including these costs, intermediary brokers average premium finance margin was 36% (2023).

5.22 However, when we exclude all non-incremental costs from the premium finance profitability analysis, we observe materially higher premium finance margins. These margins are typically higher than those self-reported by firms in their FVAs because many of the costs allocated to premium finance are already incurred by the firm as part of their insurance broking business. These margins suggest that firms' premium finance prices compensate them significantly more than their incremental cost-to-serve for this product. As explained in Chapter 3, where we have found firms charging high prices and earning high profit margins, we have taken action under the Consumer Duty fair value rules to drive change.

5.23 We observe lower margins for motor insurance premium finance than for home insurance premium finance due to the higher costs associated with motor premium finance, such as bad debt.

Figure 9: Intermediary Broker Motor and Home Premium Finance Margins in 2023 (%), including and excluding incremental costs

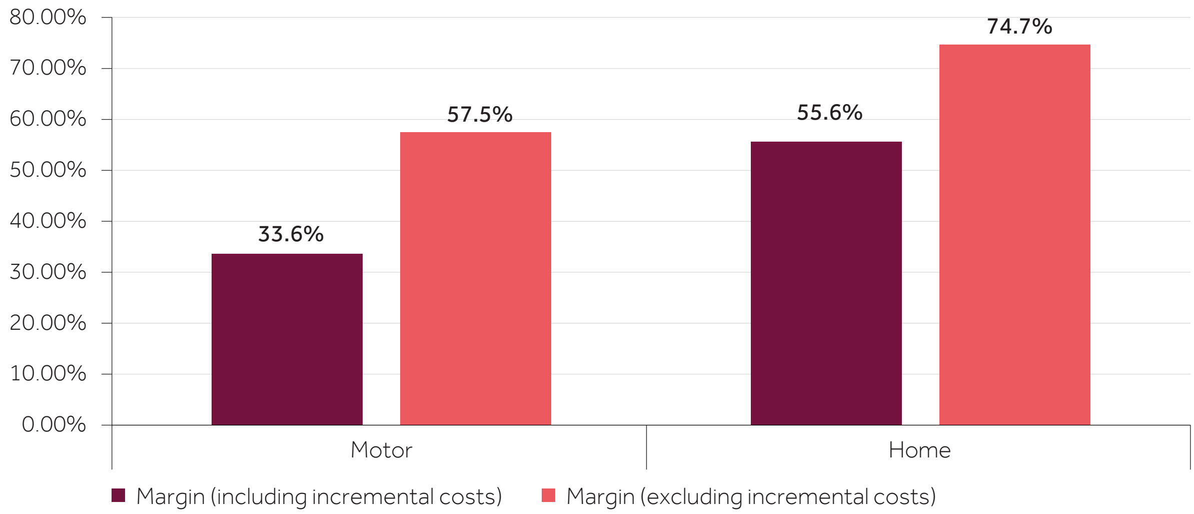


Figure 9 includes 4 intermediary broker firms. Source: Financial data collected from firms and fair value assessments

How are commissions paid?

5.24 Intermediary brokers are paid commissions by SPFPs on a per policy basis. Depending on the SPFP provider and the terms of the partnership contract, commissions can be structured and paid in several different ways:

- monthly payments aligned with the customer's monthly payments
- advanced commissions paid monthly, weekly or annually (based on projected new business volumes)
- advanced lump sum at a contract level, structured like a loan and capped at 50% of the expected lifetime commission. For this type of structure, commission earned by the broker offsets the loan to support long-term partnership

5.25 The structure and terms of payment arrangements are determined during contract negotiations between brokers and SPFPs. The most prevalent arrangement is monthly payments paid in advance. Commissions, regardless of the payment structure, are subject to clawback provisions as all commissions are paid upfront. Clawback provisions are contractual terms that allow the SPFP to reclaim some or all of the commission previously paid to a broker if certain conditions are met (e.g. if a customer cancels their insurance policy).

5.26 In principle, such payment structures could alter incentives for brokers to sell premium finance policies to customers. However, we note that:

- Clawbacks are a helpful mechanism to align incentives and ensure brokers are not overcompensated for policies that do not remain in force and do not generate the expected revenue for the SPFP.
- As most policies originate through PCWs, where quotes are presented in a standardised format and customers make choices independently without direct broker interaction, we do not believe that front-loaded or advanced commissions based on projected volumes are likely to result in customer harm. The customer journey typically removes opportunity for brokers to influence uptake of premium finance.

