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# The Prudential Regulation Authority Discusses Recent Reforms to the UK (Re)insurance Market

The Prudential Regulation Authority's (PRA's) director of insurance supervision, Shoib Khan, recently clarified the PRA's approach to the UK (re)insurance market, including in the following key areas:

- The application of the PRA's Secondary Competitiveness and Growth Objective (SCGO) and its differentiated supervisory approach.
- Facilitating productive life and funded (re)insurance (Funded Re) investments while mitigating risks.
- Encouraging investment by (re)insurers into the UK market.
- Revising its approach to the authorisation of managing agents in the London Market.
- The regulation of insurance special purpose vehicles (ISPVs).

## The PRA's Application of the SCGO and the Differentiated Supervisory Approach

- The PRA reaffirmed that the SCGO will only apply where the PRA administers its general policymaking and supervisory functions. The PRA will not look to the SCGO when considering individual firm decisions. So, PRA-authorised firms should be cautious about referring to this objective in any discussions with the PRA.
- Director Khan further confirmed that the PRA will continue to adopt a differentiated supervisory approach to life insurance, general insurance, the London Market and branches of overseas insurers. Its supervisory approach will be driven by its views of the varying levels of risk each market poses to its objectives.
- Director Khan also reminded the market that Solvency UK should be seen as providing firms with greater flexibility on group solvency requirements and reducing some disclosure and reporting requirements.

## Life and Funded (Re)insurance Markets

- The PRA has established a specialist team to expedite decision-making in relation to matching adjustment (MA) applications, including for UK productive assets. The PRA reiterated that it sees this as helping insurers "support their plans for UK productive investments."
- Director Khan flagged that the PRA continues to see the rapid growth of Funded Re as an area of concern, one that needs to be properly controlled (with recapture being a key focus — see Supervisory Statement SS5/24). The PRA reminded firms of the requirement to conduct a gap analysis by the end of October 2024 to ensure they are in compliance with the PRA's expectations on firms' approaches to Funded Re. Otherwise, the PRA may place explicit regulatory restrictions on the amount and structure of Funded Re conducted by a firm or take other measures to address the underestimation of risk associated with Funded Re. The PRA also flagged its intention to run and publish firm-specific stress test results for major life insurers in 2025.

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- The PRA is considering how to press ahead with an "accelerator" programme to facilitate the future expansion of MA eligibility, which may encompass a degree of self-certification.

## Encouraging New Entrants Into the UK (Re)insurance Market

- The PRA aims to attract new entrants into the UK (re) insurance market via its "mobilisation" regime, which seeks to streamline entry into the UK market for offshore insurers. As currently implemented, the regime encompasses a 12-month period wherein an offshore insurer can operate in the UK market with certain restrictions and proportionate regulatory requirements — including a proposal to lower the absolute floor to the minimum capital requirement to £1 million — as it finalises its development.
- Additionally, the PRA has sought international insurance business through third-country branching. Director Khan clarified the PRA's approach to such business by emphasising that the PRA will rely on home state supervisors with equivalent regulatory standards and supervisory coordination to oversee third country branches.

## The PRA's Approach to the London Market

- The PRA emphasised the importance of the London Market and in particular its success in becoming the largest cyberrisk market in Europe.
- Director Khan acknowledged that there is an element of double supervision over managing agents by both the PRA and the Society of Lloyd's. As a consequence, the PRA is looking at lowering its own supervisory interaction over managing agents in favour of Lloyd's. The PRA is also working with Lloyd's and the Financial Conduct Authority (FCA) to speed up managing agent authorisation times.

## ISPV and Catastrophe Bond Reforms

- The PRA is expecting to consult with industry participants on a package of ISPV reforms in order to:
  - Broaden the field of transaction structures under the UK regime.
  - Expedite approval processes to lower applicants' costs.
  - Make its expectations of UK insurers ceding risks to ISPVs clearer.
- Lastly, the PRA will also expedite the approval process for "cat bond" applications, by reviewing such applications in 10 working days rather than four to six weeks.