

# Pathlight Perspectives

## Insurance Insights Series - Practical Insights

### Introduction

Regulatory changes in insurance are no longer incremental but structural. Decisions that firms make today on data, governance, oversight and culture will determine whether they are resilient or exposed to the regulator as the FCA's supervisory scrutiny intensifies in 2026.

Our Insurance Insights video series explored practical responses to the regulatory challenges. This White Paper brings those insights together, alongside recent FCA developments, to help firms assess where they stand as the market enters 2026.

### Simplification of Insurance Rules

In the first instalment of the insurance series, we explored the impact of the Simplification of Insurance Rules on the insurance market. We examined the potential benefits and risks arising from firms in the distribution chain adopting different approaches to the simplified rules due to its optional nature. In particular, we considered how selective adoption within the distribution chain could lead to inconsistencies in product oversight cycles, fragmentation in data sharing across, and the unintended consequence of increasing operational and governance burdens on intermediaries.

Now the FCA has published its Policy Statement on the Simplification of Insurance Rules. The Policy Statement (PS 25/21) introduces the concept of the 'SME Watershed', replacing the previously proposed definition of Contracts of Commercial and Other Risks.

Under the SME Watershed, commercial insurance business is split into two distinct categories. The first captures specialist risk contracts (e.g. rolling stock, railway, etc.). The second introduces a Large Commercial Customer threshold, aligned with the eligible complainants definition under DISP handbook.

Although this is meant to simplify the rules, the SME Watershed materially raises the evidential bar for firms. The onus now lies with manufacturers and distributors to demonstrate that customers have been correctly classified based on the nature of the enterprise, turnover, balance sheet and number of employees at the point of sale. Any failure to do so risks triggering regulatory breaches across PROD, ICOBS and Consumer Duty obligations.

In practice, this enables firms to tailor their product oversight and governance arrangements according to the inherent risk posed by the product to different customer cohorts within the target market.

This change to the large risk definition feeds directly into the FCA's removal of the mandatory 12-month product review cycle under PROD. However, firms should not mistake flexibility with non-compliance. The FCA has been explicit that product review frequency must now be demonstrably risk-driven, supported by outcomes-focused management information. Where firms cannot justify their decisions for choosing a review cycle especially based on their target market classification, product performance and customer outcomes; they should expect supervisory intervention from the regulator.



Under the simplified rules, co-manufacturers may appoint a lead manufacturer responsible for discharging PROD 4.2 obligations. While intermediaries may continue to be co-manufacturers, only insurers can be lead manufacturers in practice due to their claims settlement responsibilities and access to capital. It is important to remember that regulatory accountability cannot be outsourced. This does not mean lead and follow firms cannot have any indemnity arrangements but that would be a private contract rather than regulatory protection.

One of the most impactful changes for the commercial insurance market under the Simplified Rules is the FCA's extension of the bespoke contract to manufacturers and clarification on what amounts to a bespoke contract. The Policy Statement confirms that where a firm has an established appetite for a particular risk, the resulting contract will not be considered bespoke. In practical terms that means that tailoring an existing product to suit an individual customer does not fall within the scope of the bespoke exemption. This materially reduces the circumstances in which firms can disapply PROD and Consumer Duty requirements.

As consulted, the FCA has removed the minimum 15-hour annual training requirement for employees. The Employer's Liability notification and reporting requirement to the FCA under ICOBS has also been removed. However, firms must still obtain a director's certificate and an annual audit by 31 August each year, covering the Employers' Liability register period from 1 April to 31 March.

The Policy Statement also confirms the FCA's intent to review GAP insurance rules. In addition, the FCA has confirmed that it will review the application of ICOBS, PROD and Consumer Duty to non-UK business, with a view to assessing whether these requirements should be disapplied where they do not deliver meaningful regulatory benefit. This reflects the FCA's acknowledgement that the current application of conduct requirements to certain non-UK commercial insurance activities may create unnecessary friction without improving customer outcomes. Any future changes will be subject to consultation, but firms should expect the FCA to focus on proportionality, regulatory effectiveness and the avoidance of duplicative or misaligned requirements.

Further to the simplified rules, it is to be noted that the FCA is consulting on client classification (CP25/36) that would allow expert and well-resourced individuals to opt out of certain retail protections. This consultation closes on 2 February 2026. While this may provide flexibility for firms, the evidential burden remains high for firms to show that no customer harm has occurred to the customer due to being excluded from the protection. Further, any reliance on client classification to disapply protections will be subject to close regulatory scrutiny.

The Simplified Rules came into effect from 9 December 2025. While simplification is broadly welcomed, its practical impact will depend heavily on the maturity of a firm's conduct risk framework. Firms with established conduct risk assessments, granular target market definitions, and effective information flows across complex distribution chains will be better positioned to recalibrate review cycles and governance arrangements.

