Being better informed

FS regulatory bulletin

FS regulatory insights

May 2024

In this month's edition:

- PRA sets out priorities in Business Plan
- FCA details next steps on Big Tech data
- PRA highlights private equity risk management
- FCA updates on motor finance review

Executive summary

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Welcome to this edition of ‘Being better informed’, our monthly FS regulatory bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services sectors.

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The start of the second quarter brought important updates on regulators’ priorities for the coming year, with the PRA and PSR both setting out their plans for 2024/25. The PRA’s business plan outlines its strategic priorities, workplan and budget, reinforcing the breadth of its regulatory and supervisory agenda. For the banking sector, the plan provides updates on issues including the implementation of Basel 3.1, risk management, operational resilience, diversity and inclusion, climate change, and model risk management. Our At a glance provides more information on the implications for banks. For the insurance sector, the business plan focuses on priorities such as cyber underwriting risk, model drift, claims inflation and liquidity and credit risk management. Please see our At a glance publication for further insights on the impact on insurers.

Meanwhile, the PSR’s annual plan highlights commitments focused on protection, competition, account-to-account payments and access for choice. Our At a glance publication provides further analysis.

Elsewhere in the banking sector, the PRA set out its expectations in relation to managing the risks arising from private equity (PE) financial activities in a letter to Chief Risk Officers. The PRA conducted a thematic review of banks’ PE risk management practices in light of the growth of PE markets in recent years, and its ongoing focus on ensuring banks have robust governance, controls and risk management frameworks. The PRA identifies a number of gaps between banks’ practices and its expectations, including in relation to assessing risks and exposures on an aggregate, holistic basis; stress testing capabilities; and Board oversight. Banks have until the end of August 2024 to discuss the findings with their Board Risk Committees, undertake a benchmarking exercise and develop any necessary remediation plans, and provide their analysis and plans to the PRA. Please see our At a glance publication for more details.

The FCA published an update on its review of motor finance discretionary commission arrangements (DCAs), and a Dear CEO letter to motor finance firms. The FCA says it expects firms to undertake an assessment of whether their financial resources are adequate, and that firms should continue to investigate the complaints they receive involving a DCA, despite the pause on the eight-week deadline for responding to such complaints. The FCA says this will help firms to promptly resolve complaints if it decides the pause should be lifted. The regulator also reminds firms to consider the Information Commissioner’s Office guidance on responding appropriately to data subject access requests, and of their obligations to make adequate disclosures to the FCA, and to ensure accuracy of financial statements and regulatory reporting. The FCA reiterated its intention to communicate next steps for the review by 24 September 2024.

In sustainable finance, the FCA published its final anti-greenwashing guidance, designed to help firms understand and implement the anti-greenwashing rule introduced in November 2023. The regulator also consulted on extending the Sustainability Disclosure Requirements and investment labels regime to portfolio management services, applying a broadly similar approach to other in-scope activities. Our At a glance provides further details.

The UK Transition Plan Taskforce (TPT) published its final set of resources to help businesses prepare and deliver robust transition plans. These resources include deep dives for key sectors (such as asset managers and asset owners, and banking), and guidance on undertaking a transition planning cycle. Please see our At a glance briefing for more information.

Finally, the FCA provided an update on the digital regulation landscape, including its response to a call for input on the competition implications of Big Tech and data asymmetry in financial services. While no immediate harms were identified, the regulator emphasised the importance of monitoring increases in data asymmetry that could stifle competition, hinder innovation and worsen consumer outcomes. The FCA will work with industry to develop use cases for how Big Tech data could improve financial services. It also intends to work with the PSR to manage risks and opportunities in digital payments, focusing on digital wallets.

Please read on to find out more about these and other developments. You can also visit our PwC webpage for further regulatory insights, including our latest Reflections article on the growing supervisory scrutiny of complaints handling and monitoring, and how firms can overcome the associated challenges.

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Cross sector announcements

In this section:

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Conduct

FCA confirms minor Handbook changes

The FCA confirmed recent changes to its Handbook in Handbook Notice No 118 on 26 April 2024. This includes changes to the Listing Rules Sourcebook to amend the criteria for approval as a sponsor, following consultation in CP23/31. Consultation feedback is included in the Handbook Notice and will not be published in a separate policy statement.

