Bank of England PRA

PRA Small & Medium Sized Insurers' Conference

11 December 2024

Bank of England PRA

Welcome and Opening Remarks

Shoib Khan, Director Insurance Supervision

Who we are?

Executive Director – Gareth Truran

Director - Shoib Khan

London Markets	Retail & Commercial General Insurers	Retail Life Insurers	Major Life Groups	Life Insurance & Pensions Risk Specialists	General Insurance Risk Specialists	Insurance Analytics	Senior Insurance Advisors
Nylesh Shah	Mariam Harfush-Pardo	Anthony Brown	Lisa Leaman	Sid Malik	Dan Curtis	Catherine Nelson	Alan Sheppard Stefan Claus Roshan Lachman

Over 300 supervisors, risk specialists and actuaries, as well as support from Prudential Policy, Authorisations, and other Bank of England directorates.

Agenda

11:00 – 11:10	Welcome and opening remarks
11:10 – 11:30	Prudential risk outlook for the insurance sector (Mariam Harfush – Pardo)
11:30 – 11:55	Cybersecurity, Third Party Risk and Operational Resilience (Sean Plumb)
11:55 – 12:20	Regulatory reporting reform (Catherine Nelson)
12:20 – 12:45	Engaging with PRA (Anthony Brown)
12:45 – 13:45	LUNCH
13:45 – 14:45	Breakout Session
14:45 – 15:30	Q&A panel with Sam Woods
15:30 – 16:00	Keynote remarks by Chair of Court
16:05 – 16:15	Closing remarks
16:15 – 17:00	REFRESHMENTS

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Prudential Risk Outlook

Mariam Harfush-Pardo
Head of Retail & Commercial General Insurance Supervision

Agenda

- Overview of the Risk Outlook
- Provisional 2025 Priorities

Risk Outlook: Financial and Macroeconomic environment

Macroeconomic environment

Interest rates and inflation remain key for Life and GI firms.

Levels of inflation in major economies have declined; however, full extent of claims and social inflation is uncertain.

Geopolitical Risk

Geopolitical risk is seen as increasingly material, potentially impacting trade, energy prices and climate risks.

Cyber security threats remain high.

Credit Risk

Credit risk remains material across insurance markets.

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How conditions develop in 2025 will clearly depend on a variety of macroeconomic (e.g. inflation) and geopolitical factors (e.g. new US administration).

Counterparty Risk

The outlook for global reinsurance markets is uncertain.

GI retention: S&P estimates world's largest reinsurers covered 10% of natural catastrophe losses in 2023.

Longevity and mortality risk: Life firms' ceding remains high.

Growth in BPA and increased use of Funded Reinsurance.

