

## Policy Statement **‘Simplifying the insurance rules’** **(PS25/21)**



# Simplifying the insurance rules: where are we?

## — Building blocks of the Policy Statement —

On 9 September, the FCA published final rules on Simplifying the insurance rules (PS25/21). The rules have remained broadly aligned with **proposals and will apply from 8 December 2025**. Most of the changes are optional for firms to adopt ( ⓘ) and will require careful assessment as to whether they will be worth implementing.

 <b>New definitions</b>	Option for insurers to use new definitions of “specialty risk contracts” and “larger commercial customers” to exclude some policyholders from the scope of most conduct rules (known as SME watershed). ⓘ	 <b>Lead manufacturer</b>	Insurers who take the lead role in co-manufacturing arrangements will be allowed to take sole responsibility for compliance with product governance except for ICOBS disclosures. ⓘ
 <b>Bespoke contracts exemptions</b>	Insurers issuing bespoke contracts of insurance subject to meeting necessary conditions will <i>not</i> have to comply with PROD 4 rules. ⓘ	 <b>Product reviews</b>	All firms will be required to determine their product review frequencies based on the potential risk of harm of each product.
<b>Disclosures &amp; reporting</b>	Remove Employer Liability notification and annual reporting requirements. But firms are expected to continue to notify the FCA of any significant breaches of rules.	<b>Training</b>	Removes 15h training & development requirement as well as associated monitoring and record-keeping rules for employees of non-investment insurance & funeral plan distributors.

## — Further consultation and FCA announcements —

- Alongside the PS, the FCA released [CP25/37](#) suggesting targeted clarifications of Handbook material (deletion of PROD 4.5 and obsolete product-specific rules) and has **announced further reviews of insurance rules for 2026**.
- The FCA announcements cover numerous small changes, but **it is uncertain whether they could reduce the compliance burden for firms**. Looking ahead, key changes in the pipeline include developing a **definition of retail customer**, and potential **disapplication of the Duty to non-UK business**.

## — What does it mean? —

- Firms will likely welcome the changes. However, adoption might vary since most of the changes will require investment to implement that might not be justified by the resulting benefits.
- For example, wholesale insurers will need to **identify which customers meet the new definition of larger commercial customer** and this will require changes to operations and data gathering. Similarly, setting up lead manufacturer processes will incur day-1 costs.
- Uncertainty remains about the scale and timeline of further Handbook reviews and simplifications (see p3)** – and insurers will need to manage many new regulatory streams in 2026 (i.e., DyGIST, Solvent Exit).
- Firms can already take some no-regret actions to assessing the potential benefits of PS25/21 (e.g., customer data review; review of product target market and SME watershed impact, assessing changes to processes as lead manufacturer). But some firms might seek to wait for the full picture of rule simplification next year before making more substantial decisions.

# Key proposals affecting the commercial insurance sector

## NEW DEFINITIONS OF SPECIALIST RISK & LARGE CUSTOMERS



Firms have the choice to exclude commercial customers captured by new definitions from the scope of ICOBS, PROD and the Duty.



“Contracts of large risks” is replaced by two definitions: “specialist risks contracts” and “larger commercial customers”. The latter is aligned to DISP’s “eligible complainant” thresholds\*\* (i.e. £5m balance sheet or £6.5m turnover or 50 employees).



However, PRIN (except Duty) and other high-level rules (e.g., “customer’s best interest”) **still apply to all customers**. The FCA also reminds firms must continue to consider whether a product has retail consumers (acting outside of their trade) as policyholders or stakeholders. The FCA will further review some core Handbook definitions in 2026 (e.g., retail customer)



## KEY CONSIDERATIONS FOR FIRMS

- ✓ **Assess the number of customers** potentially under scope of the change in definition and identify data gaps to complete this exercise.
- ✓ Analyse costs & benefits of applying new definitions: what task & process can stop vs. what should continue to provide value for all customers. **Make a strategic decision regarding potential adoption, and timeline for it** – factoring in future reviews of core definitions in 2026.
- ✓ **Consider interaction with other proposals** (e.g., bespoke exclusion) and how the overall conduct risk framework should be updated to reflect the changes and establish the necessary controls to mitigate risks.