Digital assets

Authorities consult on digital securities sandbox

The FCA and Bank of England (BoE) issued a consultation on how to implement and operate the digital securities sandbox (DSS) on 3 April 2024.

The DSS is the first financial market infrastructure sandbox in the UK, allowing participating firms to use distributed ledger technology in the undertaking of activities traditionally performed by a central securities depository and in the operation of trading venues under temporarily modified legislation. Wider financial market participants will be able to interact with the DSS firms as normal.

The programme will last for five years, and authorities will determine how the existing regime would need to be permanently amended to support the use of new technologies. The consultation closes on 29 May 2024. Following this, the final guidance and rules will be published and the DSS will open for applications over the summer of 2024.

Please see our At a glance publication for more details.

Finance

Regulators finalise Securitisation Regulation changes

The PRA and FCA issued two policy statements on 30 April 2024 (PS7/24 and PS24/4), confirming amendments to their respective firm-facing rules on securitisation.

The regulators confirm that current firm-facing requirements in the UK Securitisation Regulation (UK SR) will be largely preserved, with targeted policy change to remove unnecessary barriers to the issuance of - and investment in - securitisations and to remove ambiguity within the rules. These cover:

- Due diligence requirements for institutional investors: shifting to a principles-based approach to verifying disclosures made by UK and overseas manufacturers, and clarifying the circumstances in which due diligence requirements could be delegated to another institutional investor.
- Risk retention provisions: implementing a more proportionate approach for the securitisation of non-performing exposures (NPEs) by allowing for the use of a non-refundable purchase price discount (NRPPD) for NPEs.
- Additional clarificatory changes: confirming the geographical scope of UK SR as applicable to entities established in the UK, and providing further clarity on exceptions relating to ‘cherry-picking’ rules.

The regulators have agreed a six-month implementation period and have also added transitional provisions for 'pre-implementation' securitisations, to ensure these can continue to rely on the regulatory treatment under the rules at the time the relevant securitisation was issued.

The regulators previously requested industry views on the definition of public and private securitisations and the associated reporting regime. The FCA and PRA note they may issue a further consultation paper in Q4 2024/Q1 2025.

Financial crime

FCA consults on Financial Crime Guide updates

The FCA published a consultation paper (CP24/9) on 24 April 2024 setting out proposed changes to its Financial Crime Guide (FCG), which aim to help firms assess and improve their financial crime systems and controls.

The main areas of change in the FCG are:

- Proliferation financing: The FCA is proposing to update the FCG to explicitly reference proliferation financing (PF) throughout the guide where appropriate, and to highlight a 2022 update to the Money Laundering Regulations (MLRs) which require firms to carry out PF risk assessments. The proposed update also provides guidance on how firms can identify and mitigate PF risks, especially in relation to trade finance and crypto assets.
- Sanctions: The FCA proposes to update this section to reflect what has been learned from its extensive assessments of firms' sanctions systems and controls.
- Crypto assets: The consultation paper makes explicit that crypto asset businesses registered under the MLRs should consult the FCG and apply its guidance to their financial crime systems and controls.
- Consumer Duty: The FCA is proposing that the FCG makes clear that firms should consider whether their systems and controls are proportionate and consistent with their obligations under the Consumer Duty.

The consultation closes on 27 June 2024. The FCA will publish its feedback, along with the final amended text of the Guide, in a Policy Statement in due course.

Read our At a glance publication for more information.

Sustainability

TPT publishes final set of resources

On 9 April 2024, the UK Transition Plan Taskforce (TPT) published its final set of resources for businesses, including:

- Sector Deep Dives to help seven priority sectors (Asset Owners, Asset Managers, Banks, Electric Utilities & Power Generators, Food & Beverage, Metals & Mining and Oil & Gas) interpret the Disclosure Framework
- A high-level Sector Summary covering a broad range of sectors
- Guidance on undertaking a Transition Planning Cycle
- A paper on the opportunities and challenges of transition plans in emerging markets and developing economies (EMDEs)
- Independent advice from TPT Working Groups on Adaptation, Nature, Just Transition and SMEs.

