Cotality – Written Evidence (CIM0023)

Inquiry into the regulation of the consumer insurance market

Response to Question 5: Are consumers' insurance claims handled fairly?

June 2026

About this submission

1. This submission is made by Cotality in response to the Committee's call for evidence on the regulation of the consumer insurance market. We focus on Question 5 — whether consumers' insurance claims are handled fairly — and its sub-questions on the sufficiency of regulatory protection (5a), the outsourcing of claims handling (5b), and cash settlements (5c). Our submission is drawn principally from home (buildings and contents) insurance, where we have direct, market-wide visibility.

2. Cotality is a property data, analytics and technology provider to the UK insurance market. We are involved in approximately one in three UK buildings insurance claims, work with most of the major UK home insurers, and connect to a supply chain of more than 400 organisations engaged in validating, scoping, pricing and repairing property damage. Among other things, we maintain a researched, independently compiled schedule of repair and rebuild costs at fair market rates, and provide estimating tools used to scope and price buildings claims.

3. This position gives us an unusually broad, cross-market view of how home insurance claims are assessed and settled. The observations in this submission are drawn from the work we do with multiple insurers, suppliers and their customers across the industry, from the aggregated, market-level insight that arises from those interactions. They are not based on any analysis of individual policyholders' or customers' claim data. The central point we wish to put to the Committee is this: the framework of consumer protection is sound in principle, but outcomes in practice vary widely. Two consumers with materially identical losses can receive materially different settlements depending on which insurer handles the claim, which supply-chain firm is instructed, the quality of the estimate produced, the pricing data applied, and the commercial model under which the claim

is managed. This inconsistency — rather than any absence of rules — is, in our view, the core fairness issue.

Summary of key points

4. In short:

(a) Consumers' claims are not consistently handled fairly. The rules are principles-based and largely sound, but consistency of outcome is weak, as the proportion of insurance complaints upheld by the Financial Ombudsman Service indicates.

(b) The main drivers of inconsistency are variation in the accuracy of damage assessment and estimating, the robustness and independence of the pricing applied, the expertise of the people and firms handling the claim, and the commercial incentives within the claims model.

(c) Cash settlements can be a good outcome — they are fast and give the consumer choice and control — but only when built on an accurate scope of works and fair, independent market pricing. Where those foundations are weak, cash settlement is the route through which under-settlement most easily occurs, because there is no repairer to correct the scope and the consumer carries all subsequent risk. At a minimum, a fair cash settlement should be built on an accurate, itemised scope priced at independent, current market rates — a defensible figure sufficient for the consumer to have the repairs carried out by a competent local contractor. As best practice, particularly for vulnerable consumers, it should match what it would cost the insurer to complete the work through its own repair network, so that the cash offered represents value equivalent to a managed repair.

(d) Outsourcing of claims handling intensifies these risks where oversight is light or where commercial arrangements are structured to reduce claims cost rather than to secure the right outcome for the consumer.

(e) We recommend the regulator focus less on adding rules and more on measuring and reducing unwarranted variation in claims outcomes — through clearer expectations on estimating and pricing, better outcome

data, and scrutiny of incentives in outsourced and cash-settlement models.

Question 5: Are consumers' insurance claims handled fairly?

5. The regulatory baseline is strong on paper. The FCA's Consumer Duty requires firms to act to deliver good outcomes for retail customers, to act in good faith, and to avoid causing foreseeable harm, with specific outcomes covering products and services and consumer support.[1] Long-standing conduct rules (ICOBS 8.1)[2] require insurers to handle claims promptly and fairly, to provide reasonable guidance, not to reject claims unreasonably, and to settle promptly once terms are agreed. The principles are appropriate, and we do not propose that they be rewritten.

6. The difficulty is consistency of outcome. The Financial Ombudsman Service's most recent annual data (2025/26, published 21 May 2026) shows that, across all financial products, 30% of resolved complaints were upheld in the consumer's favour. For the insurance lines most relevant to this inquiry the figures are notably higher: buildings insurance complaints were upheld at 38% (from 6,399 new cases), home emergency insurance at 40%, and travel insurance at 36% (from 4,451 new cases).[3] A high uphold rate at the ombudsman is a strong indicator that a meaningful proportion of claims decisions are not being made correctly or fairly first time — and the ombudsman only sees the minority of disputes that consumers have the knowledge and persistence to escalate.

