



Regulatory Update

Week 8 - 2025



FEBRUARY 2025

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Week 8

RR Compliance Associates are a trading style of R&R Compliance Consultants Ltd, a limited company registered in England and Wales (company number 12070286). Our registered office is 51 Lime Street, London, EC3M 7DQ. VAT number 326 1938 96.

REGUALTORY UPDATES

CHECK OUT MORE RESOURCES& DESK-AID

HAVE A QUESTION? GET IN TOUCH!

Update	Summary	Action for firms
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AI and Underwriting in Insurance

Applies to: Insurance firms

The insurance sector has seen **rapid AI adoption** in underwriting, claims processing, and fraud detection.

AI models help insurers improve **risk assessment accuracy** by analysing **real-time data**, behavioural trends, and past claims history.

Insurers are increasingly using **predictive analytics** to set pricing models and customise coverage.

AI has also **enhanced efficiency** in policy administration by automating application processing and policy issuance.

However, **fraudulent activities** using AI-generated content (e.g., fake invoices and deepfake videos) have risen significantly.

Regulatory Concerns

The FCA’s **Consumer Duty** mandates that AI-driven processes must ensure **fair pricing, transparency, and non-discrimination**. AI-led **claims automation** should not result in legitimate claims being unfairly denied due to **algorithmic errors** or a lack of human oversight.

The **rise of AI fraud** necessitates robust controls to **differentiate between genuine and fraudulent claims**.

Action to Take:

- **Audit AI underwriting models** regularly for bias, ensuring fairness across customer groups.
- **Ensure transparency** in AI decision-making by maintaining a human-in-the-loop approach for **high-risk or disputed claims**.
- **Enhance fraud detection** capabilities with AI tools while safeguarding against **false positives** that may lead to wrongful denials.
- **Comply with the FCA’s Consumer Duty** by ensuring AI-driven pricing models provide **clear, comprehensible explanations** to consumers.

Update

Summary

Action for firms

FCA's Approach to AI Regulation

Applies to:
All firms

The FCA adopts a technology-neutral, principles-based approach to AI regulation, focusing on ensuring that AI applications in financial services are safe and beneficial. In April 2024, the FCA published an AI Update in response to the UK government's pro-innovation strategy on AI regulation. This document outlines the FCA's commitment to promoting the responsible use of AI in financial markets, emphasising the importance of robust systems and processes to meet regulatory expectations

The FCA aligns its regulatory framework with the government's five cross-sectoral principles for AI:

- Safety, security, and robustness
- Appropriate transparency and explainability
- Fairness
- Accountability and governance
- Contestability and redress

By mapping these principles to existing regulations, the FCA aims to foster innovation while mitigating potential risks associated with AI deployment

Action to Take:

- **Develop AI Governance Frameworks** to ensure models are aligned with FCA regulatory principles.
- **Conduct bias audits** in AI applications for underwriting, pricing, and claims processing.
- **Implement AI Explainability Protocols** to ensure consumers and regulators can understand AI-driven decisions.
- **Monitor the FCA's regulatory sandbox** for evolving AI compliance expectations and best practices..

Update

Summary

Action for firms

AI and 'Actuarial Defence' in Pricing

Applies to:
FinTech – gamified platforms

The term 'actuarial defence' refers to the justification of pricing decisions based on actuarial methods and data. With the advent of AI, actuaries can enhance their pricing models by incorporating complex algorithms that analyse diverse datasets, leading to more refined risk assessments and pricing strategies. However, the use of AI in pricing must be approached cautiously. The FCA has expressed concerns that AI-driven pricing models could inadvertently lead to discriminatory practices or render certain groups uninsurable.

Therefore, it's imperative for insurers to ensure that AI-enhanced actuarial models are transparent, fair, and comply with regulatory standards.

Action to Take:

- **Assess AI models for proxy discrimination**, ensuring that protected groups are not unfairly impacted.
- **Ensure compliance with the Equality Act 2010** by maintaining transparency in pricing models.
- **Implement ethical AI practices** to balance individualized risk pricing with fair market access.
- **Monitor AI-driven pricing fairness** through continuous audits and regulatory disclosures.

Update	Summary	Action for firms
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The European Accessibility Act (EAA) & Insurance

Applies to:
All firms

The **EAA takes effect on June 28, 2025**, requiring financial services (including insurers) to **ensure accessibility** for disabled consumers. The law applies to **all insurers operating in the EU**, except **micro-enterprises**. It covers **both digital and physical services**, including:

- **Online insurance platforms**
- **Policy documentation**
- **Self-service kiosks (e.g., ATMs, payment terminals)**

The EAA also mandates that **customer support services** be accessible to people with disabilities.

Insurers must ensure that **policy information, claims processing, and customer services** are **accessible**.

Non-compliance may result in **financial penalties**, reputational damage, and **legal challenges** under EU law.

Digital platforms and mobile apps must accommodate **visual, auditory, and mobility impairments**

Action to Take:

- **Audit digital platforms** for accessibility compliance, ensuring compliance with **WCAG 2.1 standards**.
- **Provide multi-format communication options** like **large print, braille, and audio descriptions**.
- **Train staff on disability-inclusive customer service** and ensure AI-powered chatbots meet accessibility standards.
- **Ensure self-service terminals** (e.g., payment kiosks) comply with EAA requirements.

