Bank of England PRA

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Gareth Truran
Executive Director, Insurance Supervision

Shoib Khan
Director, Insurance Supervision

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Dear [Chief Executive Officer]

Insurance Supervision: 2025 priorities

We are writing to outline the Prudential Regulation Authority's (PRA) 2025 priorities for the UK insurance sector (together, 'firms'). We supervise a large and diverse population of firms, and this letter is not exhaustive. These thematic priorities complement our ongoing supervision and the firm-specific feedback that you will have received following your most recent Periodic Summary Meeting (PSM).

Our priorities are set to help us meet our enduring supervisory aim for the insurance sector to provide financial protection and security to policyholders in good times and bad, in line with our primary objectives. Alongside that, through 2025 we will also seek to work with firms more broadly to advance our secondary objectives. We will work to ensure that supervisors continue to engage with firms in an open and constructive manner, and reflect the feedback they receive from firms into the policy process.

Our key priorities in 2025 are an evolution of the areas we have highlighted in previous years. They reflect some of the ongoing shifts in the external context for life and general insurers, and the need for firms' governance, risk management and controls to remain robust to identify, analyse and mitigate risks. At the same time, they also reflect the completion of the Solvency II review, and the changes needed by firms and the PRA to deliver the objectives of these significant reforms.

Evolution in the insurance industry

Solvency UK implementation and other policy reforms

Through the conclusion of the Solvency II review[1] and reinstatement of assimilated law into the PRA Rulebook and other policy materials at the end of 2024, we have completed all the steps necessary to implement the reforms and enable the sector to take advantage of the opportunities they provide. In 2025 we will prioritise ensuring that these reforms are embedded to help achieve their objectives to: (i) spur a vibrant, innovative, and internationally competitive insurance sector; (ii) protect policyholders and ensure the safety and soundness of firms; and (iii) support firms to make long-term investments to support growth. We stand ready to work with firms on how the new reforms apply.

To this end:

- We have set up a new Matching Adjustment ('MA') permissions team which is allowing us to assess MA applications more quickly and facilitating the wider range of investment opportunities now available within the MA portfolio. In 2025 we will also continue to work with the government and stakeholders to explore what other steps might help support insurers to take full advantage of the reforms including working with the National Wealth Fund and developing a new MA Investment Accelerator.
- We have streamlined our approach to internal model application assessments. Firms are able to use model limitation adjustments to ensure the Solvency Capital Requirement (SCR) complies with calibration standards, enabling firms to address modelling limitations or uncertainty in a pragmatic way.
- We have implemented a new 'mobilisation' regime within our New Insurers Start-up Unit[2] designed to support potential new insurers seeking to set up in the UK.
- We have consolidated and clarified our approach to authorising and supervising third-country branches[3]: this includes removing the requirement to calculate and hold branch capital, as well as reducing the overall reporting burden for international insurance and reinsurance undertakings that have a UK branch.

[1] Available at: www.bankofengland.co.uk/news/2024/november/conclusion-of-the-solvency-ii-review.
[2] Available at: www.bankofengland.co.uk/prudential-regulation/new-insurer-start-up-unit.
[3] Available at: www.bankofengland.co.uk/prudential-regulation/publication/2024/may/international-insurers-pras-approach-to-branch-authorisation-and-supervision-sop.

In November 2024 the PRA consulted on reforms to the UK Insurance Special Purpose Vehicles (ISPV) regime[4] to support growth and competitiveness of this regime while maintaining safety and soundness. The PRA has also taken forward a number of other competitiveness and growth measures as outlined in our recent speech.[5]

BPA market developments, including funded reinsurance

We continue to observe rapid growth in the bulk purchase annuity (BPA) market across the UK life sector, given continued high demand for corporate defined pension scheme risk transfer solutions. We expect UK life firms to proactively manage in a prudent manner their capacity to support growth in this business, and to ensure that high levels of competition for BPA business do not weaken firms' pricing discipline and incentivise weaker risk management standards.[6] As we noted last year,[7] the structure and complexity of BPA transactions are also evolving to meet demand, with features such as long price locks, trustee termination options and in specie premiums. These features can bring additional sensitivities to a firm's balance sheet, and they may require firms to implement new risk management approaches or limit their exposure to such features. We expect firms to ensure that their risk management and control frameworks keep pace with changes in business practice and with evolving transaction features.