The TPT was launched by HM Treasury in April 2022 to develop a gold standard for transition plans and make recommendations to inform the UK regulation. The TPT finalised its Disclosure Framework in 2023, and has since been developing additional resources providing technical support for transition plan preparers. The TPT's mandate has been extended until at least 31 July 2024 to support the Transition Finance Market Review.

The FCA intends to consult on guidance aligned with the TPT Framework alongside UK Sustainability Disclosure Requirements rules for listed companies in summer 2024. The Government is expected to consult on transition plan disclosure requirements for UK-registered companies, though this has been delayed from Q4 2023.

Please see our At a glance publication for more information.

FCA publishes final anti-greenwashing guidance

On 23 April 2024, the FCA published its final anti-greenwashing guidance, designed to help firms understand and implement the anti-greenwashing rule that was introduced for all FCA-authorised firms in November 2023.

The final guidance has not changed substantially from the consultation proposals. It contains additional clarifications on scope, two additional illustrative examples and clarifications on the use of visuals (e.g. images, logos and colours). The guidance outlines the FCA's expectations for sustainability references, including that:

- They are correct and capable of being substantiated.
- They are clear and presented in a way that can be understood.
- They are complete, i.e. do not omit or hide important information and consider the full product/service life cycle.
- Comparisons to other products/services are fair and meaningful.

The guidance clarifies that the rule applies to references to environmental and/or social characteristics of financial products and services (including overseas products and services) made when an FCA-authorised firm:

- Communicates with clients in the UK in relation to a product or service, or
- Communicates a financial promotion (or approves a financial promotion for communication) to a person in the UK.

The anti-greenwashing guidance takes effect on 31 May 2024, alongside the anti-greenwashing rule.

Please see our At a glance publication for more information.

FCA publishes sustainability proposals for portfolio management

On 23 April 2024, the FCA published a consultation on extending the Sustainability Disclosure Requirements (SDR) and investment labels regime to portfolio management services. This builds on its initial consultation proposals, which the FCA did not include in the finalised rules following consultation feedback that they were unsuitable because most portfolios are diversified and unlikely to invest only in UK funds.

The consultation proposes applying a broadly similar approach for firms providing portfolio management services as has been introduced for other firms and in-scope activities in PS23/16 by adding 'firms[s] providing portfolio management in relation to a sustainability product' to the list of FCA-regulated firms covered by the regime. The proposals are primarily aimed at wealth management services for individuals and model portfolios for retail investors, though firms providing portfolio management services to professional clients would be able to opt in to the labelling regime.

The FCA has proposed broadly the same timelines as for other in-scope firms. The main difference for firms providing portfolio management services is that the labelling regime would be introduced on 2 December 2024 rather than 31 July 2024.

Firms are able to provide feedback on the proposals using the online form by 14 June 2024. The FCA plans to publish its final rules in H2 2024.

Please see our At a glance publication for more information.

ISSB publishes Sustainability Disclosure Taxonomy

On 30 April 2024, the International Sustainability Standards Board (ISSB) published the IFRS sustainability disclosure taxonomy, intended to help investors and other capital providers analyse sustainability-related financial disclosures.

The Taxonomy will support companies in searching, extracting, and comparing sustainability-related financial disclosures by providing a starting point for producing reporting in line with the ISSB Standards in a computer-readable, structured data format. It does this by providing a list of defined elements (or tags) which, when assigned to information in reports, provide the structure and classification necessary for that information to be computer-readable. The Taxonomy does not introduce new requirements nor affect companies' compliance with the standards.

The Taxonomy is derived from IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and S2 (Climate-related Disclosures), and will be regularly updated to reflect changes in the ISSB Standards, subject to public consultation. The IFRS Foundation also maintains the Sustainability Accounting Standards Board (SASB) Standards Taxonomy, which can be used to structure information reported in accordance with the industry-based SASB Standards, which are referenced in the ISSB Standards.

Technology

FCA explores impact of Big Tech on competition

The FCA detailed the findings of its call for input on data asymmetry between Big Tech and financial services firms, in a feedback statement on 22 April 2024. The FCA found that evidence does not show a significant immediate impact from data asymmetry on competition. However, it recognises the potential impact at a later stage. Some respondents are concerned that Big Tech's control over vast amounts of consumer data could eventually stifle competition. This may lead to dominant market positions that could be detrimental to traditional financial institutions and consumers alike.