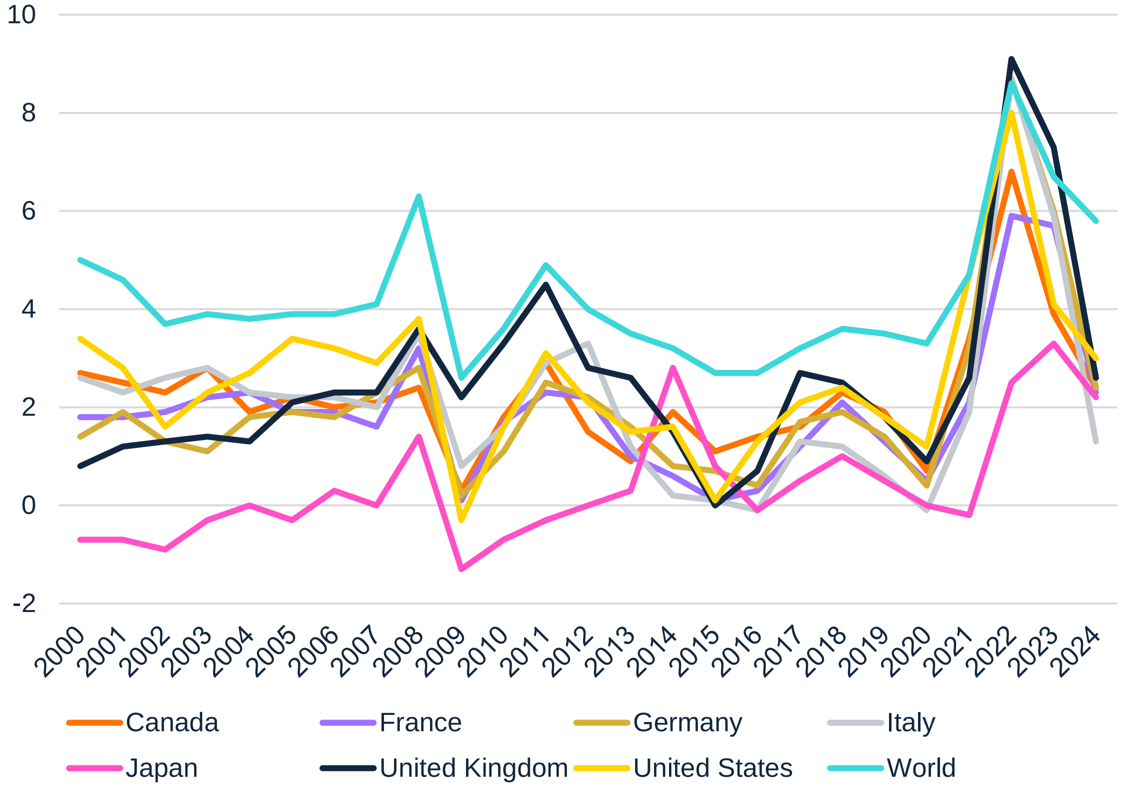
Climate Change

Global insured natural disaster losses are on track to surpass 2023's level.

While natural catastrophe losses were significant (Helene, Milton), they appear to be earnings rather than capital events.

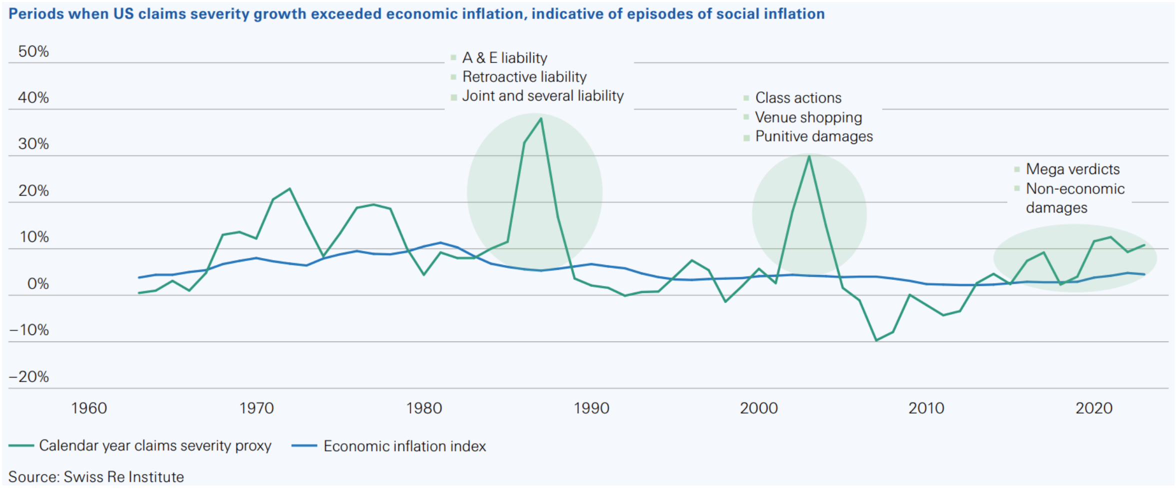
Macroeconomic Environment

IMF: Inflation rate, average consumer prices (annual percentage change)



Global economic inflation has started to ease after the peak in 2022.

… But there is no sign of social inflation abating, particularly in the US.



Social inflation increased liability claims in the US by 57% in the past decade and hit an annual peak of 7% in 2023 – due to rising number of large court verdicts (in 2023, 27 cases of courts awarding more than $100mn in compensation).