7. Our own market perspective points to the same conclusion and helps explain it. Because we are involved in claims across most major insurers and a large proportion of the supply chain, we see — from the breadth of these interactions across the market, rather than from any analysis of individual policyholders' data — that similar losses are scoped, priced and settled differently depending on who handles them. The variation is not random; it tracks differences in both method and capability.

8. Four factors drive most of the variation we see:

(a) **Estimating quality.** Proper, structured estimating (using tools such as Cotality Estimate) is not always carried out.

Some insurers and suppliers estimate to a high standard; others do not. Where the scope of works is incomplete or inaccurate, the figures that follow may be wrong unless they are reviewed and corrected later in the claim — and whether that downstream check happens is itself inconsistent. A weak initial assessment is carried through to settlement in some cases and caught in others, which is part of why similar claims diverge.

(b) **Pricing robustness.** Cotality maintains a researched price list reflecting fair market rates, which we update quarterly. But not all insurers and suppliers apply independent, regularly updated pricing, and some estimating is still done using out-of-date rates. Settlements based on figures that are out of date, or insufficiently rigorous, may not reflect what the repair will actually cost the consumer at current market prices.

(c) **Expertise.** Internal and external (supply-chain) expertise is highly variable. The same loss assessed by a highly skilled surveyor and by an inexperienced one can produce very different outcomes.

(d) **Commercial incentives.** Some commercial models in the market can favour cash-settlement outcomes, which may reduce claims cost to the insurer rather than necessarily serving the consumer. Commercial models may also fail to support proper estimating — which takes more time to do comprehensively and accurately — or to fund the technically skilled resource, with the buildings and construction knowledge needed to estimate repairs in full, that an accurate assessment requires.

9. The result, for the consumer, is that fairness depends substantially on factors they cannot see and did not choose. Addressing that unwarranted variation is, in our view, the single most valuable thing the regulatory regime could do to improve fairness in claims.

Question 5(a): Do the current regulatory requirements provide sufficient protection?

10. We do not argue that the rules are deficient in substance. The Consumer Duty and ICOBS already require fair handling, good outcomes and fair value. The gap is in operationalisation and

measurement. The rules describe the outcome required, but do not prescribe the methods — accurate scoping, independent and current pricing, competent assessment — that actually determine whether a settlement is fair. As a result, two firms can each consider themselves compliant while delivering systematically different outcomes to otherwise identical customers.

11. Protection would therefore be more effective if supervision focused on the consistency and accuracy of claim valuation, and not only on process and timeliness. In practice that means expecting firms to be able to evidence how the scope of works was determined; what pricing basis was used and whether it reflects independent, current market rates; the competence of those making the assessment; and how the firm monitors variation in outcomes across its own claims, channels and suppliers. Much of the data needed to do this already exists within firms and their supply chains; however, it is not consistently used to test fairness.

Question 5(b): The outsourcing of claims handling

12. Most home insurers outsource significant parts of claims handling — validation, surveying, scoping, pricing and repair management — to third parties. Outsourcing is not inherently harmful and can bring specialist expertise and scale. But it introduces two risks that bear directly on fairness.

13. First, capability and oversight vary. Supply-chain expertise is highly variable, and an insurer's oversight of its outsourced operations is only as good as the standards and data it imposes on them. Where an insurer cannot see, at the level of the individual claim, how an outsourced partner is scoping and pricing, it cannot assure itself that outcomes are fair or consistent — yet accountability for the outcome, under the Consumer Duty, remains firmly with the insurer.

14. Second, incentives can be misaligned. Commercial arrangements can be structured in ways that favour reducing claims cost — including through a preference for cash settlement — over securing a full and accurate settlement for the consumer. That saving accrues principally to the insurer through lower claims spend. The same commercial pressures can also mean that a model does not allow the time, or fund

the technical expertise, that comprehensive and accurate estimating requires — so the quality of the very assessment that determines whether the settlement is fair can suffer. We encourage the Committee and the FCA to examine the incentive structures within outsourced claims arrangements, and to expect insurers to demonstrate both that those arrangements are aligned with good consumer outcomes and that they hold management information granular enough to oversee outsourced partners at the level of individual claim quality.