Considering no significant harms have arisen from data asymmetry so far, the FCA’s next steps include:

- Monitoring Big Tech firms’ activities in financial services to assess whether policy changes are needed and working with our regulatory partners
- Working with Big Tech firms to examine whether their data from their core digital activities would be valuable in certain retail financial markets.
- Developing proposals in the context of Open Finance, and for the CMA to consider depending on findings from industry engagement.
- Exploring how firms’ incentives (including Big Tech firms) can be aligned to share data where this is valuable to achieve good outcomes for consumers.

Alongside these initiatives, the FCA and the PSR intend to work closely together to understand the risks and opportunities related to digital wallets.

Regulators outline AI priorities for next 12 months

The FCA and the Bank of England (the regulators) detailed their plans for the regulation of artificial intelligence (AI) in updates published on 22 April 2024. The updates were requested by the Government in its response to an earlier white paper on AI, published on 6 February 2024. The regulators reaffirm their technology-neutral approach, focusing on outcomes rather than prescribing specific requirements. However, the regulators say they will adapt to market and technology changes and consider issuing guidance and / or using other regulatory tools if needed.

Over the next 12 months, the regulators intend to focus on key areas identified through previous industry engagements, such as the discussion paper published in October 2022. These areas include:

- Governance: Compliance with measures and governance structures as outlined in existing rules, including the Consumer Duty, the model risk management (MRM) supervisory statement SS1/23, and the Senior Managers Regime (SMR).
- Data management: Addressing challenges related to the fragmentation of data regulation.
- MRM: Enforcement of SS1/23.
- Operational resilience and third party risk: Assessing the impact of AI on operational resilience and third party risk frameworks.
- Competition: Assessing risks arising from the concentration of third-party technology services.
- Consumer outcomes: Monitoring the impact of AI on consumers and enforcing existing rules, particularly the Consumer Duty.

The regulators next steps include consulting on the SMR in June 2024 and further engaging with industry. They will conduct the third edition of the machine learning survey, consider establishing a new AI public-private forum, and contributing to research of the Digital Regulation Cooperation Forum.

Read our At a glance publication for more details.

Wholesale markets

FCA updates guidance ahead of new Listing Rules implementation

The FCA consulted on changes to its listing regime guidance as part of its primary market bulletin on 26 April 2024. The proposed changes update existing listing regime guidance to align with the planned overhaul of the UK Listing Rules (UKLR), as set out in the FCA's December 2023 consultation paper.

The latest consultation outlines changes to a number of technical notes to reflect the proposed changes to the UKLR, including on eligibility, governance and conduct, transactions, and prospectus content. The consultation also includes a new technical note on additional aspects to the sponsor regime, including in relation to the work sponsors must perform when providing the confirmation proposed in a modified transfer scenario. Accompanying the consultation is a draft version of the new Procedures, Systems and Controls Confirmation form that an applicant is required to submit in their formal listing application. The FCA also confirms that issuers should expect to receive a notification from the FCA in mid-May 2024 setting out the category their securities are expected to be mapped.

Banking and capital markets

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Conduct

FCA confirms extensive consumer credit reporting requirements

The FCA published a policy statement on 29 April 2024, confirming the introduction of new product sales data (PSD) reporting requirements for consumer credit firms. The new PSD returns will require firms providing consumer credit lending to report detailed information on the initial sale and ongoing performance of individual consumer credit agreements.

Following consultation feedback, the FCA has increased the threshold for in-scope firms from £500k in annual outstanding balances and/or new advances to £2m, due to the perceived disproportionate compliance cost for the smallest firms. The regulator has also extended the implementation timeline, giving firms 20 months to comply if they have annual outstanding balances/new advances of between £2m and £20m, and 14 months to comply if that figure is over £20m.

In addition, the FCA has made a number of amendments to the data fields that firms will be required to populate. The updates aim to provide firms with additional clarity on definitions and to better align with industry practices and product ranges. The policy statement confirms that in-scope firms will be required to submit returns for sales and performance data on a quarterly basis, along with an initial, one-off back-book return. The regulator estimates that 444 firms will be in scope of the requirements.