In the UK, social inflation contributed more than 10% of liability claims in 2023, primarily driven by US spillover effects.

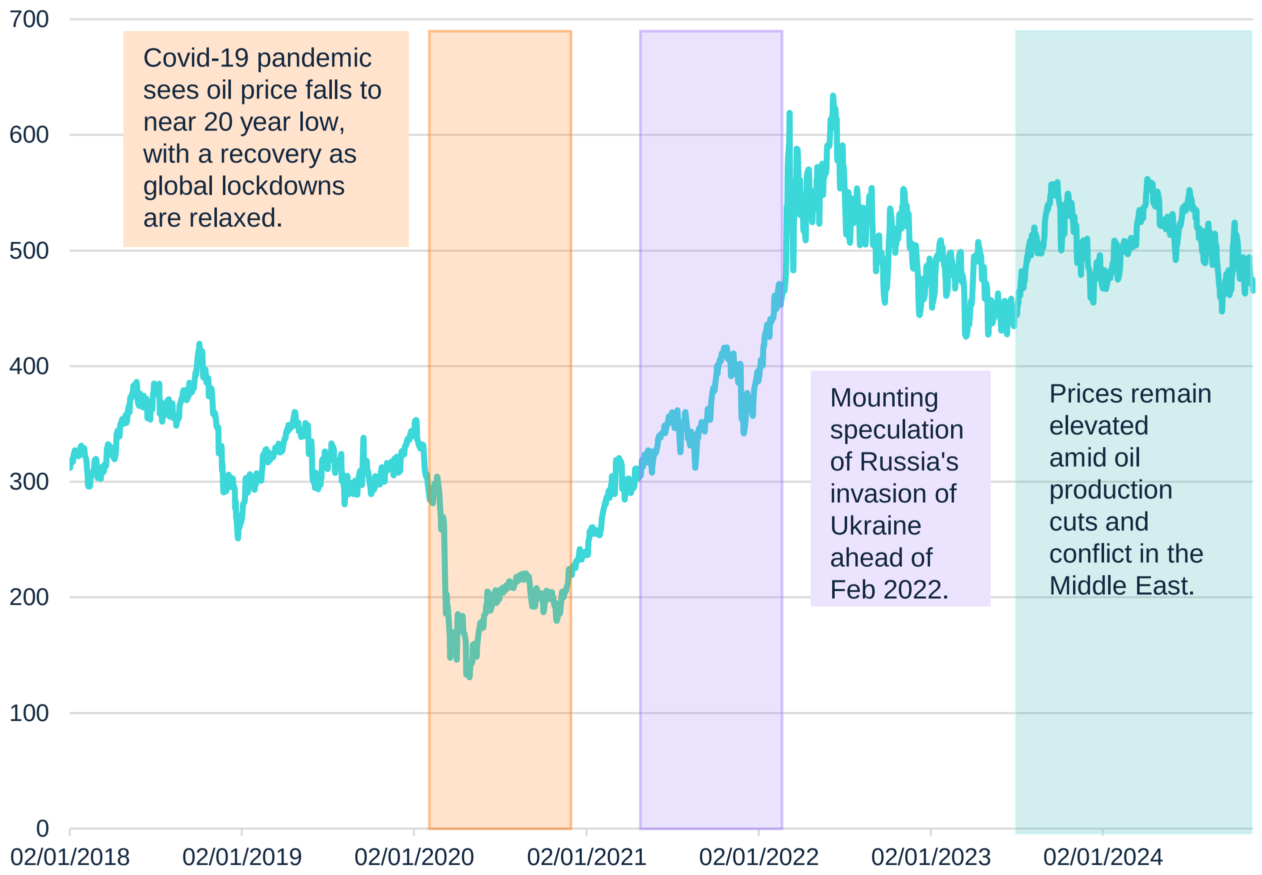
Source: Swiss Re Sigma Report 4/2024

Geopolitical dynamics

Uncertainty reigns

- Geopolitical volatility clearly has the potential to disrupt international and domestic financial markets.
- Russia's invasion of Ukraine saw oil prices rebound to approach all-time highs in 2022.
- As we've experienced, corresponding shocks to key inputs such as oil can materially affect UK inflation and insurers' claims inflation.
- It remains unclear how the various conflicts will develop, what 'unknown unknowns' will emerge and how this all will affect UK insurers…

Dow Jones - UBS Brent Crude 1 Month Forward Sub Index



The Dow Jones Commodity Index Brent Crude is designed to track the Brent Crude market through futures contracts.

