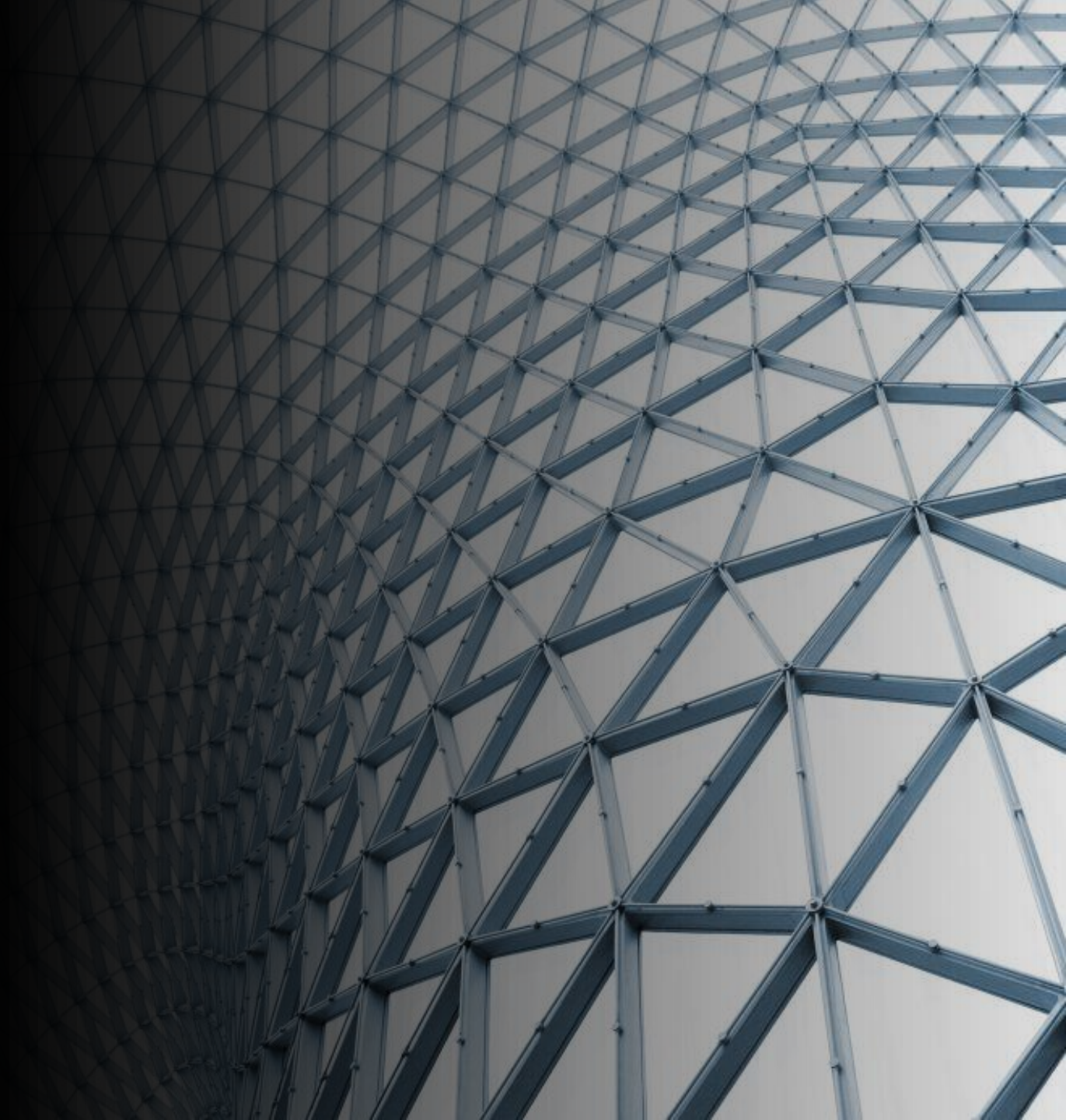


FCA Consultation:  
'Simplifying the insurance rules'  
(CP25/12)

