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Response

Which? views on the update paper for the Premium Finance Market Study

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- **We welcome the opportunity to comment on the updates the FCA has published.**

We appreciate the complexity of premium finance within the insurance industry and welcome the opportunity to contribute to the market study before the FCA has reached its final conclusions. It's important that stakeholders across the industry are able to contribute to ensure the FCA acts in the best interests of consumers.

- **The detailed consumer research the FCA has undertaken to better understand who is using premium finance and why, shows how essential it is to the millions of people who would otherwise be unable to afford essential insurance.**

As highlighted by the FCA, in 2023, almost half (48%) of motor and home policies were paid monthly. Of these, 60% of motor and 41% home policyholders did so because they could not afford to pay in a single payment up front.¹ We estimate that this equates to around 20 million motor and 8.5 million home insurance policyholders.

The research also identifies another large cohort of policyholders (29% of motor and 47% of home) who said they “could afford to pay in a single payment but prefer to spread the costs”.² The FCA has identified a number of possible drivers for this behaviour. We broadly agree with the drivers, though we would highlight that two of the four possible drivers are also related to affordability issues (“to manage cashflow and budget” and “to free up savings and/or other credit line”), suggesting that a significant proportion of this cohort may also be using premium finance for affordability purposes. Therefore, the estimate that 20 million motor and 8.5 million

¹ FCA (2025). *Premium Finance Market Study Update Paper*. Available from: <https://www.fca.org.uk/publication/market-studies/ms24-2-2-premium-finance-market-study-update-paper.pdf>.

² FCA (2025). *How and why customers use premium finance*. Available from: <https://www.fca.org.uk/publication/market-studies/ms24-2-2-how-why-customers-use-premium-finance-paper.pdf>.

home insurance policyholders are using premium finance in response to affordability challenges may be an underestimate.

- **It is paramount that the option to pay monthly for essential insurance products is maintained.**

The option for customers to pay monthly is not currently mandatory, so we recognise that any regulatory intervention must ensure that access to this payment method is protected, especially given its evident importance to consumers in supporting access to insurance. This is particularly critical when we consider the vital role insurance plays, particularly motor insurance, in supporting people's participation in society and the economy. Any proposed intervention must be sustainable whilst protecting consumers.

The FCA notes that most insurers and intermediaries accept all customers who qualify for insurance for payment plans, with the remaining providers having acceptance rates of 90-95%, showing that current arrangements are accessible to those who may struggle to access credit from elsewhere.

- **The FCA's findings have also confirmed our longstanding challenge to the sector that many firms are making excessive profits on customers paying monthly, compared to profits made on those that pay annually.**

The FCA has found that revenues for premium finance "appear to materially exceed costs for some providers", and these are "somewhat higher" than the "relatively low" profit margins for core insurance policies.³ We recognise that margins & costs vary across cohorts, but the pattern is clear that all cohorts are making substantial profit margins on premium finance to the detriment of customers.

- **We are unclear why the FCA has taken the unusual step of ruling out three potential remedies at this stage of the market study.**

The FCA has explicitly stated that it is still investigating important issues which could ultimately affect the choice of remedies. We believe that it is premature to rule out remedies at this stage, and that all options should remain on the table until the FCA has finished collecting and analysing all of the available evidence.

For example, the FCA has ruled out mandating insurance at 0% APR. The reason given for this is that as offering a pay monthly option incurs economic costs, requiring these costs to be recovered elsewhere may not lead to lower prices overall. We do not dispute this, but we believe that it overlooks the potential redistributive effects which could benefit vulnerable customers. The FCA notes this argument for the price cap remedy, but not for the 0% APR remedy.

The FCA should be willing to reconsider its decision to rule out these remedies if further evidence and analysis suggests it should do so. We note the FCA has said

³ FCA (2025). *Premium Finance Market Study Update Paper*. Available from: <https://www.fca.org.uk/publication/market-studies/ms24-2-2-premium-finance-market-study-update-paper.pdf>.

that it will still evaluate whether the 0% APR model provides fair value to consumers.⁴ If it is judged to do so, and others do not, we would expect it to be considered for implementation. At the very least, if the FCA decides to maintain its position on 0% APR it should better explain its reasoning in any final publication.

- **In relation to other remedies discussed in the update, we are very sceptical that remedies designed to improve consumer engagement would be effective.** The FCA states that it is planning to “investigate the extent to which consumers can effectively compare premium finance with other credit products”.⁵ It also discusses the information made available regarding premium finance in the customer journey, which could suggest informational remedies are to be considered.⁶

We think that these remedies would be considerably unlikely to improve consumer engagement to an extent the FCA would consider satisfactory and would, therefore, be ineffective at spurring competition in the market. Our in-depth qualitative and quantitative research shows that many consumers rationally seek to minimise the time spent buying insurance - a rare example of a product they hope never to have to use.⁷ It is highly unlikely that consumers would be motivated to compare another element of an already complex product. Further, these remedies appear to ignore that many consumers are purchasing insurance through premium finance as a necessity and not through choice.

Instead, we believe it is essential that the FCA should focus its efforts on addressing poor value on the supply side of the market. This would likely be more effective in protecting consumers.

- **The FCA must not be afraid to intervene robustly if it identifies longstanding breaches of FCA rules.** As it stands, we are concerned that some firms may be falling short of regulatory expectations, specifically the price and value outcome under the consumer duty. If the FCA concludes this once it has finished the market study, the FCA should take robust enforcement action to protect consumers.
- We look forward to constructively engaging with the FCA as it progresses through to the conclusion of the market study.

⁴ “Understand if the differing approaches outlined above in motor and home (including the 0% APR model) are providing fair value to consumers. We want to understand the effects on fair value and competition of the two approaches – the credit risk on the one hand being priced into the insurance cost for home insurance, or, on the other hand, it being priced transparently and separately in premium finance for motor insurance.”

⁵ FCA (2025). *Premium Finance Market Study Update Paper*. Available from: <https://www.fca.org.uk/publication/market-studies/ms24-2-2-premium-finance-market-study-update-paper.pdf>.

⁶ FCA (2025). *How and why customers use premium finance*. Available from: <https://www.fca.org.uk/publication/market-studies/ms24-2-2-how-why-customers-use-premium-finance-paper.pdf>.

⁷ Which? (2025). *Risky Business*. Available from: <https://www.which.co.uk/policy-and-insight/article/risky-business-consumer-confusion-around-general-insurance-atkz55a7BhBR>.

About Which?

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