Source: S&P Global

Credit environment

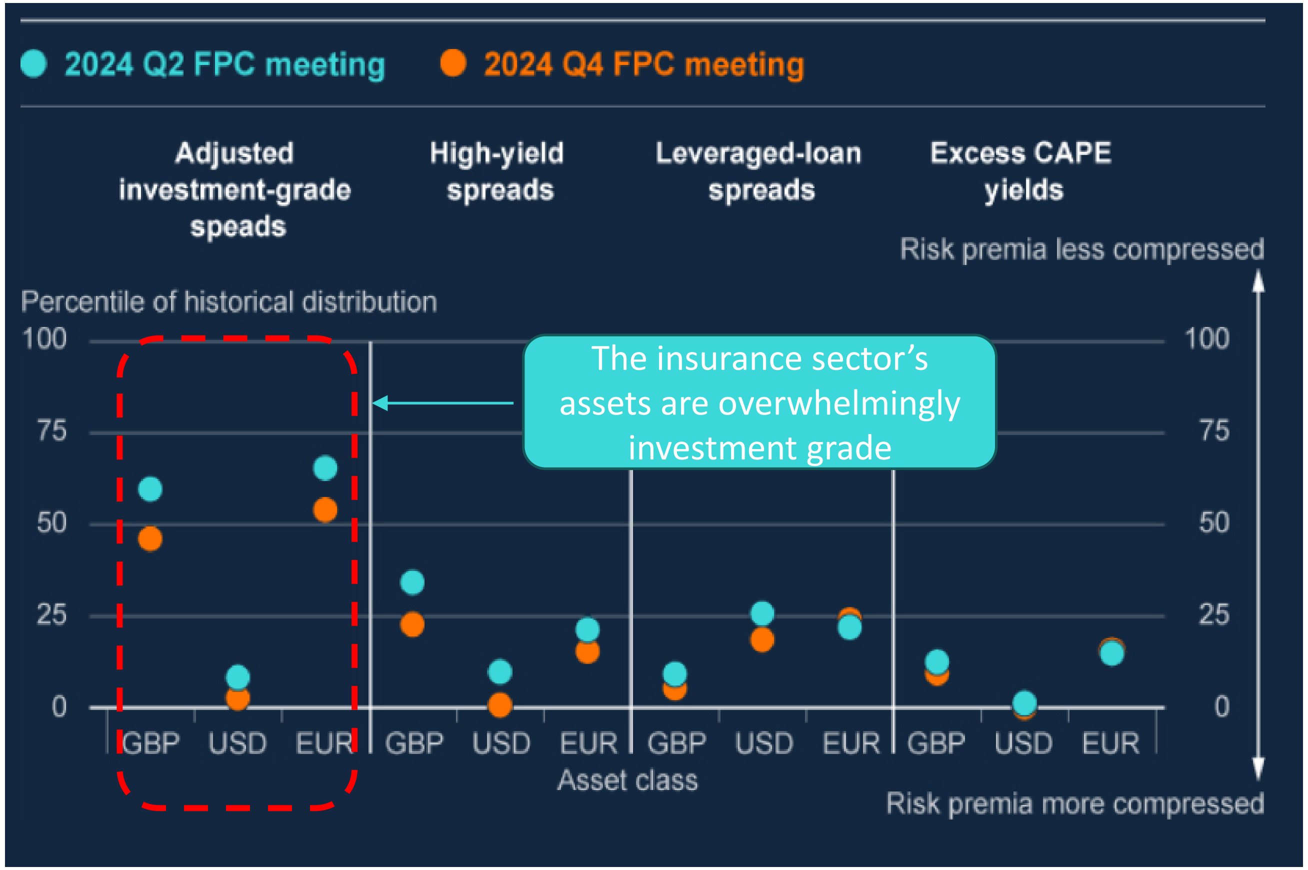
Higher investor confidence and credit rating improvements…