Consumer outcomes

FCA confirms changes to bolster protections for borrowers

The FCA published a policy statement on 10 April 2024 confirming its plans to incorporate much of its Tailored Support Guidance (TSG) - which was introduced during COVID-19 - into its Consumer Credit (CONC) and Mortgages and Home Finance: Conduct of Business (MCOB) sourcebooks.

The regulator is finalising many of the changes as originally consulted on in its proposals set out in May 2023. It is also introducing targeted changes to enhance expectations on lenders to support borrowers in financial difficulty. The FCA is making some specific amendments to the supporting rules and guidance as a result of consultation feedback, including:

- Mortgages: not implementing changes requiring lenders to send quarterly statements to borrowers in payment shortfall. Instead, firms will be required to send a statement to all customers in arrears at least quarterly, not just to those where arrears or shortfall is attracting interest.
- Credit: not introducing proposed guidance aimed at supporting firms to determine necessary and reasonable costs in setting fees and charges for customers in payment difficulty. Instead, the FCA highlights its expectations on fair value under the consumer duty.

- Overdrafts: not progressing proposed guidance on the publication of eligibility criteria and interest rates for refinance loans on firms' websites.
- Additional targeted changes to the guidance to clarify the FCA's policy intention and/or ensure that firms have the flexibility to apply the guidance as appropriate to their business and customers.

The new rules and guidance come into force on 4 November 2024. The FCA highlights that many of the Handbook changes make permanent existing expectations under the TSG which have become industry good practice.

Finance

PRA finds gaps in banks' private equity financing risk management

On 23 April 2024, the PRA published a letter to Chief Risk Officers setting out the findings of its thematic review of banks' risk management practices in relation to private equity (PE) financing activities. The letter establishes the PRA's expectations of banks and its views on a number of thematic gaps between banks' practices and those expectations.

PE markets have grown in recent years, resulting in an associated increase in banks' PE financing activities. In particular, the PRA highlighted an increasing trend of banks providing collateralised and asset-backed lending to the PE sector, the provision of leverage, and the emergence of new 'non-traditional' forms of PE financing as notable risks. The PRA also continues to have a wider focus on ensuring banks have robust governance, risk management and controls in place.

The PRA's thematic review focussed on the adequacy of banks' risk management frameworks, and particularly on their independent credit and counterparty and credit risk management processes. It found weaknesses in a number of areas, including banks' practices in relation to assessing risks and exposures on an aggregate basis, understanding risk interlinkages, stress testing capabilities, and board-level oversight of associated risks.

Banks have until 30 August 2024 to conduct a benchmarking exercise to identify any gaps between the PRA's expectations and their risk management frameworks. The PRA expects banks to provide their analysis and remediation plans to their Supervisory teams by that date. Our At a glance publication provides further analysis.

Supervision

Basel Committee proposes guidelines on counterparty credit risk

The Basel Committee on Banking Supervision issued a consultation on guidelines for counterparty credit risk (CCR) management, on 30 April 2024. The guidelines have been developed in response to long-standing weaknesses that have been identified in banks' CCR management, including in relation to the failure of Archegos Capital Management in March 2021. The guidelines cover the need to:

- Conduct comprehensive due diligence of counterparties at initial onboarding and on an ongoing basis
- Develop a comprehensive credit risk mitigation strategy to effectively manage counterparty exposures
- Measure, control and limit CCR using a wide variety of complementary metrics
- Build a strong CCR governance framework.

The Committee says that while the guidelines are designed to be broadly applicable, it expects them to have the greatest impact where banks have high-risk exposures to non-bank financial intermediary counterparties. It encourages banks and supervisors to take a risk-based and proportional approach in the application of the guidelines.

The proposed guidelines will replace the Committee's sound practices for banks' interactions with highly leveraged institutions (published in 1999). The consultation closes on 28 August 2024.

Technology

Authorities define Open Banking future entity design

The Joint Regulatory Oversight Committee (JROC) detailed proposals for the design and objectives of the future entity (FE) for Open Banking, in a policy paper on 19 April 2024. JROC brings together the Competition and Markets Authority (CMA), FCA, PSR, and HM Treasury to further develop Open Banking in the UK.

