Institute and Faculty of Actuaries

IFoA Life Conference

What next for regulatory reform?

With you today

James Isden
KPMG

Bob Warren
ABI

Himesh Sheth
Aviva

Agenda

01

Regulatory and political background

02

Reflections on whether recent the changes prompted the intended changes and how can firms maximise benefit from the reforms

03

Where next for policy changes

PRA: key recent regulatory developments for life insurers

There has been significant pace of regulatory change post-Global Financial Crisis, including recently:

Solvency UK reform	Funded Re	Climate risk	Liquidity	Solvency exit planning
Adapted to the UK insurance market: • Including reform of the MA, risk margin and reporting. • Matching Adjustment Investment Accelerator	PRA expectations set out in policy statement and Dear CEO letter. Vicky White's speech on September 2025 signals likely policy change.	Proposals to uplift expectations for risk management and governance for managing the financial implications of climate risk.	PS15/25, September 2025: new liquidity reporting requirements for large annuity writers.	Realistic and operable solvent exit plan by 30 June 2026.

Policymakers to regulators: regulate for growth, not just risk

November 2024

Mansion House speech

The Chancellor stated that "the UK has been regulating for risk but not regulating for growth" and called for action.

December 2024

Letter from the Prime Minister to 17 regulators

The Prime Minister asked regulators for concrete proposals on how to prioritise growth and facilitate investment, supported by government.

March 2025

HMT paper on regulation and growth

Addressed to all UK regulators, it set out a vision for regulators and proposed three actions to deliver growth.

March 2025

FCA's strategy and PRA business plan

The FCA's five year strategy includes supporting growth by enabling investment, innovation and competitiveness. The PRA 2025/6 Business Plan also has an emphasis on competitiveness and growth.

July 2025

Leeds Reforms

Dubbed by the Chancellor as "the most wide-ranging package of reforms to financial services regulation in more than a decade."

July 2025

FS growth and competitiveness strategy

The government published its FS strategy. One of its key pillars is to deliver a competitive regulatory environment.

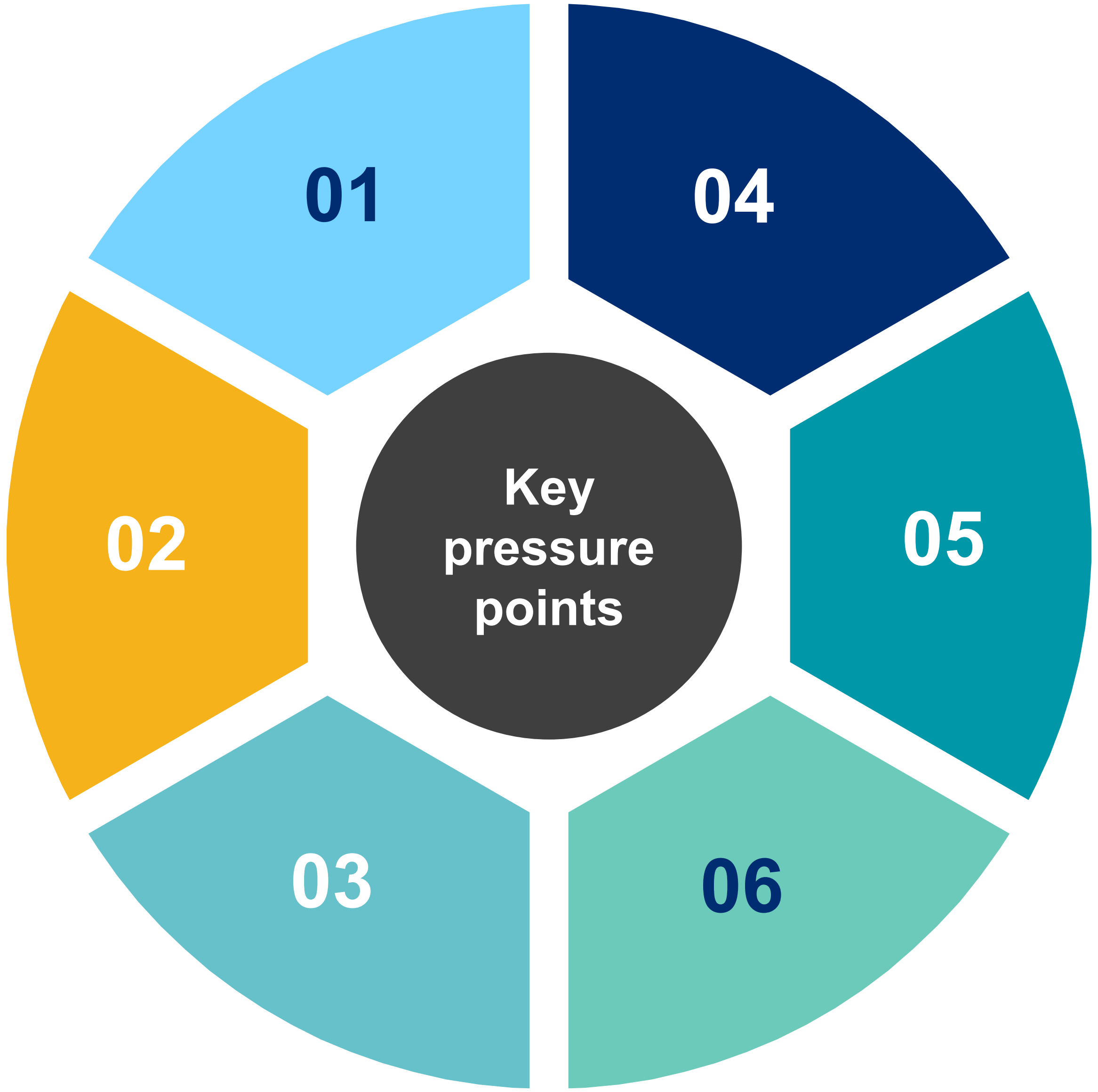
KPMG Regulatory Barometer: pressure as high as it's ever been

