



Our Ref: **ep/am**
Your Ref:

SAMPLE

24th March 2025

Dear ,

INSURANCE MONITORING – MARCH UPDATE

This letter contains information/updates on a few matters which, whilst not central nor crucial to many, do indicate some key “directions of travel” that the FCA.

1. Market Study on the distribution of pure protection products

On 21 March. the FCA published the terms of reference for a market study to examine the distribution of pure protection products to retail consumers acting in their personal capacity (MS24/1.2).

As you know, market studies are undertaken under the FCA's competition objectives, and (witness PP!) can lead to significant impacts within (and adjacent to) the markets covered.

The FCA is using this market study to consider whether the distribution of pure protection products works well against its operational objectives, including whether competition works in the interest of consumers. Whilst competition law based, the FCA will examine whether the consumer outcomes it observes align with those expected under its Consumer Duty and Product Intervention and Product Governance Sourcebook rules.

The FCA will primarily focus on the distribution of term assurance, critical illness cover, income protection insurance and whole of life insurance. It will focus on policies purchased by individuals on their own behalf, including joint life policies. The market study will assess the following key areas:

- The design of distribution arrangements and commissions.
- The fair value of some pure protection products (notably guaranteed acceptance over 50s insurance).
- The impact of recent insurer exits.
- The “protection gap” and access to necessary cover, for example, for individuals who fall outside the “healthy lives” definition.
- Barriers to investment and innovation.

The FCA intends to report on its preliminary conclusions in Q4 2025

2. Update on commission disclosure

As (again) you will well know, the Court of Appeal has indicated the potential for widespread liability among motor finance firms (and potentially much wider) where commission was/is not properly disclosed to customers. The Supreme Court will hear an appeal against the Court of Appeal's judgement on 1 to 3 April 2025. The FCA has been granted permission to intervene in the case - and has filed its submission with the Court.

Depending on the Supreme Court's decision, the FCA may potentially consult on a redress scheme in which firms would be responsible for determining whether customers have suffered due to any firm's failings. If they have, firms

would need to offer appropriate compensation. Depending on the Supreme Court judgment, the scope of redress obligations may turn out to be wider than just in the consumer credit market.

The FCA has now confirmed that it will no longer be issuing a further announcement in May, in this connection, as initially planned. Instead, the FCA will confirm within six weeks of the Supreme Court's decision whether or not it will propose a redress scheme and if so, how the FCA will take it forward. The FCA warns that firms should remain alert to this update, as "it may contain crucial next steps".

3. Update on diversity and inclusion proposals

The FCA and the PRA have announced that they will not be taking their work on diversity and inclusion (D&I) forward.

The regulators consulted on proposed rules and expectations aimed at improving D&I in firms in September 2023 (FCA CP23/20 and PRA CP18/23). The regulators have decided not to take their proposals forward due to:-

- the broad range of feedback received.
- expected legislative developments in the area, including on gender action plans and disability and ethnicity pay gap reporting.
- wanting to avoid additional regulatory burdens on firms.

Alongside this announcement, the FCA has confirmed that it will continue to prioritise its work to tackle non-financial misconduct in firms. It intends to set out the next steps by the end of June 2025.

4. The Regulatory Perimeter

Frustration over the way the FCA polices the perimeter of its regulatory scope is probably in the top five issues which are raised with me – especially in warranty markets. Firms tell me that they feel their delivery of intelligence to the regulator is very rarely productive.

It may therefore be of interest that, on 11 March, the FCA published its response to the Financial Regulators Complaints Commissioner's final report on the FCA's oversight of Safe Hands Plans Ltd, a funeral plan provider.

The Commissioner's report followed multiple complaints about the FCA's handling of the firm, in particular following the receipt of anonymous intelligence about the firm. The report focuses on the substantive issues raised rather than each granular complaint.

The Commissioner found that the FCA failed to adequately monitor the perimeter with respect to the firm. In the light of its findings, the Commissioner invited the FCA to consider whether it should make an award of compensation to complainants. For the full report see:-

<https://frccommissioner.org.uk/wp-content/uploads/The-FCAs-handling-of-Safe-Hands-Issued-11-March-2025.-Published-11-March-2025.pdf>

The FCA has published a full response to the Complaints Commissioner's final report, together with a shorter statement. It rejects the Commissioner's findings. Among other things, the FCA believes that the steps it took were reasonable based on the information it had at the time and the limited powers it had before it took over regulation of the funeral planning sector. It also believes that taking alternative action, as proposed by the Commissioner, could in fact have led to a worse outcome for consumers. For the FCA's full response see:-

<https://www.fca.org.uk/publication/corporate/response-complaints-commissioner-final-report-fca-handling-safe-hands.pdf>

The FCA has written to the Treasury Select Committee to explain its position, and the wider points cases such as this raise in the context of transitions of new products or activities into its remit and the current debate about risk and consumer protection in financial regulation. I doubt whether this will receive a particularly warm response!!

With kind regards,

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