



BANK OF ENGLAND

Speech

Responsible openness in the Insurance Sector

Speech given by

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Association of British Insurers Prudential Regulation Webinar

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Thank you for the invitation to speak today, and to all of you for dialling in to this session. I believe technically at this point I could deliver this speech in person, but only to six of you at a time. I believe technically at this point I could deliver this speech in person, but only to six of you at a time – which would take all day and result in quite a long queue. However, I do look forward to attending events in person again and meeting many of you in future.

I would like to focus on three issues today that I consider to be of particular importance as we move beyond the UK's departure from the EU:

- 1. Our role as a host for international insurance business;**
- 2. Actions we can take to facilitate effective competition in UK insurance sector domestically and internationally in conjunction with high prudential standards; and**
- 3. Our ongoing focus on international standard setting and policymaking, including in relation to climate change.**

Competiveness and policyholder protection are sometimes portrayed as objectives at odds with each other. I would argue that far from being in conflict, competitiveness and high prudential standards complement each other – you cannot have one without the other. The UK's status as a pre-eminent, global insurance market depends heavily on the robustness of the infrastructure within which it operates: a reliable legal system, for example, and a robust regulatory regime that allows policyholders, reinsurance cedants, and other counterparties to transact with confidence.

I know that different parts of the market have different priorities. For some parts of the UK insurance sector – particularly life insurance – the priority is to address areas of Solvency II that you feel do not work as well as they could, whilst for others of you the primary focus is on maximising international market access. Some of the changes to the prudential regime that we are considering within the review of Solvency II should result in changes across the sector: such as the reform of reporting requirements, and streamlining our approach to approval of internal models, all which should affect a wide range of firms; others, such as reviewing the design of the risk margin and the matching adjustment, will focus more on the life insurance sector.

At the same time we remain open to international participation in the UK insurance market, engaged more than ever in international policy making and active supervisory co-operation and fully supportive of the international activity of insurers based here. We are maintaining strong, cooperative working relationships with regulators in other jurisdictions, bilaterally and through colleges. Proportionate changes to our prudential regime and a renewed international focus of will both contribute to strengthening the UK insurance sector and facilitating effective competition. I will go on to discuss the role of the UK in future international policymaking, and the importance of international co-ordination both to enable global insurance activity and address global risks including climate change, one of the themes of today's event.

Our role as a host for international insurance business

Preparing for Brexit was a significant task for the insurance industry and regulators. The extensive work undertaken since 2016 meant that for the insurance industry at least, 31st December 2020 passed largely without incident – few, if any, of us spent the first week of January stuck in a (metaphorical or actual) lay-by outside Dover.

However there is further work for both regulators and industry to do, not least moving the c.190 EU insurers that have entered the Temporary Permissions Regime (TPR) onto a more permanent footing in the UK, but an important milestone has been passed successfully.¹

While describing Brexit as an “opportunity” is at this point an extremely well-worn phrase, it does give the regulator, and the UK as a whole, a chance to consider how our financial services sector should operate in future. The UK is currently the single largest market for non-life insurance globally, with £75bn of annual premium (equating to c.7% of global insurance premiums) written through the London Market with 85% of this business undertaken in the UK by insurers which are themselves part of groups headquartered overseas.² UK domiciled insurers alone rank fourth globally in written premiums and UK-domiciled insurers in the life and long-term savings sector manage over £1.7tn of assets.³ We have only been able to reach this position, and will only be able to maintain it in future, through open international insurance markets. The Government’s stated policy is to maintain and enhance the position of the UK as a leading international financial sector, and the insurance sector forms a key part of this. An important aspect of achieving this objective is how we ensure that the UK is open and competitive as a place to do business.

But what does this mean in practice, and for the insurance sector in particular?

One of the key changes wrought by Brexit is the increased role the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) now play in decisions regarding which EU insurers are permitted to operate in the UK market and how they are supervised.

My colleague David Bailey, the Executive Director for International Bank Supervision, spoke in January about the PRA’s approach to hosting international Banks in his speech in January on “responsible openness”, and the same principles apply in insurance.⁴ We have always attracted international insurers looking to establish operations in the UK to take advantage of concentration of skills, proximity of fellow insurers, and strong legal and regulatory systems. There have always been processes and rules in place to ensure that these entities are authorised and supervised appropriately. However, the end of passporting

¹[Information on the Temporary Permissions Regime](#)

²[London Market Group report ‘London Matters 2020’](#)

³[Association of British Insurers ‘The State of the Market 2019’](#)

⁴[David Bailey Speech: ‘Responsible Openness’](#)

access from the EU has removed a route into the UK market for a huge number of insurers. To give some sense of scale, over 600 EU insurers held passporting permissions to write business in the UK in December 2020 (although not all passports were actually in use). Although only a third of those firms chose to enter the TPR, even this relatively more manageable number – 190, from 20 countries – represents a step change in the size and number of overseas insurers the PRA has responsibility for, with many of these insurers expected to apply for permanent authorisation. It is therefore only right to consider in detail our approach to these firms.