JROC's proposals include:

- establishing a new entity tasked with improving and expanding Open Banking functionalities.
- setting up a transitional body to manage specific non-CMA Order tasks and facilitating the transition to the FE.
- developing a legislative framework to support the FE.
- introducing a sustainable funding model to ensure the FE has the necessary financial resources, involving contributions from ecosystem participants
- exploring the potential for the FE to support broader data-sharing initiatives.

Firms and stakeholders can respond to the policy paper until 20 May 2024. Following the consultation period, legislative measures will be considered to formally establish the regulatory framework needed for the FE.

Asset and wealth management

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Research

FCA consults on research unbundling changes

The FCA issued a consultation on 10 April 2024, proposing changes to provide asset managers with more options on how to pay for investment research. The proposals would allow for the 'bundling' of payments for third-party research and trade execution, in addition to existing options already available such as payment from the asset manager's own resources or from a dedicated research payment account.

The FCA's consultation comes in response to the Investment Research Review (IRR) that proposes a series of recommendations to improve the investment research market in the UK. The regulator's consultation focuses exclusively on Recommendation 2 of the IRR that encourages authorities to create options for using bundled payments. Current rules prevent asset managers from purchasing research with bundled payments, except when using a Research Payment Account (RPA). The IRR concluded that the use of RPAs is operationally complex and resource-intensive, primarily used by smaller firms, and may create barriers to new entrants and harm competition.

In order to make use of this new option, the FCA proposes that firms will be required to establish: a formal policy on the use of the approach; a budget for the amount of third-party research to be purchased; ongoing assessments of research value; and disclosures to the client on the firms' approach to bundled payments.

The consultation period ends on 5 June 2024, and the FCA plans to publish the final rules on an accelerated timeline in the first half of 2024.

Insurance

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Capital and liquidity

PRA issues clarifications on matching adjustment reforms

The PRA issued a statement on 15 April 2024, regarding the matching adjustment (MA) reforms it set out in its September 2023 consultation, CP19/23. The PRA anticipates that ahead of the 30 June 2024 implementation date, its statement will aid insurers to make effective use of resources, as well as optimise investment opportunities facilitated by the reforms.

In the statement the PRA confirms that insurers that received PRA MA permission prior to 30 June 2024, will not need to reapply. It also confirms that the proposals in CP19/23 were only intended to broaden the MA eligibility criteria to go beyond allowing assets with fixed cash flows. The proposals were not intended to change the PRA's policy on where assets are considered to have 'fixed' cash flows. The PRA will clarify this in its final policy.

The PRA shares that in response to CP19/23, firms have highlighted that the June 2024 implementation date may present challenges in some areas. The PRA therefore confirms and clarifies some of the timeframes shared in CP19/23. This list of timeframes includes the MA attestation; the timing of these annual attestations will be aligned with a firm's solvency and financial condition report, resulting in an effective date of year-end 2024 for most firms. With respect to the triggers for variations of MA permissions, the PRA confirms that its proposals were not intended at requiring new MA applications in a wider range of circumstances, but rather to improve clarity on when a new application would be expected.

The PRA plans to issue further guidance on the PRA MA application review process prior to 30 June 2024. The PRA also confirms it will publish its final policy statement and rules on MA reform in early June 2024.

PRA issues final consultation on Solvency II reform

The PRA published its final consultation on Solvency II reform (CP5/24) on 22 April 2024. In CP5/24 the PRA proposes the restatement of the elements of the Solvency II regime that have not already been subject to PRA consultation as part of its Solvency II review.

Assimilated law is retained EU law that continues to apply in the UK following the UK's withdrawal from the EU. The PRA's proposals primarily consist of the restatement of assimilated law into PRA policy material, including removal of cross-references to the EU's insurance prudential framework. Further, the PRA explains there are a small number of areas where it proposes changes as part of its restatement. For example, amounts denominated in EUR will be restated into GBP using the same conversion rate that was confirmed by the PRA in its February 2024 Solvency II policy statement (PS2/24). Overall, the PRA states the aim of its proposals is to maintain both the requirements on firms as well as the PRA's approach as they currently operate.

The PRA confirms that it expects insurers to continue to consider EIOPA guidelines. It also confirms that while it has decided not to undertake a full review of the EIOPA guidelines at this time, it may consult on these in the future.