16 May 2025



# Simplifying the insurance rules

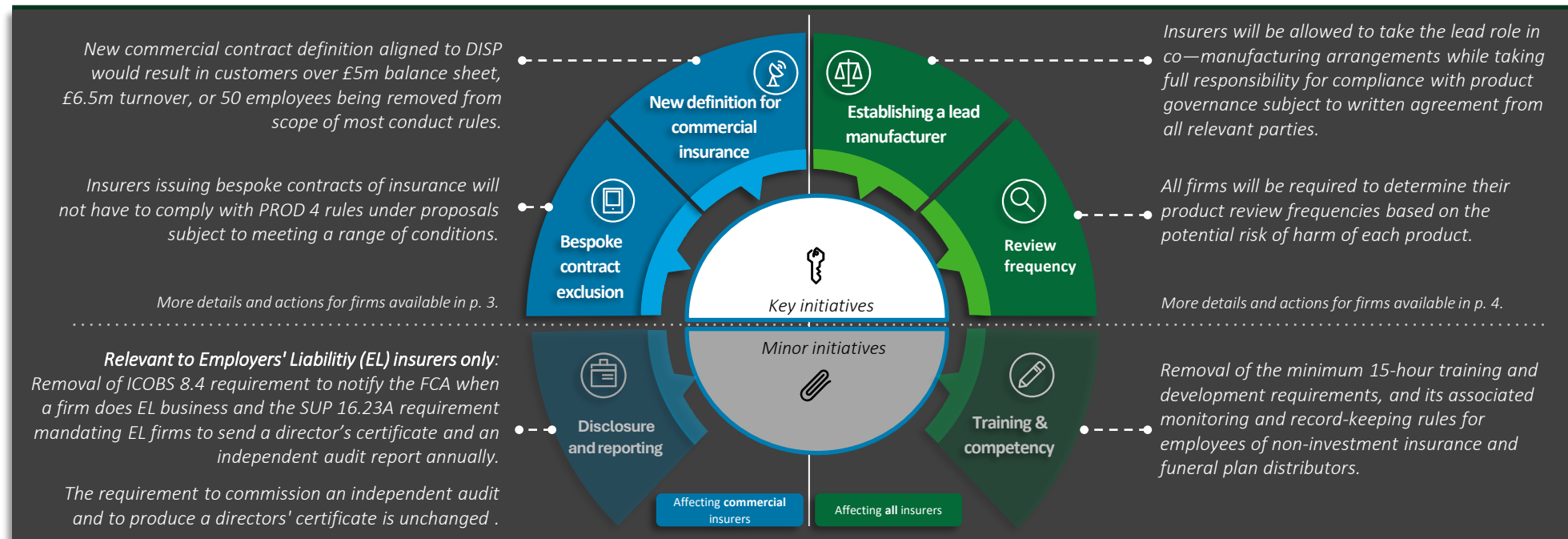
## Breakdown of initiatives proposed in CP25/12

### Context and overview

The FCA has published its much-anticipated [Consultation Paper \(CP25/12\)](#): Simplifying the insurance rules, to streamline its Handbook requirement for commercial and bespoke insurers.

This CP follows-up on the [Discussion Paper \(DP24/1\)](#) published in July 2024. The Consultation has kept most suggestions from the DP, but has refined many of them following feedback, and added the proposals to allow firms to determine their product review frequencies.

### Overview of the key changes from the Consultation



### Our observations

- The proposals will be **positively welcomed by both commercial and retail insurers but determining the impact of the changes will require some careful analysis**. Importantly, most proposals do require firms to **make strategic decisions** as to whether to adopt the changes in the first place. For example, the FCA understands some firms will choose to keep applying the current level of conduct protection to their policyholders regardless of the change in commercial insurance definition. Offering conduct protections over and above FCA requirements **could be used by some firms as a differentiator** in the market and this should be weighed against the potential compliance savings in moving these customers out of their current protection levels. Crucially, making the most of this proposal is also **dependent on the ability of firms to gather the right data** to identify the customers in question which might not be feasible in the short term or require a degree of investment. Firms whose business model includes commercial customers who are now out of scope may consider what operating model changes to make to maximise efficiency.
- The proposal to enable firms to select a co-manufacturing lead to take responsibility for compliance with product value assessments is likely to **affect market dynamics and over time might result in the expectation that insurers always take the lead<sup>1</sup>**. Firms may consider whether this has a commercial impact given the new work allocation between insurers and brokers.
- Finally, the proposals to allow firms to determine the frequency of product reviews will **result in more work in the short- to medium term for firms** as they work on setting out their frequency determinations, amend their current product review frameworks and tools, and **communicate with the relevant counterparties across the distribution chain to align approaches** on product risk ratings, review frequencies and what it means for information sharing. Whilst we expect this change to reduce the number of reviews per year, some will need to be carried out more than once a year. **In conclusion**, firms will have a lot to consider before deciding if and how to onboard the proposed changes to ensure they can make the most of the potential opportunities these changes might bring to the business.