The FCA has been clear that it will closely monitor product performance through supervisory activity. Firms with developing or rudimentary conduct risk frameworks particularly those operating long and complex distribution chains are likely to struggle to obtain data to support client classification, review frequency and support review cycle decisions with appropriate rationale.

To ensure compliance, firms should undertake a thorough review of their co-manufacturing agreements and assess if their roles and responsibilities are accurately defined and operationally effective. Insurers that co-manufacture with intermediaries should consider assuming the lead manufacturer role, particularly in light of findings from the delegated authority audits on Customer Outcome, highlighting persistent gaps in product governance compliance especially, since the introduction of Consumer Duty.



Removing the prescribed training requirement does not reduce expectations around competence. On the contrary, it places a heightened obligation on firms to ensure staff are adequately trained for their specific roles. As regulatory change continues to accelerate in an increasingly volatile market, firms must remain adaptable while maintaining robust governance discipline.

Ultimately, the success or failure of simplification will hinge on the maturity of a firm's conduct risk framework. Firms with embedded conduct risk assessments, precise target market classifications and strong distribution-chain data capabilities will be able to exploit proportionality. Those without will find that simplification merely accelerates supervisory scrutiny. The FCA is clear where firms cannot evidence outcomes, the regulator will intervene.

## Data and Reporting

In the second instalment of the Insurance series, we explored data related issues in the insurance market. Lack of data has long plagued the insurance market and has become an acute issue since the introduction of Consumer Duty, with the FCA taking an increasingly data-driven approach to market oversight and the assessment of customer outcomes.

In our video, we discussed the nuance between data and strategy, data quantity versus data quality; and how firms are using data to evidence customer outcomes. Since our insurance series, Which? issued its super-complaint to the FCA, identifying poor customer outcomes in home and travel insurance, particularly in relation to claims handling. A recurring issue highlighted in the super-complaint was the lack of sufficiently robust and meaningful data to allow firms and regulators to understand how products perform in practice and whether customers are achieving fair value and good outcomes.

In its response to the Which? super-complaint, the FCA confirmed that its next step will be to use the post-implementation review of the value measures rules to assess whether the type, quality and frequency of data provided by firms is adequate to properly monitor claims outcomes in home and travel insurance. In particular, the FCA has stated that it will use claims and complaints data to assess customer understanding of product terms and exclusions, as well as the suitability of sales journeys especially where products are purchased through price comparison websites.

The FCA has also made clear that it will use data to assess differences in claims settlement outcomes, including how claims are settled in practice and whether cash settlements are appropriate for customers. Issues raised in the super-complaint, such as the handling of storm damage claims and the adequacy of settlements offered to policyholders, will form part of the assessment. The FCA has signalled that data which fails to explain or justify variations in claims outcome for similar products will be treated as a supervisory issue.

This reinforces the FCA's position that accurate, granular and useful data is central to effective outcome monitoring. Under the Consumer Duty and Simplification of Insurance Rules, firms ensure they have access to appropriate data across the product lifecycle and distribution chain. Data must enable firms to evidence that customers understand what they are buying, that sales processes are suitable for the target market, and that claims outcomes are fair and consistent.

Firms should therefore develop data capabilities across the entire product lifecycle, including their distribution channels and delegated services, to track product performance, claims experience and customer outcomes with sufficient depth.

Where firms rely on data solely for regulatory returns, rather than to track product governance, distribution oversight and remediation activity, they materially weaken their ability to demonstrate good outcomes.



In the current supervisory environment, poor data is no longer a theoretical risk. Where data does not allow firms or the FCA to assess customer understanding, suitability of the sales journey, or the fairness of claims outcomes, regulatory scrutiny will follow. The FCA has been explicit in its response to the Which? Super-complaint that where outcomes cannot be properly monitored, intervention should be expected.

## Culture and Regulatory Change

Our third video was on culture and regulatory change, we discussed the regulator's shift in expectations, wherein customer centricity is expected to transcend into staff behaviours and not just on policies and procedure. How culture manifests itself through tone from the top, setting the strategic intent for customer outcomes. For customers to genuinely receive fair value and appropriate outcomes, a culture of customer-centric decision-making must be embedded across middle management and frontline teams.

Since our series, the FCA has published its Policy Statement on Non-Financial Misconduct ('NFM') (PS25/23), which will come into force on 1 September 2026.