In 2025 we will continue with our focus on funded reinsurance, given the concerns the PRA and the Financial Policy Committee have expressed that the current growth in funded reinsurance transactions could, if not properly controlled, lead to a rapid build-up of risks in the sector and have the potential to pose systemic risks.[8] In July 2024, we published in supervisory statement (SS)5/24 – Funded reinsurance[9] our expectations on UK firms' use of funded reinsurance. Firms' self-assessments show that they are not yet fully meeting our supervisory expectations. In many cases remediation plans are in place, but we judge that further work is likely to be required. For example, firms' current internal investment limits for aggregate exposures appear insufficient to prevent a

[4] Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/november/uk-ispv-regulatory-framework-consultation-paper**.

[5] Competing on a Global Stage − speech by Shoib Khan: **www.bankofengland.co.uk/speech/2024/september/shoib-khan-speech-at-the-29th-bank-of-america-financials-ceo-conference**.

[6] Moderation in all things - speech by Charlotte Gerken: **www.bankofengland.co.uk /speech/2023/april/charlotte-gerken-speech-bulk-annuities-conference**.

[7] What's next? Bulk annuity insurers – Regulatory developments − speech by Lisa Leaman: **www.bankofengland.co.uk/speech/2024/april/lisa-leaman-speech-21st-conference-on-bulk-annuities**.

[8] Financial Stability Report – December 2023; available at: **www.bankofengland.co.uk/financial-stability-report/2024/november-2024**.

[9] Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/july/funded-reinsurance-implementation-approach**.

build-up of systemic risk in view of current activity trends. Firms' single name exposure limits also do not currently appear to align with our expectation that single counterparty exposures should not threaten firms' ability to meet their solvency risk appetite upon recapture.

We expect relevant firms to make rapid progress in addressing gaps identified against our expectations, and this will be a priority for our supervisory engagement this year. A funded reinsurance recapture scenario will also be included in the 2025 Life Insurance Stress Test.[10] If we consider that firms are not achieving the risk management practices – including prudent limits – needed to mitigate the risks funded reinsurance poses to our objectives, we will consider the further use of our powers to address those risks.

Cyclicality in the general insurance market

The PRA expects general insurance firms to be mindful of the current point in the underwriting and reserving cycles, and to remain vigilant to changes in pricing conditions. Some previous drivers of uncertainty may have abated as levels of economic inflation in the major economies have declined, although the full extent of claims inflation in longer-tailed lines may not yet be visible. In 2024 there continued to be a high level of global natural catastrophe losses, geopolitical risks remained elevated and the cyber threat landscape was ever evolving. Insurers should remain focused on the adequacy of reserving standards and maintaining underwriting discipline in 2025 given these and other ongoing uncertainties.

We continue to see some GI firms making overly optimistic assumptions about future profitability in their internal models, resulting in a material benefit to SCR calculations. These assumptions have not always been justified when validated against actual underwriting experience. Following the PRA's letter[11] in 2023 some firms have improved the validation and challenge of this key assumption, although practice varies and the impact remains material across the market. We will continue to focus on this issue and firms should be able to provide justification for their assumptions, particularly where future assumptions differ from prior experience.

Recent natural catastrophe losses in the US and Europe, ongoing global conflicts and tensions, and elevated legal liability costs may continue to cause rate uncertainty for some lines, with potential impacts on coverage or retention levels. The impact and outcomes for individual UK firms will vary considerably, but the PRA cautions against

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[10] Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/july/list-2025**.
[11] Insights from PRA thematic review of general insurance reserving and capital modelling: **https://www.bankofengland.co.uk/prudential-regulation/letter/2023/june/insights-from-thematic-review**.

assuming that reinsurance rates and the levels of retained risk relative to reinsurance premiums spent will reduce materially in the near term.

Cyber underwriting risk will continue to be a focus for the PRA in 2025, with planned work including analysis of the new cyber underwriting risk reporting data.[12] As both the market and risk continue to evolve, firms should ensure they can identify, quantify, manage, and monitor sources of this risk across the breadth of their GI portfolios. This should also include considering the robustness and appropriateness of scenario-testing in the context of recent events and emerging risk drivers such as artificial intelligence.