Financial resilience top scoring area of regulatory and supervisory pressure

Consumer Resilience ↔ 7.0 (7.0)
- In UK, regulatory impact score has dropped as Consumer Duty has been implemented.
- Value for Money and Vulnerable Customers still a focus.

Financial Resilience ↑ 8.4 (8.1)
- Scope for completely new initiatives is.
  less – but refinements and reviews continue.
- Supervisory intensity remains high as risks evolve.

Operational Resilience ↔ 8.2 (8.2)
- Regulatory pressure remains high
- New frameworks, heightened cyber risk.



Governance ↓ 6.3 (6.5)
- Permeates all other areas of regulatory and supervisory practice.

Accessing Markets ↓ 5.3 (5.4)
- Market access arrangements have been extended and slightly relaxed via bilateral agreements and approaches to third country branches.

Sustainable Finance ↑ 8.0 (7.9)
- Publication of new policy has slowed – but score high due to implementation timelines.

Solvency UK: intentions v reality (1/3)

HMT objectives of the reform

- Vibrant, innovative, and internationally competitive insurance sector.
- Protect policyholders and ensure the safety and soundness of firms.
- Support insurance firms to provide long-term capital to support growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the government's climate change objectives.

Key changes

- Increased flexibility to invest in wider range of assets - Matching Adjustment reform.
- Risk Margin: reduction in Cost of Capital from 6% to 4%, and introduction of 0.9 lambda tapering factor, recognising that long-tailed business is less exposed to short-term volatility.
- Streamlined and more proportionate approach to internal models – but with capital add ons if needed.
- Revised reporting taxonomy.
- Increased threshold to enter Solvency UK regime; improvements for new entrants and third country branches.

Solvency UK: intentions v reality (2/3)

Impact

- Risk margin: 65% reduction for life insurers, estimated KPMG to free up ~£8.5 bn annually.
- MA liability eligibility: extended to certain in-payment income protection liabilities and the in-payment elements of with-profits annuities.
- MA asset eligibility: widened to highly predictable cashflows, up to a limit of 10%. Removal of cap on sub-investment grade assets.
- MA approvals and modifications: some additional flexibility, including upcoming MAIA reform. But also subject to additional safeguards and attestation.
- ABI Investment Delivery Forum: pledge to invest £100 billion over ten years into UK productive assets.

So what?

- How much new investment into UK economy has been / will be will unlocked by SUK?
- Are insurers now substantially freer to invest in additional asset classes as part of the Matching Adjustment?
- Have the changes resulted in a noticeable uptick in internal model and Matching Adjustment applications?
- Have insurers observed a decrease in reporting burden?
- Has there been an increase of new entrants or third country branches?