The PRA remains open to all insurers seeking to operate in the UK, and will assess applications against a clear and consistent set of criteria. This includes hosting business on a cross-border basis both from the EU and more broadly provided, among other things, that we are satisfied that the level of “supervisability” of the EU branch and its parent entity is commensurate to the level of potential risk it poses to the PRA’s statutory objectives of safety and soundness and policyholder protection. Where appropriate, branch hosting provides a relatively low cost, low impact route for overseas insurers to operate in the UK.

Key considerations of the assessment of “supervisability” is our view of the approach home state regulators take to supervision (which is likely to be made easier when assessing the EU given our rulebooks are broadly identical) and the level of co-operation we can secure from home states, including on the exchange of supervisory information. This latter requirement is as much an objective for us as it is for insurers – our ability to establish and maintain productive relationships with home state regulators will in turn enable lower friction access between insurance markets. We are working hard to build on our existing relationships with European and global regulators, and engagement to date on this has been positive.

There are advantages in the branch model for both insurers and regulators, not least that duplication of supervisory activity is reduced. We are also taking steps to rationalise the requirements that branches are subject to, including consideration of the removal of branch capital requirements as part of the Solvency II review, with the aim of limiting regulatory requirements to those required to deliver our objectives.

We are, however, also conscious of the need to ensure a level playing field among all insurers operating in the UK – there can be no question of insurance branches being held to lower standards than insurers that are based here, which would distort competition and potentially increase the risks to PRA objectives. All insurers will be supervised proportionately based on their possible impact on safety and soundness and policyholder protection.

We will assess our ability to rely on home state supervisory authorities, considering both their supervisory equivalence and level of co-operation with us, on an ongoing basis, and will take action as needed if we judge that we are unable to supervise a branch effectively.

We have also been clear that some overseas insurers have UK liabilities that that represent too great a risk to PRA objectives, including the impact of branch failure on policyholders and Financial Services Compensation Scheme (FSCS) levy payers, to rely on branch supervision with its inherent limitations, even with strong co-operation from home state regulators. Retail business is the natural area for regulators to want to have an increased level of oversight, and the PRA has therefore set limits based on the level of retail insurance liabilities. Our expectation remains that those insurers with very large exposure to the UK retail market will establish subsidiaries to operate here, giving the UK more direct oversight over their operations.⁵ For EU insurers, the UK's unilateral decision to find the EU equivalent for group supervision purposes should still go some way to reducing the regulatory burden that subsidiarisation represents, and reflects our confidence in the approach taken by our EU counterparts. Co-operation with these counterparts will remain key to the supervision of these subsidiaries.

Actions we can take to facilitate effective competition in UK insurance sector domestically and internationally in conjunction with high prudential standards

Of course, branching is not the only route by which international participants access the UK insurance sector. As part of our broader consideration of the position of UK insurance post-Brexit we are considering all aspects of this issue, and the role that we as the regulator can play, with one area of focus being the removal of unnecessary barriers to new entrants to the UK insurance market. Parts of the UK insurance market are already extremely competitive, and simply increasing the number of insurance providers in a market will not in itself bring additional benefits. However, new market entrants can provide policyholders with a greater degree of choice of product and coverage options that may be otherwise unavailable, challenge existing business models and practices, and help to ensure that the insurance market remains efficient.

An unnecessarily prolonged application process can itself be a barrier to attracting new entrants to the UK market. We are considering ways in which the process of obtaining authorisation for new insurers can be made more efficient whilst still ensuring appropriate prudential standards. One aspect of this work where we have already made progress is ensuring that we are clear on the information we require from applicants. However, to some extent our ability to authorise new insurers remains dependent on the openness of applicants to discussing their proposed business models and the speed and accuracy with which they provide information. We have shown through recent decisions that where an application meets our requirements we are capable of taking a decision quickly, with on average the total time taken to reach a decision now standing at seven months.

There are also some specific barriers to entry for small start-up insurers in particular. There is potentially more we can do to provide a mobilisation framework to allow these new entrants to build their businesses under a more proportionate set of regulatory requirements, and this is something we are considering as part

⁵ For further information on PRA expectations in this area, please see '[Supervisory Statement 2/18: International insurers: the Prudential Regulation Authority's approach to branch authorisation and supervision](#)'

of the review of Solvency II – allowing greater space for small scale start-up insurers to innovate and bring new products to the market whilst ensuring that policyholders remain properly protected.