YoY increase in:	YoY decrease in:
• Rating upgrades • Positive outlook assessments	• Rating downgrades • Negative outlook assessments • Fallen angels • Defaults

Source: S&P Global Ratings as at 7 November

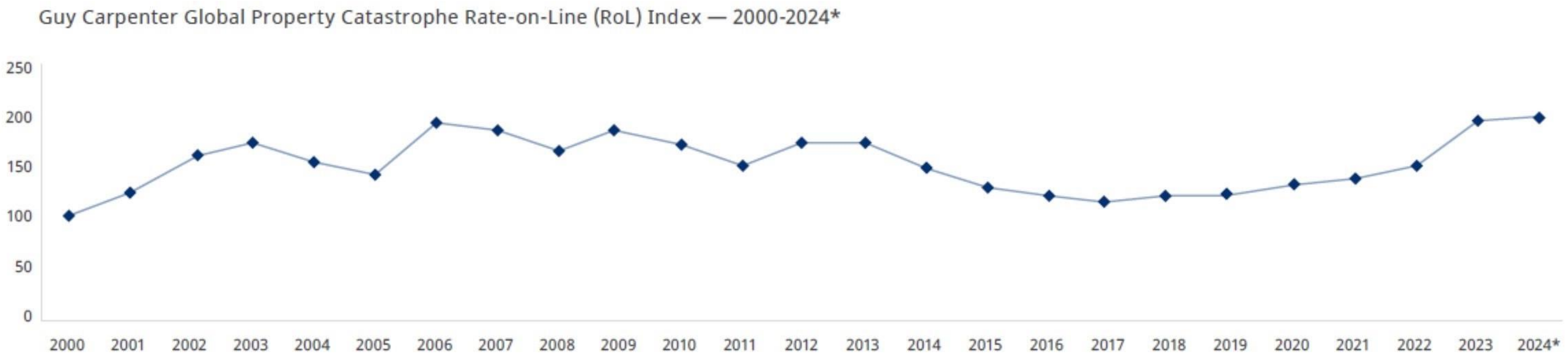
…are reflected in tighter spreads across geographies and by security riskiness.

- Spreads are materially tighter than the 5-year averages across US, European and emerging Asian markets.
- Reductions are evident across investment grade and speculative credit.
- In the investment grade space, US credit is particularly close to a record low.



Source: BoE Financial Stability Report November 2024

Reinsurance environment



* Preliminary
Source: Guy Carpenter

- Hardening reinsurance rates and terms
- Increased use of exclusions
- Claims costs increasing
- Higher risk retentions
- Contract uncertainty

Climate – in figures

$102 bn

Global insured natural disaster losses hit $102bn in Q3. They are on track to surpass 2023's total of $125bn. *(Source: Aon)*

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There have so far been 11 Atlantic hurricanes, including five Cat 3+, during the 2024 season.

£573 mn

In 2023, UK home insurance claims for weather-related damage reached a record £573 million, over a third higher than 2022. *(Source: ABI)*

2050

The majority of P&C, life and health insurers have set long-term net-zero targets for their investment portfolios by 2050 or sooner. *(Source: ABI)*

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Cybersecurity, Third Party Risk and Operational Resilience

Sean Plumb, Head of Operational Risk & Resilience

Vinita Suthar, Supervisor, Insurance Supervision

Definitions (Simplified)

- “**Operational Resilience**” = Firm’s ability to operate their “**Important Business Services**” within the “**Impact Tolerances**” approved by its Board under a range of “**Severe-but-Plausible scenarios**”.

- “**Operational Risk**” = the risk of loss resulting from inadequate or failed internal **processes**, **people** and **systems** or from **external events *(or supply chain)***, and includes legal risk.

- “**Cyber Risk**” = the risk of loss of **confidentiality**, **integrity** and **availability** of **data, information or systems**, *with or without insider support*.