CP5/24 closes on 22 July 2024, and the PRA proposes an implementation date of 31 December 2024.

PRA speech on developments in bulk purchase annuities sector

Lisa Leaman, Head of London Markets at the PRA, delivered a speech on the Bulk Purchase Annuities (BPA) sector at the Westminster and City's Annual Conference on 25 April 2024.

In her speech, Leaman discusses the changing environment of the BPA sector, where demand is growing due to improved funding positions of defined benefit pension schemes. Leaman also discusses Solvency II reforms, which are expected to support the industry in meeting its commitment to invest £100bn in UK productive investment. In particular, Leaman speaks about how reforms to the matching adjustment (MA) will enable the life insurance sector to contribute more to UK productive investment. The PRA's June 2024 rules, among other things, will provide greater investment flexibility within the MA portfolio, allowing insurers to earn a proportion of MA benefits from assets with highly predictable cashflows. Newly eligible assets will include bonds tied to construction phases, rental lease payments, and environmental impact targets.

Leaman discusses the concept of sandboxes, which she defines in this context as environments for exploring and developing assets for MA eligibility without obtaining full approval. While sandboxes were not considered in the PRA's consultation on MA reform (CP19/23), following feedback received from the industry, the PRA has convened a Subject Expert Group to gather suggestions and develop proposals on this topic.

Leaman confirms the 2025 Life Insurance Stress Test will include new exploratory features, one of which will be a sector-wide stress of firms' use of funded reinsurance. The approach document for this will be published in June 2024.

Consumer outcomes

FCA finds travel insurance signposting rule has positive impact

The FCA published findings of its post-implementation review of the travel insurance signposting rules for consumers with pre-existing medical conditions (PEMCs), on 11 April 2024.

The FCA introduced rules in 2020 to help improve access to travel insurance for consumers with more serious PEMCs. The rules require firms to signpost consumers with PEMCs to a directory of specialist firms in some circumstances. The aim of the intervention was to improve access for some consumers and lower prices for other consumers.

Overall, the FCA found in its post-implementation review that the signposting intervention had some positive impact. The FCA explains it found an indication that consumers purchasing through the directories appear to be getting comparable value, in risk price as a percentage of premium, to wider travel insurance for consumers without PEMCs and consumers purchasing through non-specialist providers. Nevertheless, there is a concern that consumers may not be getting fair value when faced with high premiums and uncapped commissions. The FCA reminds firms that they must ensure that consumers receive fair value from their travel insurance products.

The FCA states that overall, it is satisfied with the trigger points for signposting. However, it considers the £100 medical condition premium trigger point could be raised in line with increases in risk prices and medical costs and claims. The FCA plans to consult later this year to update this trigger.

Supervision

Insurance priorities in the PRA's 2024/25 Business Plan

The PRA published its 2024/25 business plan on 11 April 2024, setting out its work plan for each of its strategic priorities along with its budget for the year. The PRA sets out its business plan with the backdrop of its continued focus on maintaining the UK's financial resilience post 2023 banking events, as well as the new post-Brexit regulatory framework enabled by the Financial Services and Markets Act 2023.

The PRA confirms it will publish its policy on the matching adjustment in June 2024 as part of Solvency UK (SUK) reforms. The PRA will also publish a finalised single taxonomy package in Q2 2024 for SUK reporting reforms. Additionally, a consultation will be published in H1 2024 on transferring remaining Solvency II requirements to the PRA Rulebook and other policy material.

An approach document for the 2025 life insurance stress test will be published this year, which will include an exploratory scenario to assess exposure to the recapture of funded reinsurance (funded re) contracts. The PRA will publish individual stress test results for the largest annuity-writing firms.

The PRA states that it will monitor and assess cyber underwriting risk particularly for firms with material exposures. In addition, the business plan includes other insurance priorities such as model drift, claims inflation, and liquidity and credit risk management. Further, the PRA expects a continued lag in the emergence of claims inflation in data, which can lead to excessive optimism in reserving, pricing and capital and reinsurance planning. The PRA also plans to finalise its policy expectations for insurers that use funded re arrangements and notes that firms would be expected to place limits on their funded re activities.

Please see our At a glance briefing for more details.

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