SUK intentions v reality : 15 – 40% reduction in regulatory reporting burden? (3/3)

The majority of the Solvency UK reporting reforms implemented prior to the end of 2024 resulted from four major consultation papers:

CP11/21 – Deletion of Review of Solvency II: Reporting (Phase 1) (and PS29/21)

- The PRA confirmed the deletion of **7** Solvency II QRTs (S.06.01, S.15.01-02, S.29.01-04), plus the financial stability templates.

CP14/22 – Review of Solvency II: Reporting phase 2 (and PS3/24, PS15/24)

- From a suite of c150 separate reports and templates, the PRA proposed to delete only **7** in their entirety as part of this consultation (note that the PRA claimed this figure should have been **26**), while introducing **15** new ones. Up to **38** templates were reformed to a greater or lesser extent.

CP12/23 – Review of Solvency II: Adapting to the UK insurance market (and PS3/24, PS15/24)

- The PRA proposed the outright deletion of only **2** further templates in their entirety (S.22.05 and the Regular Supervisory Report), while introducing **9** new ones.

CP19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting (and PS15/25)

- The PRA proposed the introduction of **4** new liquidity reporting templates for the largest life insurers, and the deletion of SF.01 (standard formula reporting for internal model firms) for life insurers and composites with non-material non-life business.

Liquidity: intentions v reality

Objectives of the reform

- Close liquidity reporting gaps for large insurance firms with significant exposure to derivatives or securities in lending or repurchase agreements.
- Improve supervision of liquidity risk management.
- Driven by ‘recent market liquidity stresses’.

Key changes

- Four new liquidity reporting templates for nine insurers - 3,000 new data cells, and potentially daily reporting of key 150 data points.
- PRA estimates one-off implementation cost of £11m and additional annual costs of £3.6m across the nine affected firms - likely to be significantly higher.
- Potential for daily reporting means liquidity data collection and reporting is a significant operating challenge.
- No ‘off the shelf’ system solution: data will need to be sourced from several existing systems, with additional & bespoke builds.

Funded Re: intentions v reality

Objectives of the reform

- Address PRA concern that counterparty risks may be underestimated in Funded Re transactions.
- Have appropriate capital requirements.
- Mitigate risks from the recapture of assets onto cedants' balance sheets.
- Minimise systemic risk where numerous firms use Funded Re as an integral part of their business models.

Key changes – so far…

- Ongoing risk management expectations such as counterparty internal investment limits and immediate recapture metrics.
- Clear collateral policies outlining the impact of recapture, and specific policies for illiquid assets e.g. valuation methodology, MA eligibility conditions monitoring, SCR modelling etc.
- Recapture plan outlining monitoring of counterparty, steps for asset transfer, MA compliance, and any execution uncertainties.
- SCR: specific expectations on measuring counterparty credit risk capital charge.

Impact

- Recapture: the size and structure of transactions need to be limited, if firms are to demonstrate that they can withstand either a single or multiple recapture events.
- Strong investment limit framework with limited subjectivity is required, if insurers are to have a high level of confidence in their estimation of potential losses from FundedRe arrangements.
- Increased board involvement in FundedRe transactions, especially on limits, remediation activities, confidence in modelling and risk appetite.

So what?

- Will insurers' future Funded Re arrangements see a decoupling of longevity and asset risk? See PRA speech from 18 September.
- What will be the impact on the individual competitiveness of firms?
- Could the results of the 2025 LIST FundedRe recapture scenario influence change in PRA policy?
- Will the PRA consider explicit regulatory restrictions on the amount and structure of Funded Re?
- Will tighter expectations on Funded Re disrupt the BPA market?

Climate-related risk: intentions v reality

Objectives of the reform

- Enhance how banks and insurers manage the effects of climate change on their businesses and therefore maintain essential services to the economy.
- Build resilience against growing climate-related risks, make informed choices about strategy and identify opportunities for finance provision to increase economic growth.