Minimum volume thresholds

5.27 Our analysis of contracts suggests that several agreements between brokers and SPFPs are subject to minimum volume thresholds, where a lower net rate is offered by the SPFP if the broker meets the projected volume of business.

5.28 In theory, minimum volume thresholds hold the risk of incentivising brokers to sell more premium finance policies than they would otherwise distribute in order to secure a better net rate from SPFPs.

5.29 However, there are economies of scale in processing and handling large volumes of premium finance arrangements, so a lower net rate may reflect cost efficiencies. Furthermore, our findings suggest this accounts for a very small proportion of brokers' remuneration from SPFPs.

5.30 If we think firms may not be acting to deliver good outcomes for consumers, we will take action. We expect firms to fully comply with their legal and regulatory obligations including in relation to UK Competition law, and the relevant Handbook rules related to remuneration incentives.

Brokers can directly influence premium finance pricing, but they do not have discretion on individual customer prices

5.31 As noted above, the broker's commission rate and the SPFP's net rate equals the gross interest rate paid by the customer for premium finance. SPFPs allow brokers to decide, within certain limits, the gross interest rate paid by customers. These arrangements are not Discretionary Commission Arrangements (DCAs) as defined by the FCA Handbook, as commissions are agreed at contract level, not per customer. Therefore, a broker charges the same rate to each of their customers and an individual customer cannot negotiate a different rate.

5.32 We considered whether the broker's role in price setting could encourage brokers to prioritise higher commissions over offering the best deal for the customer. This could undermine the principle of fair value and may lead to poor outcomes that are not in the customer's best interest.

5.33 We note that, when intermediary brokers distribute premium finance through a specialist lender, they have similar ability and incentive to raise interest rates as insurers or intermediary lenders, who retain the ability to determine the final interest rate. We note that there are controls imposed by SPFPs, such as interest rate caps, that effectively limit the level of commissions. In addition, lenders often monitor pricing to ensure compliance with fair value obligations, reducing the risk of excessive charges.

5.34 We have not found widespread evidence that all brokers are earning egregious commissions and high margins. Instead, we are concerned that there are specific instances of high prices (interest rates) set by some brokers through high commission rates. In Chapter 3, we discuss how we have challenged brokers, insurers and SPFPs where we had concerns that their offering was not consistent with fair value.

Nature of contractual arrangements

5.35 Partnership contracts between brokers and specialist lenders in the premium finance market typically span three to five years. Brokers have the opportunity to switch providers at the end of a contract term, and while some may go to market and conduct formal tenders to explore alternative options, switching is not common practice. Instead, partnerships are often reviewed and renegotiated when contracts expire.

5.36 There are a number of reasons brokers may choose to switch SPFPs, whether through a formal tender or through other methods. This includes better commercial terms, mergers and acquisitions, changes in lenders' risk appetite, level of customer service and control over certain aspects of customer journey.

5.37 Partnership contracts in the premium finance market are shaped by several interrelated dynamics, including exclusivity arrangements, system integration challenges, and evolving market conditions. Agreements between brokers and lenders often include exclusivity clauses, which limit brokers from working with multiple finance providers during the contract term. This section explores the nature of these arrangements in more detail and examines how these aspects influence broker behaviour.

Dynamics of contract negotiations

5.38 The dynamics of contract negotiations in the premium finance market are shaped by the structure of the market, which features thousands of intermediary brokers but only a limited number of SPFPs. As the distributors, brokers have direct access to customers, a position that SPFPs lack. This customer access is a valuable asset, allowing brokers to influence terms and assert leverage when entering partnerships. This imbalance gives brokers a degree of bargaining power during negotiations.

5.39 Moreover, the product offered by SPFPs is relatively homogenous, with limited differentiation in terms of core features and functionality. This lack of distinctiveness means SPFPs compete primarily on commercial terms, service quality, and relationship management to win broker business. As a result, brokers are often in a strong position to negotiate favourable commission structures, and the imbalance in bargaining power means that SPFPs have incentives not to challenge brokers for fear of losing business. This could result in customers receiving poor outcomes.

5.40 Despite the potential for brokers' bargaining power to translate into higher customer prices, the widespread use of the PCW channel exerts strong competitive pressure on brokers to offer attractive overall insurance and premium finance packages. This pressure limits their ability to pass through higher interest rates.

