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News release

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Looking out for the policyholder – speech by Sam Woods

Speaking at the annual conference of the Association of British Insurers (ABI), Sam Woods – Deputy Governor for Prudential Regulation and CEO of the PRA – says that to get insurance regulation right we should consider two questions at the current juncture.

- With the experience of operating Solvency II since it came into effect in 2016, can we make our implementation of the directive work better? In Sam's opinion, "despite some inevitable differences of view, there is a strong degree of agreement between the PRA, the Treasury Select Committee (TSC) and the industry about the answer to that question". Consultation is now underway on an extensive package of reforms.

- In the blizzard of insurance and regulatory jargon, however, Sam thinks something has been missing from our discussions. "Where is the policyholder?" We have seen the significant human cost that can be associated with insurance failures – Equitable Life being a prominent example – and Parliament has given the PRA a particular duty to represent the interests of the policyholder. Delivering the PRA's responsibility means maintaining high standards of safety and soundness for UK insurers.

With the TSC's spotlight swinging onto insurance regulation, Sam says there has been "a very useful and timely debate" in recent months. There was no convincing evidence to suggest that Solvency II had crushed the profitability or growth of UK insurance companies or driven up prices for UK insurance policyholders. But it is clear that we can make our implementation of the directive work better.

Sam welcomes that the TSC has "rightly highlighted aspects of Solvency II which are not working well" and describes how the PRA has been putting a lot of effort into addressing those issues at a good pace. The PRA has already made a series of proposals to give firms greater confidence in using the Matching Adjustment (MA). It has announced reforms which would reduce "unnecessary costs and complications" in modelling and reporting requirements where they have "no prudential benefit". The PRA is working on the risk margin – having decided "to tackle the problems we, the industry and the TSC have agreed exist" – and will respond to the TSC in due course.

In 2014, the PRA was given a secondary objective to facilitate effective competition which informs the PRA's decisions about new policies. While he is not persuaded of the case for making it a primary objective – given the risk of overlap with other authorities – Sam points to a number of ways in which the PRA has promoted a better fit between regulation and firms' particular business models, fostering a UK market which comprises a very wide range of businesses. He adds that the PRA is now exploring "how we might improve our current authorisations approach to facilitate the entry of new insurers".

Stepping back, Sam says that "we all in this room probably take for granted that we need prudential regulation of insurers; but every now and then I think it is worth reminding ourselves why this is so". Talking directly to policyholders, he was struck by the vast range of insurance needs people have, and by how complex people find insurance. He also spoke to a group of small business owners, illustrating how reliant many of them are on insurance for running their businesses. Hearing "the huge relief of people when an insurance company comes through in their hour of greatest need" underscored for Sam how important this industry is, and how important it is that insurance companies are safe and sound.

So while the PRA is consulting on an extensive package of reforms for the part of the Solvency II framework over which it has discretion, Sam is clear: "we are not going to go soft. We can tell the difference between feedback about a genuine technical flaw and generalised lobbying for lighter-touch regulation. And we will continue with our forward-looking, judgement-based approach to supervision – which will inevitably mean that conflicts with firms sometimes arise. This is inherent in a system in which a regulator is charged with pursuing the public interest through the activities of privately-owned firms".

In that spirit Sam describes the PRA's careful and prudent approach to the MA, which delivers a massive capital benefit to those insurers that use it. The PRA has made a series of proposals to give firms greater confidence about which assets can attract MA, and how it will deal with any breaches. But Sam's message to the firms is: "if we ended up in a position where the MA's fundamental credibility was undermined for the sake of a few marginal items, we would all regret it immensely. Collectively, we need to remain on a sensible path".

In conclusion, Sam says that the PRA – right up to and including the Prudential Regulation Committee – has put a lot of effort into its package of reforms to make Solvency II work better in the UK. While the PRA has always engaged closely with industry, Sam acknowledges that the challenge of Solvency II implementation may have crowded out space to engage with the industry and stakeholders on other strategic issues. He announces that with Martin Gilbert's agreement, the PRA is launching an insurance sub-committee of its Practitioner Panel in order to free up more space for discussion focussed on insurance issues.

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