Question 5(c): Do cash settlements deliver good outcomes for consumers?

15. Cash settlement — paying the policyholder a sum instead of arranging repair or replacement — can be a genuinely good outcome. It is often faster, it avoids the disruption of a managed repair, and it gives the consumer choice and control over how, when and by whom their home is put right. Many consumers value it. We do not consider cash settlement to be inherently bad for consumers, and we would caution against any approach that treats it as such.

16. However, the quality of a cash settlement depends entirely on the quality of the assessment behind it. A cash settlement is only as fair as the scope of works and the pricing on which it is based. Where the scope is accurate and the pricing reflects independent, fair market rates, a cash settlement can fairly put the consumer in a position to have the work done. Where the scope is incomplete or the pricing is not robust, cash settlement becomes the easiest route to under-settlement — and one with fewer safeguards than a managed repair, because:

(a) there is no contractor on site to identify additional or hidden damage and revise the scope;

(b) the consumer, who is rarely a construction expert, carries the entire risk that the sum proves inadequate;

(c) any shortfall usually surfaces only later, when the consumer tries to get the work done and finds the money does not fully cover the cost of repairs; and

(d) where a commercial model leans towards cash settlement, the incentive to minimise the upfront figure is strongest precisely when the consumer is least able to challenge it.

17. The real-world harm is concrete. A consumer accepts a cash settlement in good faith and then finds that the work cannot, in fact, be procured privately for the sum provided — individual retail customers rarely command the rates available to insurers and their supply chains — in some cases, leaving them to pay the difference themselves or to leave damage unrepaired. Where consumers do try to make the money stretch, quality suffers. Accepting cash also transfers to the consumer the task of sourcing, commissioning and managing the repair — finding reputable trades, agreeing on the scope and overseeing quality — which is often more difficult and time-consuming than they expect. This harm is often invisible in claims statistics, because it materialises weeks or months after the claim is closed and is seldom reported back to the insurer.

18. The honest answer to the Committee's question is therefore that cash settlements deliver good outcomes for some consumers and poor outcomes for others, and the difference is driven less by the mechanism itself than by the accuracy of the estimate, the robustness of the pricing, the competence of the assessor and the incentives of the firm. The same claim can yield a fair cash settlement at one insurer and an inadequate one at another. That variability — not cash settlement as a concept — is what warrants the Committee's attention.

19. The best practice we observe addresses this directly. At a minimum, a fair cash settlement should be built on an accurate, itemised scope of works priced at independent, researched, current market rates for the materials and labour the repair genuinely requires — a transparent and defensible basis that is sufficient for the consumer to have the work carried out by a competent local contractor. Because the consumer engages a contractor directly, such a figure need not carry the overheads and profit of a managed-repair supply chain, but it is calculated on the same rigorous footing and remains sufficient to put the damage right. As best practice — particularly where the consumer is vulnerable or not well placed to manage a repair — the insurer should go further still and set the cash figure at what the work would cost it through

its own repair network, so that cash and a managed repair leave the consumer equally well off. We consider this a model the regulator should actively encourage.

20. A further question is whether consumers are equipped to make an informed choice at all. Cash settlement is only a genuine choice if the customer understands the options and the risks. In our experience this is not consistently done: customers are not always given a full explanation of the alternatives, of how the cash figure was derived and what it is intended to cover, or of the practical risks of accepting cash and managing the repair themselves — including the risk that the work cannot be completed for the sum offered. This is squarely a Consumer Duty consumer-understanding issue, and firms should be expected to evidence that consumers who accept cash are making an informed decision rather than a default one.