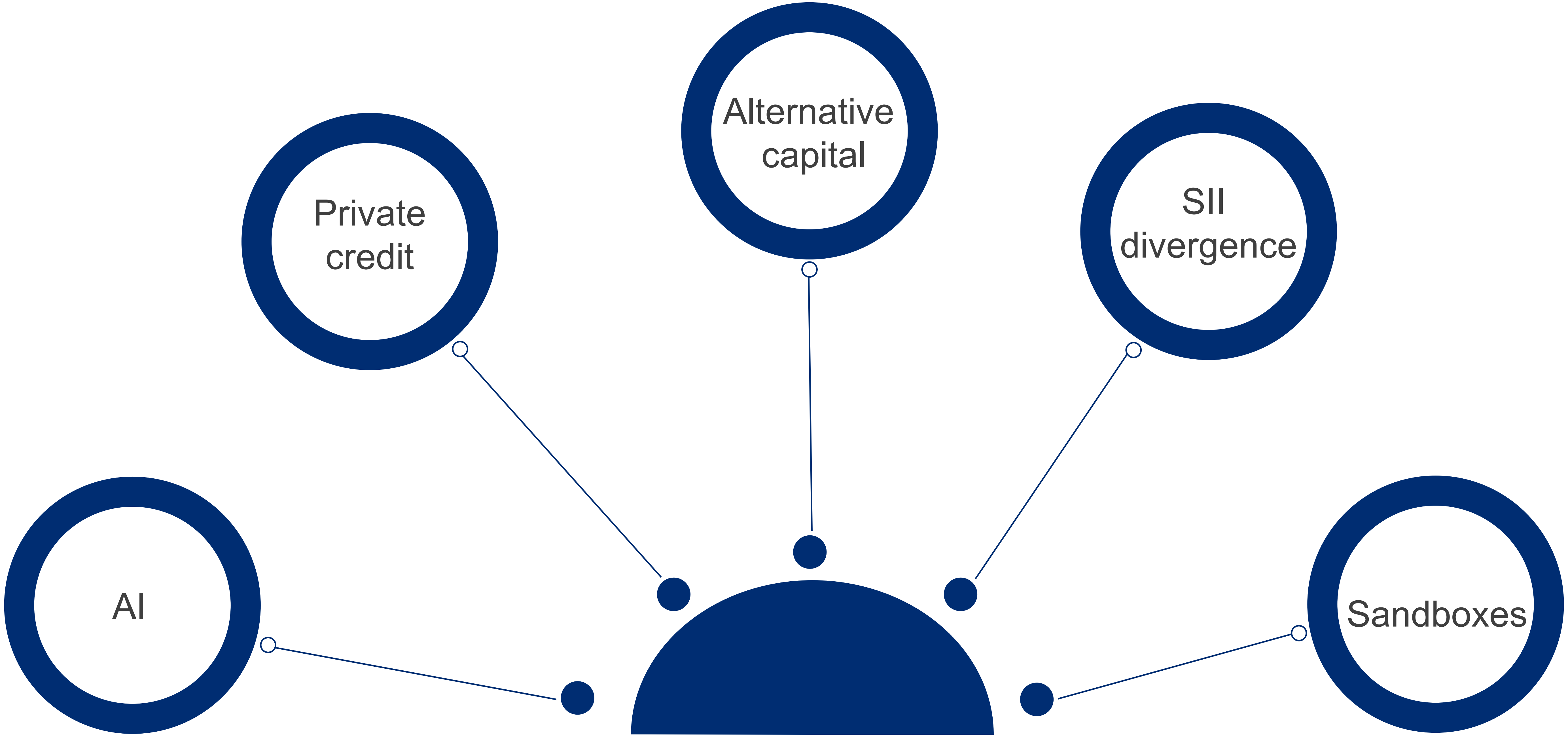
Proposed changes

- Greater focus on governance / decision-making, with explicit responsibilities for SMF holders and requirements for Board training on climate-related risk.
- Increased focus on risk appetite, including reviewing risk assessments and proposed actions. Insurers to reflect climate-related risks in underwriting, reserving, market, credit and op risk components of the SCR.
- More sophisticated expectations on decision-useful scenario analysis, including reverse stress testing.
- Manage / remedy data gaps as they should not prohibit development of capabilities.
- Specific insurance expectations on ORSA, PPP, and underwriting / reserving risk.

Further policy change: on the horizon

LIST	Funded Re	Solvent Exit
Captives	Liquidity metric	Model Risk
Resolution regime	Climate Risk	BoE Data transformation

Further policy change: looking further afield



Q&A

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