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Action for firms

Thematic Review of Product Oversight & Governance (PROD 4)

Applies to:
Insurance intermediaries

Key Developments

- FCA's **TR24/2 review** found **serious deficiencies** in insurance product oversight.
- Many firms **failed to demonstrate fair value** in their products.
- **High-risk areas** identified:
- **Products with low claims ratios** (indicating poor value to consumers).
- **Overpriced insurance policies**, where distribution costs exceed underwriting risks.
- **Weak customer segmentation**, especially for **vulnerable customers**.

Regulatory Concerns

- **PROD 4 applies independently** of Consumer Duty but reinforces similar fair value obligations.
- The FCA warns firms of **remedial actions, forced product withdrawals, and enforcement penalties**.
- Firms must improve **product governance frameworks** to align with fair value assessments.

Action Required:

- **Conduct a full review of product pricing structures** to ensure fair value.
- **Enhance governance and risk oversight** with strong **Management Information (MI) frameworks**.
- **Ensure distributors align with fair value requirements** and do not erode product benefits through excessive fees.
- **Address issues of vulnerable customer segmentation**, ensuring fair access to insurance products.

Update

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Action for firms

FCA Accelerates “Consolidation” Review

Applies to:
All firms

In October 2024, the Financial Conduct Authority (FCA) announced an accelerated review of consolidation practices within regulated firms. The review will focus on the regulatory capital structures of entities involved in mergers and acquisitions. This initiative aims to ensure that firms maintain robust financial foundations, especially during ownership transitions.

Key Considerations:

- **Regulatory Capital Structures:** Firms are urged to assess their capital adequacy before submitting change in control applications or engaging with the FCA regarding group structures. This proactive approach helps in identifying potential financial vulnerabilities early in the consolidation process.
- **Overseas Parent Companies:** The FCA has indicated a willingness to exercise its authority under sections 143(J) and 55L(3) of the Financial Services and Markets Act 2000. This could involve requiring an overseas parent company to be replaced with a UK-based parent, significantly impacting the scope and scale of the regulatory consolidation group, particularly when UK MiFID investment firms are part of the corporate structure.
- **Consumer Duty Compliance:** The review is closely linked to the FCA's Consumer Duty objectives. Firms with inadequate Consumer Duty compliance—evidenced by high volumes of Financial Ombudsman Service complaints, negative media coverage, or superficial Consumer Duty filings—may face increased scrutiny during the consolidation review.

Action Required:

- **Enhanced Due Diligence:** Both buyers and sellers should conduct thorough regulatory due diligence, focusing on potential consumer harm within target groups. Understanding the FCA's perspective on regulatory risks is crucial for successful mergers and acquisitions.
- **Strategic Group Structuring:** Firms should carefully consider their group structures, especially when involving overseas entities, to align with FCA expectations and regulatory requirements.
- **Consumer-Centric Practices:** Demonstrating a strong commitment to Consumer Duty principles can favourably influence the FCA's assessment during consolidation activities.

Update	Summary	Action for firms
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New UK Consumer Protection Law

Applies to:
International firms

The **Digital Markets, Competition and Consumers Act 2024 (DMCC Act)** is set to introduce significant reforms to UK consumer law, with most provisions expected to take effect in April 2025. This legislation aims to enhance consumer protection and promote fair competition, particularly within digital markets. Businesses engaging in business-to-consumer (B2C) transactions should prepare for these imminent changes to ensure compliance and mitigate potential risks.

Key Changes Introduced by the DMCC Act:

The **Competition and Markets Authority (CMA)** will gain authority to impose fines of up to **10% of a business's global annual turnover** for consumer law infringements. The CMA can also mandate compensation to consumers and enforce contract terminations where necessary.

Stricter Regulations on Pricing Practices:

The Act addresses misleading pricing strategies, including:

Headline Prices: Ensuring advertised prices reflect the total cost without hidden charges.

Drip Pricing: Prohibiting the practice of revealing additional mandatory fees late in the purchasing process.

Prohibition of Fake and Misleading Reviews:

Businesses are forbidden from submitting or commissioning fake reviews.

There is an obligation to take "reasonable and proportionate steps" to prevent the publication of misleading consumer reviews.

Regulation of Subscription Contracts:

New requirements include:

Providing comprehensive information before contract initiation.

Sending reminders prior to auto-renewals.

Allowing cooling-off periods for consumers.

These provisions are anticipated to come into effect in 2026.

Key Takeaways for Financial Firms:

Conduct a Comprehensive Risk Assessment:

- Evaluate current practices to identify areas susceptible to non-compliance, especially in pricing transparency and review authenticity.

Revise Internal Policies and Procedures:

- Update consumer interaction protocols, ensuring they meet the new legal standards.
- Implement robust systems to monitor and manage customer reviews and feedback.

Enhance Staff Training:

- Educate employees, particularly those in sales and customer service, about the new requirements and the importance of compliance.

Develop a Response Plan for Regulatory Inquiries:

- Establish procedures to efficiently address potential CMA investigations or consumer complaints.



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