Common themes of PRA engagement with Firms

Proportionate Approach applied to review submissions

- Out of 160 Insurance firms reviewed, c.135 firms are CAT 3 and 4.
- Information is requested from you based on supervisory judgement e.g. recurrence of cyber incidents or findings from Internal Audit in Board packs.

Overall, Good progress made by the insurance industry

- All firms have identified valid Important Business Services e.g. Claims Processing and Payments
- Most firms have been receptive to feedback provided on the Impact Tolerances. These are now aligned to Section 2.5 for most of the firms.
- Mapping documentation provided is comprehensive and useful to identify key dependencies.
- Self-Assessments have been of varied ranges (some with limited information whilst others with detailed explanations)

Focus on Testing between now and March 2025

- By 31/03/2025, firms to ensure Board is confident in the firm's ability to operate Important Business Services within the Board-approved impact tolerance under a range of severe but plausible scenarios of operational disruption.
- We have encouraged firms to undertake more sophisticated testing and not rely on desktop/walkthrough testing.

SS1/21 – Operational resilience : Impact Tolerances for Important Business Services

Operational Risk and Resilience – Today’s Challenges

Cyber Risk

- Attacks are getting more sophisticated through the mis-use of AI.

CxO Question: “Technology Risk Management”

Technical Debt & IT Transformation

- Largely reactive

CxO Question: “Forward Looking Obsolescence Planning”

Third Party Risk

- Monitoring Cyber Risk can be primitive

CxO Question: “Due diligence during the BAU phase”

Operational Resilience

- March 2025 is near.
- Business / OpRes Linkages

CxO Question: “Ransomware Preparedness Scenario”

Operational Risk and Resilience – Future Challenges

Technology Choices

- Increasing use of Cloud, IoT and APIs.

CxO Question: “Standards and Good Practices”

Quantum Computing

- It is not for a distant future.

CxO Question: “Are we aware?

Cost of Technology and Operations

- Would you need re-transformation?

CxO Question: “Realistic RoI”

Talent

- Staff turnover and shortage.
- New skills for new technology

CxO Question: “Recruitment and Retention”

Cyber Resilience Tools

<u>Common toolset</u>:
PRA, FCA. Proportionality based.

<u>CBEST Thematic Findings</u>:
[2023 CBEST thematic | Bank of England]
2024 thematic findings will be published by the year-end 2024.

<u>G7 TLPT Principles Based : STAR-FS</u>
Firm initiated voluntary exercise; Methodology found on the Bank of England website

<u>CQUEST</u>
Based on NIST CSF 1.0
(NIST CSF 2.0 has been considered)

<u>ICT & Cyber / DORA / ICT*</u>
UK Policy work in progress
Some presence in EU, in particular, Group

