12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

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Dear Portfolio,

Portfolio Strategy: Claims Management Companies ("CMCs")

We are writing to set out our strategy for supervising CMCs, our updated view of the harms and risks that CMCs pose, and our expectations for firms in this sector. We will remain alert to industry changes that could harm customers and may adjust our strategy and programme of work to enable us to act where we can make the most difference.

Since the transfer of regulation in April 2019, we have observed a steady decrease in the number of CMCs, and lead generators now account for more than half of the industry. Our view remains for CMCs to be trusted providers of high-quality, good-value services that help people pursue legitimate claims for redress and benefit the public interest. We have carried out some detailed work over the last 2 years, which has informed our future supervisory work programme. We are encouraged that standards are improving, but there are areas where firms are not meeting our expectations these are the areas that we intend to focus.

The purpose of this letter is to set out our priority areas of focus for the next 2 years. The aim in doing so is to give some certainty on our regulatory areas of focus. We will of course keep these priorities under review and recognise that we may need to change them if there are other emerging issues. If our main areas of regulatory focus change, we will communicate this to you so that you can plan against them.

Findings and observations

Over the last 2 years, we conducted 3 key pieces of proactive work:

The 'halo effect' in unregulated claims: Often CMCs engage in claims which fall outside of the FCA's perimeter, and a customer might reasonably assume those services are covered by our rules. We engaged with 26 CMCs which process unregulated claims. Following our assessment, the majority ceased their unregulated claims activity. The number of inbound contacts we receive about unregulated claims has since fallen. We published our findings in February 2024.

Client money: Regulatory reporting showed several CMCs failing to comply with client assets obligations. Most notably, historic client money was being held in client accounts, reconciliation procedures were ineffective, and annual auditing of the client account was not being carried out consistently. In November 2023, we engaged with all CMCs handling client money. As a result, a third decided to stop handling client money, and we observed raised standards. Around 80% of historic client money has now been repaid.

Lead generation: We engaged with 30 CMCs who were either referring or obtaining leads from third parties. Almost 90% were found to be non-compliant with the requirements set out in CMCOB 2.2. Our review resulted in improved systems and controls to prevent the unlawful processing of data. We are pleased to see the progress that has been made, but all firms should consider what relevance these findings have to their own business processes.

Furthermore, the proportion of complaints upheld by the Claims Management Ombudsman has continued to reduce over time, and we have also observed an uplift in the number of claims reported by CMCs as being halted due to not having a good arguable base.

Our priorities

We will focus our supervision on embedding the Consumer Duty and the following areas over the next 2-year period:

Service standards: We will carry out work to consider whether CMCs are investigating the existence and merits of each element of a potential claim before making or pursuing the claim or advising the customer to do so. We will look at CMCs submitting high volumes of complaints to the Financial Ombudsman Service (Ombudsman) but achieving low uphold rates. We will also use this work to understand the impact of the Ombudsman's proposals to charge representatives.

Personal injury: We will review the marketing literature and due diligence conducted around the sourcing of personal injury leads and will look at how firms are ensuring and monitoring good outcomes under the Consumer Duty. We will also assess how CMCs ensure they do not mislead consumers into believing unregulated activity falls within our perimeter.

Lead generation: We recently carried out an ad-hoc survey of all lead generators to gain a better understanding of the current claim areas being worked on. We will consider whether it would be appropriate to consult on making changes to the annual CMC001 report to gather this information regularly.

Key issues

Firms should be proficient in identifying and mitigating their own issues, and responsibility lies with the firms' senior managers. Part of this involves notifying us proactively when issues have been identified, through the SUP 15 process or otherwise. The key issues we expect firms to pay regard to are:

Misleading advertising: Clear, fair and not misleading advertising is at the heart of a well-functioning industry. Overall compliance is still unsatisfactory, and we sometimes find multiple rule breaches within individual promotions, and repeated breaches despite our intervention. Recently, we have had concerns around housing disrepair and motor finance claims advertising. We will continue to review CMCs' financial promotions and marketing activities of firms as part of our day-to-day work and will continue to take supervisory or enforcement action where necessary. We draw attention to the FCA's Guidance on social media advertising, and we expect firms' senior managers and those responsible for compliance oversight to ensure that all advertising materials are meeting the standards set out in CMCOB 2 and CMCOB 3 and the Consumer Duty.