Evaluating and maintaining resilience

Life Insurance Stress Test (LIST)

In July 2024, the PRA published its Approach Document[13] to the LIST 2025 exercise which will be launched later this month. This exercise will provide valuable insights into the financial resilience of the largest UK life insurers. For the first time the PRA will publish individual firm results for eleven major annuity writers, providing stakeholders with an additional measure of firms' resilience. The PRA also intends to publish aggregate results and provide additional context to support transparency and enhance understanding as to how firms' financial positions evolve in stress. Before publication (expected in 2025 Q4), we will continue to engage with the industry and other relevant stakeholders to support market education on the exercise. We expect those firms involved in LIST to engage fully in the exercise and provide comprehensive responses to enable us to publish consistent and comparable results.

Liquidity resilience

Following market liquidity stresses in recent years, including the 'Dash for Cash' and the LDI crisis, the PRA has increased its focus on the liquidity positions of the largest UK insurance firms. Over the next year our focus will be on improved liquidity reporting, encouraging relevant insurers to sign-up for the Bank of England's (the Bank) new collateralised loan facility for non-banks, and follow-up to our thematic review on insurers' liquidity risk management.

More timely, consistent and comparable data on the liquidity positions of the largest firms is needed to help ensure we have a clear and consistent understanding of the resilience of the largest insurers to liquidity shocks. In 2025 we will continue to engage

[12] See policy statement (PS) 3/24 – Review of Solvency II: Reporting and disclosure phase 2 near-final: **www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-reporting-disclosure-phase-2-near-final-policy-statement**.
[13] Approach to life insurance stress test 2025; available at: **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2024/approach-to-list-2025.pdf**.

with relevant firms on the proposed liquidity reporting requirements set out in consultation paper (CP)19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting.[14]

Our focus on liquidity resilience also links to the Bank's broader work to understand and monitor the risks posed by non-bank financial institutions, including the Bank's 2024 system-wide exploratory scenario[15] and work at the Financial Stability Board and international standard setting bodies. We encourage eligible firms to apply early for the Bank's new collateralised lending facility for certain non-banks, the Contingent NBFI Repo Facility (CNRF), which is designed to expand the Bank's toolkit for supporting gilt market functioning during periods of market turmoil.

Over 2024 we conducted a thematic review of life insurers' liquidity risk appetites, including against the PRA's expectations in SS5/19 on Liquidity risk management for insurers.[16] This review identified a range of practices as well as areas where approaches would benefit from further development. We have provided feedback to relevant firms directly and will follow up on this work in 2025.

Solvent exit planning for insurers

To support a dynamic insurance market that fosters innovation and competition, it is important that insurers can, if necessary, exit the market in an orderly way. From 30 June 2026, new policy requirements will come into force for insurers which among other things will require most insurers to prepare a plan known as a Solvent Exit Analysis (SEA) covering their ability to deliver an orderly, solvent exit if required. In 2025 our supervisors will begin to work with insurers in scope of PS20/24[17] to support understanding of our expectations ahead of implementation.

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[14] CP19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting: **www.bankofengland.co.uk/prudential-regulation/publication/2024/december/closing-liquidity-reporting-gaps-consultation-paper**.

[15] The Bank of England's system-wide exploratory scenario exercise final report: **www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise/boe-swes-exercise-final-report**.

[16] Liquidity risk management for insurers: **www.bankofengland.co.uk/prudential-regulation/publication/2019/liquidity-risk-management-for-insurers-ss**.

[17] PS20/24 – Solvent exit planning for insurers: **www.bankofengland.co.uk/prudential-regulation/publication/2024/december/solvent-exit-planning-for-insurers-policy-statement**.

Operational resilience, cyber security and third-party risk

By March 2025 firms must be able to show they can remain within impact tolerances for all their important business services throughout severe but plausible disruptions.[18] We expect firms to have made significant progress already to strengthen their response and recovery capabilities to address cyber threats, remediate vulnerabilities exposed by legacy infrastructure and develop contingency procedures when material third party services are disrupted.

Operational resilience should be a key point of consideration for boards and executives when planning major change programmes, making strategic business decisions, or engaging in new third, or in some case fourth-party relationships. New investments in IT infrastructure, software applications and third-party arrangements should be resilient by design.