# Key proposals affecting all insurance and intermediaries

## Implication for insurers and intermediaries



Changes for all  
insurers and  
intermediaries

### Review frequency

Proposals

- The FCA is proposing the removal of the 12-month minimum review frequency requirement for non-investment insurance products. A new rule is being proposed to require **firms to determine the frequency of reviews based on each product's potential for customer harm**. This will result in more work for firms in the short to medium term to adapt their current product review processes to the new requirement.
- The FCA is also proposing a minimum list of factors to consider when establishing review frequency. These include: **nature of customer base**, numbers of **vulnerable or long-tenure customers**, harm indicators emerging from **claims or complaints data**. Some reviews might need to be carried more frequently than currently.
- Firms will be required to make and retain a **record of their frequency determinations** and their reasons, as well as update them when aware of new information.

Actions for  
firms

Firms will need to implement changes to their product governance framework to set out product review frequency determinations and align their approach with counterparties.

Implementing this change is likely to require amending any underlying tools, identifying key metrics and factors that should be captured in the determination process and develop a methodology to ensure determinations are kept up to date.

Firms might find some products will move to **more or less** frequent review cycles. Firms will need to assess the impact of their determinations across the chain to align information sharing needs.

Changes to the product governance framework are interconnected to other areas of change such as on lead manufacturer responsibilities.

### Establishing a lead manufacturer

- Only an **insurer or a Lloyd's managing agent may be the lead manufacturer in co-manufacturing arrangements** (intermediaries cannot be leads). Non-lead firms will be required to cooperate fully and share relevant information with leads.
- The lead must have **sufficient involvement** in the manufacturing of the insurance product and **will take sole responsibility for compliance** with PROD 4.2 and any breaches or redress payable to customers.
- Proposals will apply to all co-manufacturer arrangements for all non-investment insurance products, including pure protection products.
- Firms **can voluntarily adopt the new arrangement** or continue to operate under existing rules. The FCA has provided additional guidance to clarify responsibilities and cooperation under existing rules.

Firms in co-manufacturing arrangements will need to **make decisions around their role in the relationship**: only insurers can take a lead role and the sole responsibility with PROD compliance will lie with the lead subject to agreement from all other parties.

Firms will need to **assess the increased compliance risks against a simplified product governance process** that avoids duplication of assessments across the distribution chain.

Firms will need to develop **robust legal agreements** with co-manufacturers to manage compliance risk, for example by choosing to share cost of breaches or redress.

**Taking the lead might make certain insurers more attractive to intermediaries** by taking a significant regulatory burden away from them and therefore creating commercial opportunities to strengthen and deepen distribution channels. In the medium term, new norms regarding lead taking and legal agreements are likely to arise in the market.



# Key proposals affecting the commercial insurance sector

## Implications for insurers



### Changes for commercial insurance

#### New definition of commercial insurance customers

### Proposals

- The “contracts of large risks” definition is replaced by “**contracts of commercial or other risks**” to align it with DISP’s “eligible complainant” thresholds. New threshold will be £5m balance sheet, or £6.5m turnover (previously £12.5m) , or 50 (previously 250) employees .
- Firms will have the choice to exclude commercial customers captured by the new definition from the scope of ICOBS, PROD and the Duty.
- Products that automatically classify as “large risk” (e.g., aviation and marine) will continue to be excluded from some ICOBS rules.
- The FCA’s PRIN (except the Duty) and other high-level rules such as the customer’s best interest rule will keep applying to all customers.

#### Bespoke contract exclusion (\*)

- Insurers issuing **bespoke contracts of insurance** will **not have to comply with PROD 4 rules under proposals** – this will align insurers to the current regime applying for intermediaries.
- A bespoke insurance contract will qualify for the exemption only where: the insurer has **adapted or created the product solely for the customer**, at the **customer’s request**, and the contract meets customer needs that cannot be met by any of the firms’ existing products.
- The FCA is proposing clarifying guidance and examples to define what is *not* a bespoke contract – e.g., product variants, optional extras or amendments to include conditions or restrictions to address particular risks relating to an individual customer do *not* constitute bespoke insurance contracts.
- In addition, the firms needs to be satisfied that the customers’ approach for a bespoke insurance product **does not result from marketing** or other offer form the firm to customers.