Barriers to entry are not limited to authorisation of new insurers. For the London Market in particular, there is a need to react quickly to changes in rates to function effectively as a dynamic market. We should continue to consider measures that could maintain and further enhance the London Market's pre-eminent position, including our approach to both traditional capital investment and Insurance Linked Securities (ILS). The ability to access capital and obtain regulatory permissions can be particularly critical during market turning events: to recover capital positions, to stabilise the market, and to respond to new opportunities. Both the regulator and industry play a role in ensuring quick delivery in these circumstances – industry through the prompt and accurate provision of information to enable us to assess applications, and ideally through the development of contingency plans ahead of time; and the regulator by ensuring that our process to consider applications is proportionate and efficient.

That said, it's only right that we continue to apply appropriate scrutiny to mitigate wider risks that the individual parties to transactions do not have the incentive to address. But we are no more interested in process for the sake of process than you are, and have already shown this through our past engagement with you and some recent authorisation decisions. More efficient processes that still deliver on our prudential objectives should be a positive for all sides.

We intend to hold a round table discussion to explore this further with the industry. This will allow us to identify, in a collaborative spirit, regulatory and non-regulatory barriers to new capital and opportunities. The roundtable will consider:

- Investment in existing Life and GI insurance entities wishing to expand;
- New insurer authorisation process;
- Insurance Linked Securities; and
- Mobilisation regime for start-up insurers.

The UK is open for business in the insurance sector, and we welcome applications from those seeking to invest and operate here. Our approach maximises the accessibility of the UK market whilst ensuring that broader safety and soundness objectives are not compromised and rules are consistent for everyone.

Our ongoing focus on international standard setting and policymaking, including in relation to climate change

The final aspect of competitiveness I would like to discuss today is the future role of the PRA and

UK in shaping policy and engaging with other regulators at an international level. Even prior to withdrawal from the EU this was an area in which the PRA invested considerable time and effort, and post-departure this assumes even greater importance – now more than ever, it is important that the UK view and experiences are captured as part of international standard setting process. We are well positioned here given that Vicky Saporta, our Executive Director of Prudential Policy, also serves as Chair of the International Association of Insurance Supervisors (IAIS).

Why is this important to UK competitiveness? International standards aim to create a common language for the supervision of internationally active insurance groups; to level the playing field internationally for insurers; and to simplify regulation for large international groups. To this end, the implementation of common international standards should serve to reduce barriers to cross border insurance activity globally, allowing for new international activity and removing friction where this is already taking place. Ensuring that the UK views are reflected properly in any international standards that are created reduces the risk that UK insurers are faced by regulatory regimes that are not wholly compatible with their business models and lines of business. And international co-operation is essential in addressing risks and problems that do not fit neatly inside national borders, doubly true for insurers given the global nature of many of the risks you cover and global structure of many insurance companies. Just as ensuring robust prudential standards at UK level is an important aspect of UK competitiveness, robust prudential standards at international level will contribute towards global competition.

Climate Change

Healthy competition can also help accelerate developments in new and little explored areas of risk. Understanding of climate change risk in the financial sector has expanded significantly over the last few years – and international collaboration is key to enable those organisations that are further ahead to encourage others to make similar, or perhaps even bigger, strides. I'm delighted to have been recently appointed as Chair of the Sustainable Insurance Forum (SIF). SIF serves as the platform for insurance supervisors and regulators looking to address sustainability issues, enabling collaboration, sharing of knowledge and identification of best practices. Coordination at the international level – through platforms like the SIF and also the Network for Greening the Financial System (NGFS) – enables the development of consistent standards that can be implemented globally. Just as importantly, collective action also reduces the risk of individual states undercutting on standards to gain a competitive edge – international consensus as a means of addressing collective action problems.

I'm very pleased that the ABI has chosen to focus on climate risk as one of the themes of today's event. Furthermore, the ABI's recent joining of the UN Environment Programme's Principles for Sustainable Insurance Initiative – the largest collaborative initiative between the UN and the insurance industry – is an important step. This commitment to coordinated action between industry, regulators and governments alike is essential given the global nature of climate change impacts.

Conclusion

There is clearly plenty of work left to do – but there are also plenty of opportunities to take. The United Kingdom has a relatively unique chance to establish a new position within the international insurance system, maintaining strong links with the EU but also looking further afield; whilst also ensuring that our regime is tailored best to fit our domestic requirements. We now have the ability to set our own direction. I have aimed here to set out what direction that might be – an approach that enables healthy competition, and the benefits competition brings, without sacrificing our reputation for strong prudential standards.