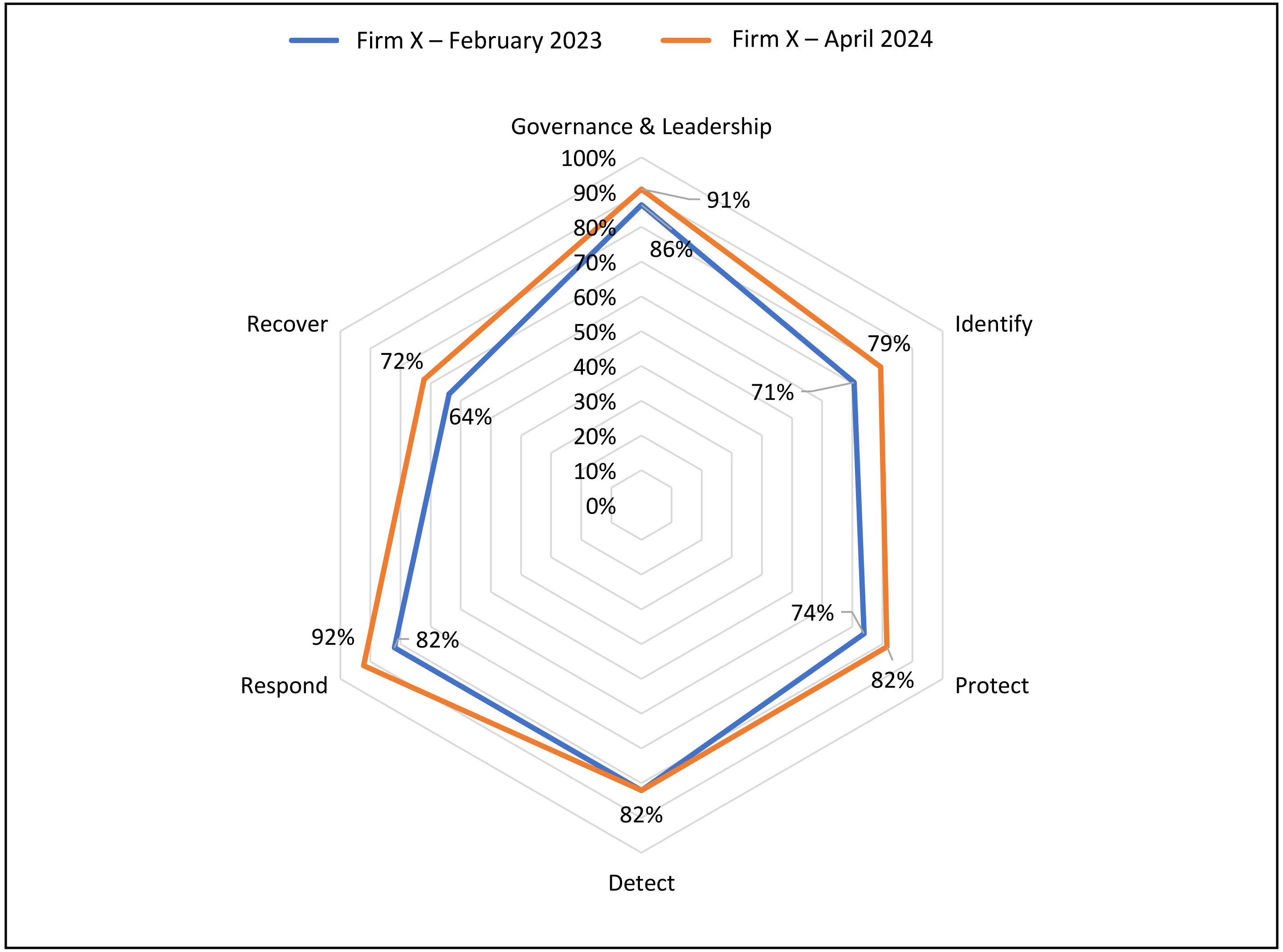
CBEST / STAR-FS

CQUEST

Detailed Technical Discussions

*TBD

CQUEST Example: Monitoring Progress Across Years



	2023	2024
Governance & Leadership	86%	91%
Identify	71%	79%
Protect	74%	82%
Detect	82%	82%
Respond	82%	92%
Recover	64%	72%

Questions?

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Solvency II:

