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# **Briefing Doc:** **Market study into the** **Provision of Premium** **Finance**



## Detailed Briefing Document:

### Market study into the Provision of Premium Finance

This briefing document highlights the key themes and important facts from the FCA's proposed market study into premium finance. It underscores the FCA's focus on ensuring fair value and effective competition in this market, particularly for vulnerable consumers.

#### Executive Summary:

The FCA is launching a market study to investigate concerns about the premium finance market in the UK, particularly for motor and home insurance. The study is motivated by worries that the market may not be functioning effectively, leading to potentially unfair value for consumers, particularly those in vulnerable circumstances. Key areas of focus include high APRs (reaching up to 30%), complex commercial arrangements, and potential obstacles to effective consumer decision-making. The FCA will examine whether current regulations, including the Consumer Duty, sufficiently address these concerns and consider potential interventions to improve market outcomes.

#### Main Themes and Important Facts:

##### 1. High Demand and Potential for Consumer Harm:

- ⦿ Premium finance, enabling consumers to pay for insurance in instalments, is increasingly popular, with over 20 million adults using it.
- ⦿ While some providers offer interest-free instalments, most charge interest, resulting in higher overall costs. The FCA estimates outstanding loan balances exceeded £5 billion in 2022, generating up to £1.2 billion in revenue for providers.
- ⦿ Concerns exist that high APRs (20-30% range) on premium finance, particularly in a context of rising insurance premiums, may not represent fair value and disproportionately impact vulnerable consumers.

Quote: "We are concerned that the premium finance market is falling short of the standards we want to see from firms." (Chapter 3.1)

## 2. Market Structure and Competition:

- 🕒 The study will investigate the structure of the premium finance market, potential barriers to entry and expansion, and how providers compete and set prices.
- 🕒 The FCA will assess the role of different providers – insurers, intermediaries, and specialist premium finance providers – and their commercial arrangements.
- 🕒 The influence of price comparison websites on competition dynamics will also be examined.

Quote: "We will explore the key features of the premium finance market to assess whether there are any obstacles to firms entering and/or expanding that could be leading to weak competition and poor customer outcomes." (Chapter 5.5)

## 3. Obstacles to Effective Consumer Decision-Making:

- 🕒 The study will examine barriers to consumers accessing clear information about premium finance options and identifying the best value offers.
- 🕒 Concerns include the timing and complexity of information provided, potential exploitation of consumer behavioural biases, and the potential impact of firm practices on shopping around and switching.
- 🕒 The FCA will particularly focus on the impact on vulnerable consumers who may face greater challenges navigating complex information.

Quote: "Firms may make it costly for customers to obtain information on the price of premium finance or may provide it late in the

*consumer journey, when there is limited practical opportunity for it to facilitate shopping around." (Chapter 5.8)*

#### **4. Commercial Arrangements and Potential Conflicts of Interest:**

- 🕒 The study will analyse commercial arrangements, particularly commission structures between specialist premium finance providers and intermediaries.
- 🕒 Concerns exist that these arrangements may create misaligned incentives, potentially leading to higher prices for consumers.

*Quote: "Commissions paid by specialist premium finance providers to intermediaries may also create misaligned incentives and reduce competition." (Chapter 5.12)*

#### **5. Potential Regulatory Actions:**

- 🕒 The FCA will consider the effectiveness of existing regulations, including the Consumer Duty and rules regarding fair value, adequate information, and distributor remuneration.
- 🕒 Potential interventions to address harm could include rule changes, guidance, industry self-regulation, supervisory actions, firm-specific remedies, or enforcement actions.

*Quote: "Where harm is identified, there may be a range of proportionate interventions available to make the market work better." (Chapter 6.1)*

#### **Next Steps:**

The FCA is seeking stakeholder feedback on the proposed scope and issues outlined in the Terms of Reference. They will engage with firms, industry groups, and stakeholders to gather data and perspectives. A progress update and proposed next steps are expected during the first half of 2025.

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