PS25/23 reinforces the FCA's position that behaviour within firms is inseparable from the delivery of good customer outcomes. The FCA has clarified that conduct within an organisation which has the purpose or effect of violating dignity, or which is degrading or humiliating, can amount to a regulatory breach. Firms are required to report NFM behaviour where disciplinary action is taken, increasing regulatory visibility of workplace conduct and internal culture. The FCA has clarified that the NFM rules will not have retrospective application i.e to behaviour before the NFM rules come into effect.

Importantly, the FCA has extended the scope of the Fitness and Propriety ('FIT') regime to include conduct outside the workplace. This reflects the FCA's view that behaviour is not context-dependent and that individual conduct whether inside or outside work can call into question a person's suitability to perform a regulated role. While the FCA confirmed that Diversity and Inclusion ('D&I') and SYSC amendments did not form part of this Policy Statement, the direction of travel is clear: culture, conduct and accountability are now inseparable.

Taken together, Consumer Duty and the NFM reforms form a single conduct narrative. The FCA is signalling that firms cannot deliver good customer outcomes in environments where poor behaviour is tolerated, accountability is weak, or challenge is suppressed. A firm's internal culture directly influences how decisions are made about pricing, claims settlement, vulnerability, remediation and customer communications.

Firms that treat Consumer Duty as a technical compliance exercise focused on documentation rather than behaviours are increasingly exposed. Weak internal culture undermines the consistency, judgement and challenge required to deliver good outcomes, particularly in high-pressure environments such as claims handling, sales incentives and cost management.

At a high level, firms should view culture as a measurable conduct risk, not an abstract value. Those firms that focus primarily on compliance must now evolve their approach by developing appropriate key performance indicators ('KPIs') to track cultural health across the organisation. This includes metrics that reflect:

- Employee understanding of customer outcomes and Consumer Duty obligations
- Escalation and challenge behaviours
- Consistency of decision-making across departments
- Trends in complaints, claims outcomes and remediation activity
- Emerging themes from staff conduct issues and disciplinary actions

Without meaningful cultural KPIs, firms will struggle to evidence that good outcomes do form part of the firm's customer centric strategy. The FCA has been clear in their expectations, where firms cannot demonstrate how culture supports customer outcomes, regulatory scrutiny will intensify.



Culture is no longer a soft issue or a future consideration. Through Consumer Duty and PS25/23, the FCA has elevated culture to a core component of conduct risk supervision. Firms that invest early in understanding, measuring and embedding the right behaviours will be better positioned to deliver sustainable outcomes and withstand supervisory challenges.

## Claims and Fair Value

In part four of our insurance series, we examined the relationship between claims handling and fair value, and how rising claims handling costs can adversely affect loss ratios, ultimately eroding the value delivered to customers. We explored how inefficiencies and poor claims outcomes do not remain isolated within operations, but directly influence pricing decisions, product sustainability and compliance with fair value requirements.

Claims handling has long been a focal point for the FCA and has now been brought into sharper regulatory focus through the Which? super-complaint. The super-complaint analysed variations in claims outcomes for similar home and travel insurance products, differences in uphold rates, and the relationship between sales journeys and customer understanding. It highlighted how customer assumptions at the point of sale, combined with a lack of clarity around policy terms and exclusions, can crystallise into harm at the point of claim.

In its formal response to the Which? super-complaint, the FCA acknowledged the importance of claims outcomes as a key indicator of whether customers are receiving fair value. The FCA confirmed that it will use its post-implementation review of the value measures rules to assess whether the type and frequency of claims data currently provided by firms allows for effective monitoring of claims outcomes. This includes using claims and complaints data to better understand how products perform in practice and whether firms are identifying and addressing poor outcomes in a timely manner.

The FCA also confirmed that it will assess customer understanding and the suitability of sales processes by analysing claims and complaints data, with particular attention to products sold through price comparison websites. This reflects the FCA's concern that weaknesses in customer understanding at the point of sale may only become visible once a claim is made, especially where exclusions or limitations were not clearly understood.

The Which? super-complaint further highlighted specific areas of concern within claims handling, including the need to better support customers in understanding the distinction between damage and wear and tear, particularly in relation to storm-related claims. It also raised concerns about the suitability of cash settlements, especially for customers in vulnerable circumstances, and questioned whether such settlements always represent fair and appropriate outcomes.

In its response, the FCA recognised the importance of firms having sufficient oversight of delegated claims handling arrangements. Gaps in data and monitoring of delegated services by the principal firm were identified as limiting firms' ability to identify customer harm and take corrective action. The FCA's response reinforces the expectation that firms must be able to evidence how they oversee outsourced or delegated claims functions and how claims data informs product governance and remediation decisions.

A further theme emerging from both the super-complaint and the FCA's response is the relationship between claims and complaints data, and the expectation that firms consider both as part of their product review processes. The FCA has been clear that firms should use this information to assess whether products continue to meet customer needs and deliver fair value, and to make appropriate changes where outcomes fall short.