Learning from the operational incidents faced by firms and their third parties, we expect firms to maintain robust oversight of their major outsourcing and third-party risk management providers, including intra-group operational arrangements where relevant. Firms should also be mindful of the financial health of their suppliers and their data security.

The cyber threat landscape facing the UK's financial system continues to evolve rapidly, and we view the ability of firms to detect, respond to and in particular recover from cyber-attacks to be a cornerstone of the financial system's resilience. We encourage all firms to benefit from our CBEST Thematic Reports to enhance their cyber resilience capabilities and to be mindful of the thematic findings from the latest Cyber Stress Test, that will be published later this year. To further enhance the sector's cyber resilience capabilities, the PRA intends to start consulting with the FCA in the second half of 2025 on policy relating to the management of Information and Communication Technology (ICT) and cyber risks.

Climate

The financial risks from climate change continue to be increasingly important for some insurers, particularly for many general insurers' underwriting strategies and risk management approaches. At the same time, the PRA's thematic work has shown that

[18] See SS1/21 Operational resilience: Impact tolerances for important business services: **https://www.bankofengland.co.uk/prudential-regulation/publication/2021/march/operational-resilience-impact-tolerances-for-important-business-services-ss**

insurance firms are yet to fully embed the PRA's climate expectations.[19] Further progress is required, particularly on scenario analysis and risk management.[20] In 2025, our supervisors will continue to engage with those firms where physical climate risks are most material. In addition, the PRA is planning to consult on an update to SS3/19 to support firms' progress in improving their management of climate-related financial risks.

This letter, in conjunction with your firm's PSM letter, should convey a sense of our planned work for 2025. We look forward to working with you over the coming year.

Yours sincerely,

Gareth Truran
Executive Director,
Insurance Supervision

Shoib Khan
Director,
Insurance Supervision

[19] Enhancing banks' and insurers' approaches to managing the financial risks from climate change: **www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.**

[20] Thematic feedback on the PRA's supervision of climate-related financial risk and the Bank of England's Climate Biennial Exploratory Scenario exercise: **www.bankofengland.co.uk /prudential-regulation/letter/2022/october/managing-climate-related-financial-risks.**

ANNEX: Summary of 2025 PRA-led cross-firm priority work

Evolution in the insurance industry	Impacted Sector
Solvency UK implementation and other policy reforms The PRA will prioritise ensuring that Solvency UK reforms are implemented and embedded. The PRA will issue final policy on ISPVs.	All firms, benefitting from different elements of the reforms
Funded reinsurance The PRA has issued SS5/24 and we have evaluated firms' self-assessment against those expectations. A funded reinsurance recapture scenario will be included in the 2025 LIST. We may consider the use of our powers to address these risks.	Life insurance firms entering into or holding funded reinsurance arrangements as cedants
Cyclicality in the General Insurance Market Firms should remain vigilant to potential changes in pricing conditions. Natural catastrophe and cyber underwriting risks continue to be priorities for the PRA.	All general insurance firms
Evaluating and maintaining resilience	**Impacted Sector**
Stress Testing The LIST 2025 exercise will provide valuable insights into the financial resilience of the largest firms operating in the UK life insurance sector, with disclosure of individual firm results and aggregate results.	Firms captured in LIST 2025
Liquidity The PRA welcomes feedback on the liquidity reporting proposals from all interested parties. The PRA encourages eligible insurance companies to apply early for the Contingent NBFI Repo Facility.	Firms in scope of the changes in CP19/24 and those eligible for the CNRF
Solvent exit planning for insurers The PRA will begin to work with insurers in scope of PS20/24 to support understanding of our expectations.	All firms (applying proportionality in approach)
Operational Resilience, Cyber Security and Outsourcing The PRA expects insurance firms to continue working towards the March 2025 deadline for the operational resilience of their important business services. The PRA expects your Board and SMFs to monitor and manage the risks arising from transformation journeys and the use of appropriate standards and vendor best practices	All firms (applying proportionality in approach)
Climate Firms are yet to fully embed the PRA's climate expectations, with further progress on scenario analysis and risk management required. The PRA is planning to consult on an update to SS3/19.	All firms (applying proportionality in approach)