21. Practical safeguards that would materially improve cash-settlement outcomes without removing consumer choice include:

(a) requiring that cash settlements be based on a documented, itemised scope of works and on independent, current market pricing;

(b) fully explaining the available options and the risks of accepting cash to self-manage the repair, including clear information on how the figure was calculated and what it is intended to cover;

(c) preserving the consumer's ability to revert to a managed reinstatement if the cash sum proves inadequate;

(d) requiring firms to monitor and report the relative outcomes of cash-settled versus repaired claims, so that systematic under-settlement becomes visible; and

(e) pricing a cash settlement, as best practice and particularly for vulnerable consumers, at what the work would cost the insurer through its own repair network, so that cash and a managed repair represent equivalent value.

Recommendations

22. We respectfully suggest the Committee consider recommending that the FCA:

(a) treat unwarranted variation in claims outcomes as a Consumer Duty concern in its own right, and expect firms to measure and reduce it;

(b) set clearer expectations on the foundations of a fair settlement — accurate, itemised scoping; independent and current market pricing; and demonstrable assessor competence — across both repair and cash-settlement routes;

(c) scrutinise the incentive structures in outsourced and cash-settlement claims models, and expect insurers to evidence that incentives are aligned with good outcomes and that they have claim-level oversight of outsourced partners;

(d) strengthen outcome data — building on the FCA's existing general insurance value measures reporting[4] — so that variation in claims acceptance, settlement adequacy and cash-settlement use can be compared across firms and over time;

(e) require firms to explain the available options fully — including how a cash figure is calculated, what it covers, and the risks of accepting cash and self-managing repairs — and to preserve a clear route back to reinstatement where a settlement proves inadequate;

(f) encourage the good practice, already seen in parts of the market, of pricing a cash settlement — particularly for vulnerable consumers — at the insurer's own cost of completing the repair, so that cash and a managed repair represent equivalent value; and

(g) consider whether building repair estimates should be required to be prepared, or signed off, by someone with appropriate technical buildings and construction knowledge and training, given how often the quality of the estimate determines whether a settlement is fair.

23. We would welcome the opportunity to support the Committee's work — for example, by providing further detail on how

accurate estimating and independent market pricing can improve consistency in claims outcomes.

Declaration of interest

24. Cotality is a commercial provider of property data, pricing, estimating and claims technology to insurers and their supply chains. Some of the improvements we advocate — in particular accurate estimating and independent, researched market pricing — are services Cotality provides. We set out that interest openly so the Committee can weigh our submission accordingly. Our recommendations are deliberately framed around outcomes (accuracy, consistency and transparency) rather than around any particular provider or product.

Submitting organisation and contact

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Sources and references

The reference numbers below correspond to the superscript markers in the text.

1. Consumer Duty (paragraph 5). The FCA's Consumer Duty is a consumer principle in the FCA Handbook (PRIN 2A), with final rules and guidance in Policy Statement PS22/9. FCA, "Consumer Duty": https://www.fca.org.uk/firms/consumer-duty Final rules (PS22/9): https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty

2. ICOBS 8.1 (paragraphs 5 and 10). FCA Handbook, Insurance: Conduct of Business Sourcebook, Chapter 8 (Claims handling), section 8.1 — in particular the rule ICOBS 8.1.1R: https://www.handbook.fca.org.uk/handbook/ICOBS/8/1.html

3. Complaint volumes and uphold rates (paragraph 6). Financial Ombudsman Service, "Annual complaints data and insight 2025/26", published 21 May 2026. Figures cited: all-product average uphold rate 30% (214,649 complaints); buildings

insurance 38% (6,399 new cases); home emergency insurance 40% (1,631 cases); travel insurance 36% (4,451 cases). Webpage: https://www.financial-ombudsman.org.uk/businesses/resolving-complaint/our-insight/annual-complaints-data-and-insight-2025-26 Underlying dataset (XLSX): https://www.financial-ombudsman.org.uk/files/324759/Annual-complaints-data-2025-26.xlsx

4. FCA general insurance value measures (paragraph 22(d)). FCA, "General insurance value measures data" (latest publication 2024): https://www.fca.org.uk/data/general-insurance-value-measures-data-2024

Inquiry. House of Lords Financial Services Regulation Committee, "Regulation of the consumer insurance market": https://committees.parliament.uk/work/9804/regulation-of-the-consumer-insurance-market/

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