## BESPOKE CONTRACT EXCLUSION FROM PROD 4 (\*)



Insurers issuing bespoke insurance contracts will not have to comply with PROD 4 anymore – this aligns insurers to the current regime applying for intermediaries.



A bespoke contract qualifies for the exemption only where the insurance product is adapted/created 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 or optional extras.



The firms must be satisfied that the customers' approach for a bespoke insurance product does *not* result from marketing from the firm to customers.



## KEY CONSIDERATIONS FOR FIRMS

- ✓ **Consider materiality** of the current bespoke insurance contract portfolio and assess the impact of the exemption on compliance burden.
- ✓ **Consider the approach to customer protection** (alongside assessment resulting from the commercial insurance definition) resulting from 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** considering interaction with other proposals (e.g., new definitions).

# Key proposals affecting insurers & intermediaries

## CHANGE OF PRODUCT REVIEW FREQUENCY



**Removal of 12-month review frequency requirement for non-investment insurance products.** Instead, firms must determine the frequency of reviews based on each product's potential for customer harm.



**Firms must consider a minimum list of factors to consider when establishing review frequency** (e.g., 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 are required to **make and retain a record of their frequency determinations** and their reasons as well as update them when aware of new information. Upon request, manufacturers must share information on product review frequency with their distributors.



## KEY CONSIDERATIONS FOR FIRMS

- ✓ This change will result in more work in the short-to-medium term to adapt current product review processes to the new requirement
- ✓ **Amend any underlying tools, identify key metrics and factors that should be captured in the determination process** and develop a methodology to ensure determinations are kept up to date.
- ✓ **Identify how products will move to more – or less – frequent review cycles.** Assess the impact of changes in frequency cycles across the chain to align information sharing needs.
- ✓ Understand how changes to product governance interconnect with other changes such as the new lead manufacturer responsibilities.

## ESTABLISHING A LEAD MANUFACTURER



**An insurer or a Lloyd's managing agent can now become lead manufacturer in co-manufacturing arrangements for non-investment products\*\*\*** (intermediaries & MGAs cannot). Non-lead firms must fully cooperate and share information with the lead.



The lead must have sufficient involvement in product manufacturing and **will take sole responsibility for compliance** with PROD 4.2 and any breaches or redress payable to customers. However, ICOBS disclosures responsibilities will not be centralised by the lead.



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.



## KEY CONSIDERATIONS FOR FIRMS

- ✓ **Co-manufacturers (co-man.) need to make decisions around their role in the relationship.** 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.
- ✓ Co-man. should assess increases **in compliance risks against a simplified product governance process** avoiding duplications across the distribution chain.
- ✓ Co-man. will need **robust contractual frameworks** to manage compliance risk (e.g., cost-sharing for breaches, redress). In the medium term, new norms on lead-taking and legal agreements will likely arise.