Exclusivity arrangements

5.41 Exclusivity agreements are common across broker-SPFP relationships, which can be categorised as three different levels of exclusivity below:

- Pure exclusivity with the exception that brokers can only use alternative providers if the applicant is declined finance, if the broker is able to procure an interest-free alternative or a cheaper credit arrangement through a non-specialist premium finance provider or self-financed by the broker. This is typically the most common type of arrangement.
- Preferred provider where brokers must meet a minimum threshold with the SPFP but can use alternative providers.
- Shared provider, where brokers are not limited to one SPFP and may use their discretion as to which provider to introduce their customers to. In some cases, this is still conditional on minimum value thresholds and target bad debt or cancellation ratios. This type of arrangement is relatively rare.

5.42 The presence of exclusivity arrangements can be a concern depending on how they impact broker discretion, customer outcomes, and market dynamics. In particular, pure exclusivity could limit customer access to potentially more suitable or competitive products if the SPFP's risk appetite has a narrow footprint. However, in practice, brokers have an incentive to choose a SPFP with a wide footprint, which limits the extent to which this risk plays out.

5.43 These arrangements can also be beneficial, as evidence suggests brokers can benefit from exclusivity through cost efficiencies, as it reduces integration costs, lowers ongoing maintenance costs, and allows them to benefit from economies of scale in service delivery.

5.44 At a customer level, exclusivity arrangements do not typically restrict choice in a way that disadvantages customers. Once a broker has selected an SPFP, all customers receive premium finance from that single lender, and there is no practical mechanism to divert individual agreements to alternative providers. This model is operationally efficient for brokers and does not materially weaken consumer outcomes, as competition takes place at the tender or contract-award stage rather than at the level of individual customer agreements.

5.45 Overall, we have not seen evidence of harm arising from exclusivity arrangements in premium finance. Competition for broker contracts remains active, exclusivity can generate operational and cost efficiencies, and brokers are still able to move to alternative SPFPs at the end of contract cycles. As a result, these arrangements do not appear to create unnecessary or persistent switching frictions for brokers or materially weaken consumer outcomes.

5.46 However, we expect firms to continue to critically assess the extent to which their individual contractual arrangements, both in terms of contract negotiations and exclusivity agreements, are supporting their compliance with our existing rules. In addition to our requirements under Fair Value, firms are expected to continue to adhere to wider Consumer Duty expectations as well as existing sectoral rules both in the credit (CONC) and insurance sectors (ICOBS, SYSC, PROD). Firms must ensure their exclusivity arrangements are disclosed to customers in accordance with CONC and that their contractual arrangements fully comply with all of their legal and regulatory obligations including under UK Competition law (in particular the Competition Act 1998).

5.47 If our ongoing supervisory monitoring shows inadequate progress and firm feedback indicates that supply chain contracts are inhibiting competition, we may launch a further phase of work to gather more evidence and take appropriate action.

Comparison with motor finance agreements

5.48 In light of recent developments in motor finance, we have compared commission arrangements in premium finance and motor finance and found material differences, some of which are outlined below.

5.49 **Business model:** In both markets, the broker's role appears superficially similar, as the broker manages customer service and the customer journey, collecting their details and passing these to the lender. Motor dealers may incur costs of collecting more data from the customer, for example on the desired term. In premium finance, however, brokers often take on bad debt costs, which can be a substantial element of the cost.

5.50 These average approximately 45% of their total costs in 2023.

5.51 **The absolute size of commissions:** The absolute level of commissions in premium finance is also comparatively much lower than in motor finance agreements, at approximately £45 per policy. By contrast, the average commission level for non-DCAs in motor finance was £954 in 2023, although we note that those commissions are for credit agreements typically lasting 2-5 years.

5.52 **Discretionary arrangements:** As outlined in Section 5.30, brokers' discretion in premium finance commissions are not DCAs as defined in CONC because brokers cannot change interest rates (and so affect their commissions) on individual customer deals, unlike what previously happened in many motor finance agreements. Premium finance brokers have no greater discretion or incentive to raise interest rates than insurer lenders or intermediary lenders, who retain the ability to determine the final interest rate.

5.53 **Tied relationships:** As outlined in Section 5.40, most agreements between brokers and lenders in premium finance are exclusive, and the approach to disclosure is also varied. By contrast, motor dealers will typically use several lenders but may have preferential relationships, such as right of first refusal.