### Actions for firms

**Determine the number of customers** that would be affected by the change in definition and identify any data gaps to complete this exercise. Consider what operating model changes would be necessary to implement a change in approach for the affected customers.

Analyse the costs and opportunities of applying the new definition, what tasks and processes can be stopped against what should be kept to continue to provide value for these customers. **Make a strategic decision regarding adoption or not.**

Consider **interaction with other proposals** such as bespoke contract exclusion and consider how the overall conduct risk framework should be updated to reflect the changes and establish the necessary controls to mitigate risks.

Consider the **materiality** of the current bespoke insurance contract portfolio.

Assess the impact of the exemption to reduce the regulatory compliance burden and make bespoke business potentially more commercially attractive.

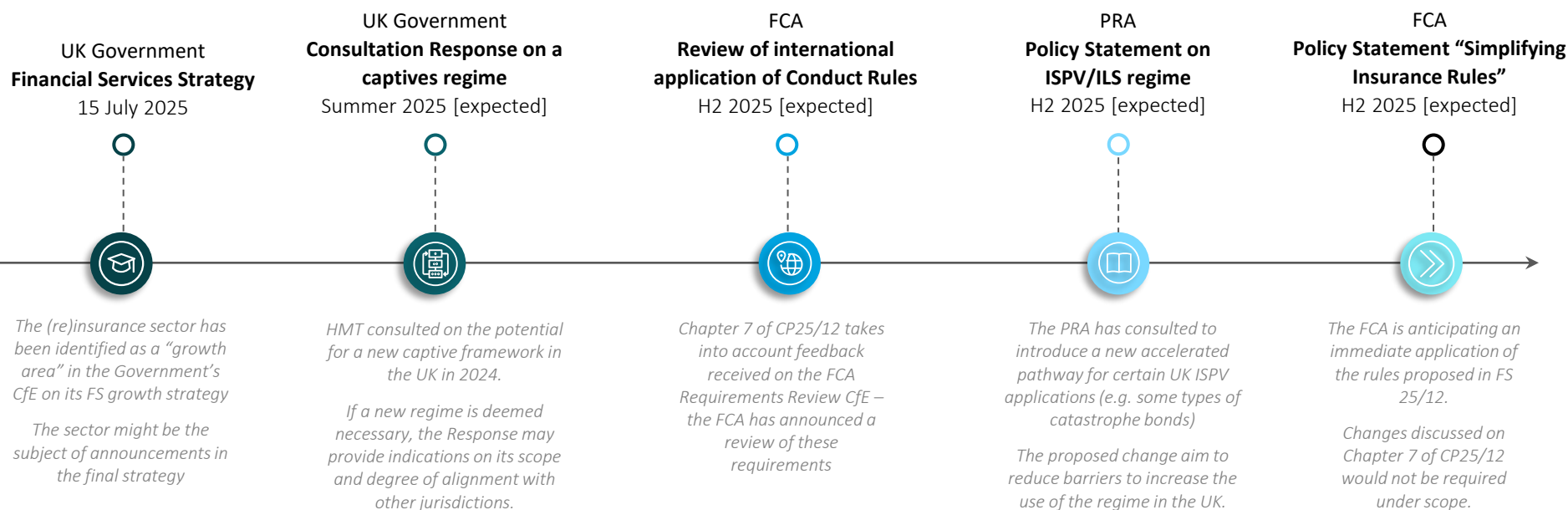
Consider the **approach to customer protection** (alongside the assessment resulting from the commercial insurance definition) as a result of the application of the exemption and develop an approach to implement the necessary operational framework to enable more agile bespoke insurance underwriting.

Consider how the overall **conduct risk framework should be updated** taking into account **interaction with other proposals** such as the new definition of commercial insurance

### Other issues for discussion under CP25/12

- In Chapter 7 of the Consultation the FCA is exploring other options to reduce the regulatory burden for non-investment insurance products including:
  - A review its conduct rules applying to international insurance business to avoid overlapping requirements with overseas regulations. The FCA is exploring the disapplication of ICOBS and PROD 4 where both customers and risks are located outside the UK – in the same line, it is considering whether the Duty Principles 6 and 7 should still apply for this scope of customers.
  - The removal of certain product-specific rules within ICOBS (Payment Protection, Packaged Bank Accounts, Guaranteed Asset Protection) as these may now be redundant with the protections offered by the Duty and other pieces of regulations.
- As highlighted in the CP, the changes considered would need be subject to further Consultation

### Looking ahead: High-level regulatory pipeline for insurers operating in the commercial space





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