## What to expect

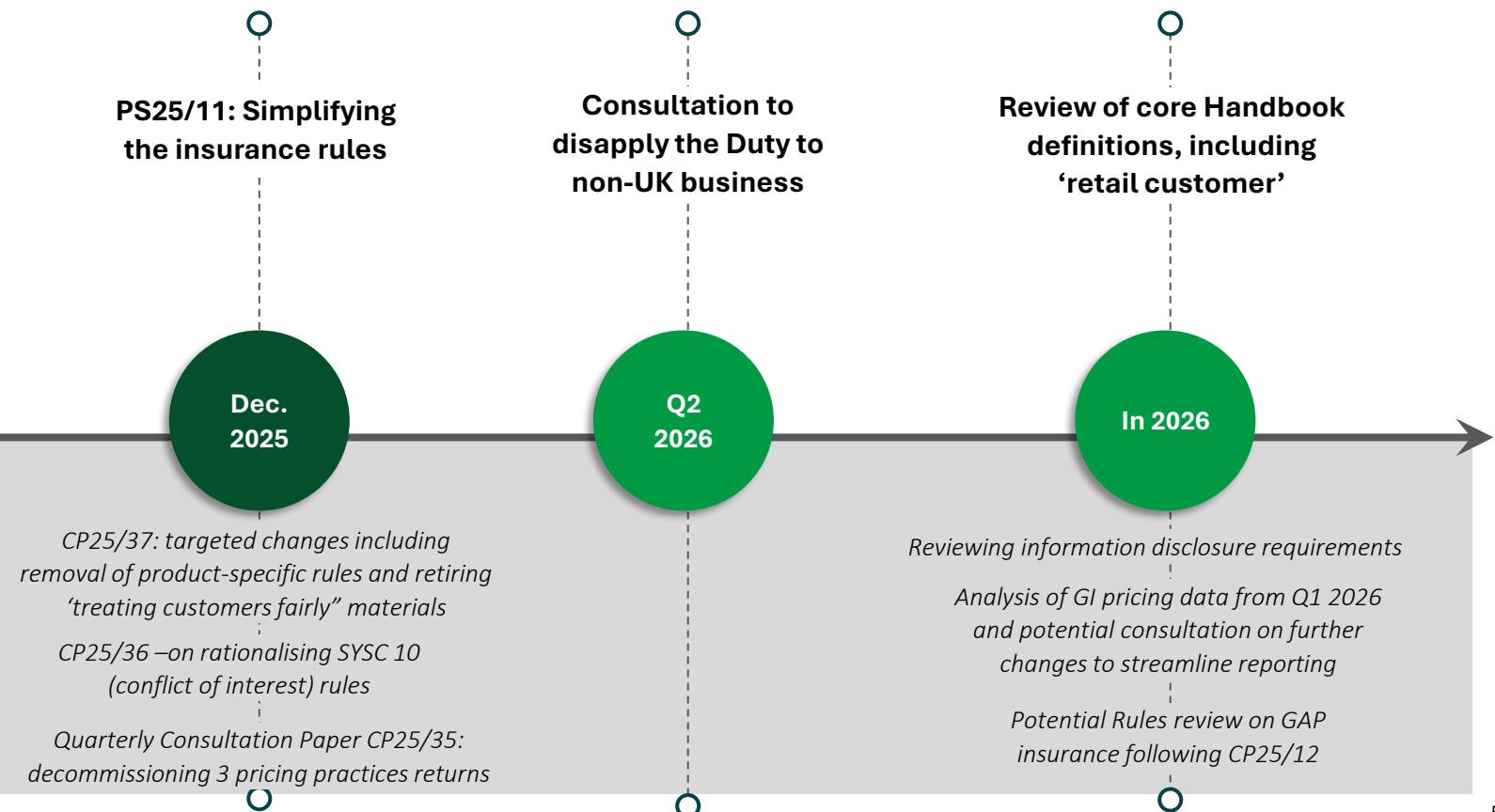
- Alongside PS25/21, the FCA has announced further changes to the Handbook - to reduce unnecessary regulatory overlaps and reduce compliance costs. **The nature and scale of the changes is yet unknown**, but firms might be tempted to wait to get a fuller picture of these simplifications before taking more concrete. The FCA intends to provide a more detailed update on priorities and timelines to the industry in H1 2026.
- Whilst PS25/21 demonstrates that *some* benefits can be derived from regulatory simplifications, **the need to invest to benefit from these changes means that adoption might be lower (or take longer) than the regulator expects.**

### — Major reviews planned —

- Wholesale firms will pay careful attention to the **future review of Handbook definitions to further simplify definitions used for the “SME watershed”** (rather than changing the positioning of the watershed itself).
- Firms with international footprints may also be **relieved from Duty compliance for their international business** following a Consultation scheduled for Q2 next year (PS in Q4 2026)

### Further Handbook adjustments (minor)

- The FCA is committed to review more frequently whether specific returns, information requirements and standards are fully necessary.





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