5.54 **Disclosure:** Approaches to disclosure of commissions and tied relationships by brokers are varied and have different implications in the premium finance market. For example, in motor finance agreements, dealer discretion over interest rates is considered significant because it signalled scope for negotiation of prices and potential conflicts of interest. In premium finance, brokers do not have comparable discretion.

5.55 Overall, while there are some similarities between premium finance and motor finance agreements, the underlying market dynamics differ in material ways. Premium finance brokers bear additional risks and costs—such as bad debt exposure—that may justify a higher proportion of commission relative to the cost of credit. Unlike what previously happened in many motor finance agreements, brokers do not have discretion to vary customer interest rates, and their relationships with lenders operate under different commercial structures. Taken together, these differences mean that concerns arising in motor finance cannot be directly mapped onto the premium finance market.

5.56 While we believe relying on our current rules including the Price and Value outcome is the most effective way in which we can ensure better outcomes for customers, we expect firms to be able to demonstrate that they are complying with all of their regulatory obligations in relation to both the insurance and the credit arrangements, including in respect of commission arrangements.

Impact of recent changes in the market

5.57 On 9th July 2025, Close Brothers Premium Finance (CBPF) announced its intention to withdraw from retail-focused broker relationships within the UK premium finance market. Our evidence suggests consumers are continuing to access premium finance and pay in monthly instalments during the transition phase, as brokers go to market to form partnerships with other lenders. These lenders said they are operationally prepared and did not anticipate financial or operational barriers to increasing their lending activity. Most affected brokers have conducted a re-tendering exercise involving multiple potential partner lenders. Several intermediary brokers noted they have an existing relationship with their preferred lender or can integrate with their existing systems to limit transition time and operational risks.

5.58 This withdrawal will not directly impact most consumers, with only 17% of insurance policies sold with premium finance involving an SPFP. However, we are aware this could likely lead to reduced choice of SPFPs to partner with for many insurance brokers and potentially lessen competitive pressure on remaining lenders. We are closely monitoring any impacts this has on partnership negotiations and commercial terms as brokers transition to alternative lenders.

5.59 It is challenging at this stage to forecast any changes in the interest rates customers will pay. We will continue to closely monitor market dynamics and will take action where we think firms are not delivering fair value as a result of this market withdrawal.

Chapter 6

Next steps

6.1 Our work on the premium finance market will continue beyond the publication of this report. We will be closely monitoring premium finance APRs using data firms submit to us in regulatory returns.

6.2 We will continue to scrutinise firms' fair value analysis and will engage with outlier firms through supervision where appropriate. Given the findings of this study we do not consider that new market wide interventions are needed – we and are confident that we can use our supervisory interventions to drive change where needed at an individual firm level.

6.3 We will also continue to closely monitor the impact on the market, in particular the intermediary market, as a result of Close Brothers Premium Finance's withdrawal from retail premium finance.

6.4 Firms involved in premium finance should take on board the insights outlined in this report, including the good practice and poor practice examples.

Abbreviations used in this paper

Abbreviation	Description
APR	**Annual Percentage Rate** – this measures the total cost of borrowing over a year. It is calculated by combining the interest rate and any additional fees charged by the lender
PCW	**Price Comparison Websites** – online platforms that enable customers to compare prices and other features of products and services from different providers in one place. They are a key distribution channel for home and motor insurance policies
SPFP	**Specialist Premium Finance Providers** – Third parties who lend to insurance policy holders through a commercial arrangement with insurance providers and intermediary brokers
PROD	**Product Intervention and Governance Sourcebook** – a set of rules which require firms to implement robust systems for the management of financial products. These rules are designed to ensure good outcomes for consumers
CONC	**Consumer Credit Sourcebook** – a set of rules that requires credit brokers to disclose the existence and nature of any commission, fee or remuneration that could influence their recommendation or affect a customer's decision
ICOBS	**Insurance Conduct of Business Sourcebook** – a set of rules that requires insurance intermediary brokers to disclose any commission it receives, including the specific amount, to commercial customers upon their request
SYSC	**Senior Management Arrangements, Systems and Controls Sourcebook** – a framework requiring firms to have robust internal governance, compliance and risk management systems to ensure accountability and protect consumers
FVA	**Fair Value Assessment** – a documented review that regulated financial services firms must carry out under the FCA's Consumer Duty to demonstrate that their products and services provide fair value to consumers.

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

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