Claims are the moment where insurance proves its value and where customers are most exposed. In a volatile market, rising premiums may be a commercial reality, but they must be justified by risk and supported by demonstrable value. Firms are expected to manage efficiency throughout the product lifecycle, including claims handling, to meet regulatory expectations and customer needs. Premium increases that are not risk-based or cannot be justified by value will not be tolerated under PROD 4.

Outsourcing claims handling does not equate to outsourcing accountability. Principal firms remain fully responsible for delegated claims functions and must demand high-quality, data-rich oversight. Vulnerability is central to this assessment. Both the FCA and the Which? super-complaint have highlighted that failures to support vulnerable customers represent systemic weaknesses rather than isolated lapses.

Because claims data provides direct insight into whether products deliver fair value in practice, firms that fail to embed claims and complaints analysis into their product governance and review cycles expose themselves to heightened regulatory scrutiny and reputational damage. The FCA's response to the super-complaint makes clear that where claims outcomes cannot be properly monitored or explained, regulatory intervention should be expected.

## Redressal Expectations and Complaints Handling

In the final instalment of our insurance series, we focused on complaints handling and its growing significance within the regulatory framework. We examined the impact of changes to DISP and the critical role of robust root cause analysis in product oversight and compliance with Consumer Duty, particularly the cross-cutting rules. We also highlighted the FCA's expectation that firms plan for proactive redress, not as an exceptional measure but as part of normal resource and capacity planning for when and where harm is identified.

Complaints handling has since been further elevated by the Which? super-complaint, which explicitly identified complaints data as a key indicator of customer understanding and product suitability. The super-complaint highlighted how deficiencies in claims and complaints data particularly where these functions are delegated impair a manufacturer's ability to assess product performance, ongoing suitability, support offered to customers in vulnerable circumstances and value received by customers.

In its response to the super-complaint, the FCA confirmed that it will use the post-implementation review of value measure rules to assess whether the data gathered are suitable to oversee whether products are delivering good outcomes in practice. This includes evaluating whether firms are identifying patterns that point to weaknesses in customer understanding, sales processes or product design, and whether appropriate action is taken when issues emerge. The FCA has been clear that complaints data must inform product governance, not just sit in isolation within customer service functions.

The FCA has also signalled that it will assess how effectively firms perform root cause analysis and whether insights from complaints are being used to drive meaningful change. Where complaints highlight recurring issues such as misunderstandings of key terms and exclusions, unsuitable sales journeys or poor support for vulnerable customers the FCA expects firms to act promptly, including making product changes and considering proactive remediation where appropriate.

Complaints are therefore no longer a back-office function. They have become one of the regulator's primary tests of culture, senior management accountability and customer centricity. Firms that treat complaints handling as a reactive process focused on closure rates or regulatory timescales alone will struggle to meet FCA expectations.



Root cause analysis of complaints, supported by credible and comprehensive data, is now non-negotiable. It is central to evidencing compliance with Consumer Duty and demonstrating that firms understand how customers experience their products in practice. Where complaints data is incomplete, poorly analysed or disconnected from product oversight, the FCA has made clear that it will view this as a failure to monitor outcomes effectively, increasing the likelihood of supervisory intervention.

## Conclusion

As the insurance sector moves into 2026, the regulatory direction is unmistakable. Through Consumer Duty, the Simplification of Insurance Rules, the response to the Which? Super-complaint, the introduction of the Non-Financial Misconduct regime, Consultation on Client Classification and the Consumer Duty Review, the FCA has shifted decisively from prescriptive compliance to proactive data driven outcomes-based supervision.

Across product design, distribution, claims and complaints, the FCA is testing whether firms genuinely understand how their products perform in practice, value to customers, and whether firms act decisively when they identify poor customer outcomes. Data, culture and governance no longer operate in silos; they are the lenses through which conduct risk is now assessed.

Firms that treat these developments as isolated regulatory changes will struggle. Those that continue to view compliance as a documentation exercise, will find that simplification accelerates scrutiny rather than reducing it. By contrast, firms that invest in robust conduct risk frameworks, data capabilities, cultural KPIs and effective oversight across the product lifecycle especially those that have been delegated will be better placed to demonstrate good outcomes and withstand supervisory challenge.

In 2026, evidence matters, culture matters, and customer outcomes are central to achieving compliance with the regulatory expectations. If you would like to discuss how we can support you in developing a conduct risk framework that encompasses data strategy, claims oversight, cultural diagnostics, board capabilities and product oversight across the product lifecycle, please contact Loka or John Davison below, or email [contact@pathlight.associates](mailto:contact@pathlight.associates)



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