Inappropriate sourcing of customers: Some firms have accepted leads from third parties but failed to carry out and record sufficient due diligence checks. CMCs must ensure they can lawfully, fairly and transparently process such data. We expect CMCs to undertake appropriate checks before using data supplied by third parties. We expect these checks to be carried out on an ongoing basis and will monitor this through our supervision work as well as considering the sourcing activities of firms.

Poor service standards: Although we receive few reports of spurious claims, we continue to monitor this risk closely. We expect CMCs to engage with potential customers meaningfully at the pre-contract stage, outlining the available options and ascertaining why customers wish to proceed. Potential claims should be investigated diligently, and halted where it is reasonably suspected the claim is without merit. We encourage regulated firms and CMCs to work together in the interests of customers. As well as reaching out to a sample of firms to test the service provided, our monitoring of this issue will feature prominently in our work over the next 2 years.

Consumer understanding: We expect CMCs to support their customers so that all communications (before, during and after sale) meet customers' needs, are likely to be understood, and equip them to make effective, timely and properly informed decisions. Key information needs to be prominent and in plain language. We will continue to assess firms' compliance with this requirement.

Halo effect: We expect CMCs to take steps to ensure customers are not misled as to the extent of the firm's authorisation. We expect firms to assess and adapt their communications and address issues where there may be common misunderstandings. We will continue to monitor this issue as part of our supervisory work and will consider any halo effect risks posed to customers by any firms.

Poor attitude to regulatory obligations: There is an unacceptable number of CMCs who have yet to register a principal user on our reporting platform, RegData, meaning their returns are overdue. We will pursue action against any CMC that continues to fail to fulfil these obligations. We expect firms' senior managers to take steps to verify that reporting is up to date.

Financial services claims: We expect CMCs to act honestly, fairly and professionally in the best interest of its customers. We often hear anecdotal concerns of CMCs submitting high volumes of enquiries or claims in a short period of time, to which respondent firms struggle to handle within the prescribed time limits. We encourage cooperation between the CMC and respondent firm to work together in the interests of consumers. While a complainant's right to refer their complaint to the Ombudsman comes into effect once 8 weeks have elapsed, we still expect CMCs to act responsibly. If a CMC has submitted large volumes of claims to a respondent firm and does not receive a response to all within 8 weeks, an automatic escalation to the Ombudsman at the earliest opportunity may not be acting in the best interests of the customer.

Temporary changes to handling rules of motor finance complaints

In December 2024 we introduced rules PS24/18, for handling motor finance non-DCA (Discretionary Commission Arrangements) complaints, which broadly mirror the existing rules for motor finance DCA complaints. These rules extend the time firms have to provide a final response to complaints until after 4 December 2025, and give customers more time to refer their complaint to the Ombudsman. We expect CMCs to ensure customers understand what this means before they enter into a contract for the provision of services. CMCs must also ensure that their advertising does not mislead customers. Claims that lenders are 'refunding' or providing details of average claim awards that cannot be substantiated could mislead customers about the services being provided.

Next steps

If you have any questions, please use the contact us form. However, there may be times where your firm faces urgent issues of strategic importance. If this happens, please contact Mark Burns, Head of Department, on 020 7066 1360 or Mark.Burns@fca.org.uk, or Greg Williams, Manager, on 020 7066 1475 or Greg.Williams@fca.org.uk who would be happy to discuss such issues with you further.

Yours sincerely,

Alison Walters

Director, Consumer Finance
Supervision, Policy & Competition Division

FCA Expectations

FINANCIAL CONDUCT AUTHORITY

Claims Management Companies

Risks of harm

Misleading advertising	Poor service standards
The halo effect in unregulated claims	Inappropriate handling of customer data and sourcing of customers
Failure to meet the consumer understanding outcome under the Duty	Poor attitude to regulatory obligations

Root causes

Leadership

Governance

Systems and controls

Expectations

Accountability from leadership for improving firm governance and systems and controls

All advertising and promotional literature should be clear, fair and not misleading, and compliant with CMCOB and the Consumer Duty

Adequate completion and recording of due diligence conducted on the sources of leads and customer data, in line with CMCOB 2.2

Claims are investigated diligently, and halted where there is no good arguable base, in line with CMCOB 2.1

Effective embedding of the Consumer Duty, with outcomes monitoring in place

Customers are not inadvertently misled into thinking unregulated services are regulated

Improved regulatory reporting through annual returns on RegData and SUP 15 notifications

To contact us, please use the channels on our contact page.