Reporting Reforms

Update

Catherine Nelson, Head of Division, Insurance Analytics

James Orr, Senior Technical Specialist, Actuarial

Agenda

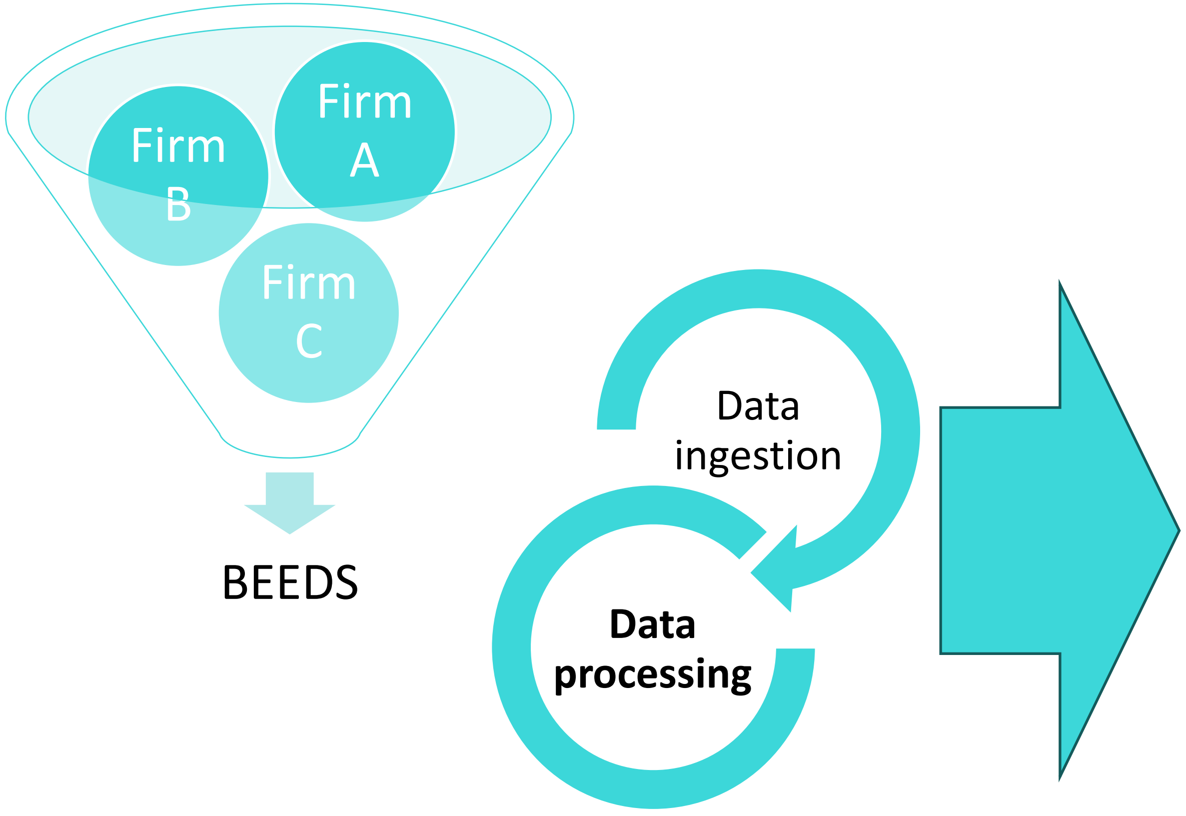
- Regulatory reporting – why, what and how?
- Solvency II reforms: towards Solvency UK
- 2024 year-end implementation and support
- Transforming Data Collection – looking to the future

1. Regulatory reporting: why, what and how?

Insurance regulatory reporting – the “*Why?*” and the “*What?*"

- Insurance is a regulated activity:
  - insurance plays a key role in the functioning of the UK economy
    - the PRA has a general objective to promote the safety and soundness of PRA-authorised firms
    - and an objective specific to insurance firms for the protection of policyholders
- We need data to support our objectives:
  - we could not fulfil our statutory obligations without data on regulated firms, including:
    - who are these firms?
    - what lines of business are they writing and in what volumes?
    - what is the size and make-up of their balance sheets?
    - how much capital do they hold and is it enough?
    - how “profitable” (and capital creating/depleting) is the business they write?
    - how is the firm’s solvency evolving over time?
    - how does the firm compare to its peers?

Insurance Regulatory Reporting
What is it used for?



- Firm-level / peer group supervision
- Horizontal thematics
- Stress-testing
- Aggregate publication on Bank's website
- Financial stability (FSSR, Markets)
- Crisis management e.g. Covid 19, 2022 gilt market crisis
- IMF/IAIS/OECD submissions

To advance the PRA's objectives

Insurance regulatory reporting – “*How?*”

- Logistics:
  - firms report against the insurance taxonomy
  - all firms report annually, and some firms report quarterly
- Proportionality:
  - our oversight and scrutiny of firms should be proportionate to their risk to our objectives
  - for example, Category 3 & 4 firms and branches
    - with smaller balance sheets and reliance on “*Home*” regulators’ oversight
    - granted a waiver from quarterly reporting
    - we allocate less supervisory resource to smaller firms and branches
    - we also ask less of firms, so the “*cost of regulation/supervision*” are less for them
    - …except where a firm’s risks to our objectives are out of tolerance

Thresholds for Solvency II (UK) and Non-Directive (NDF) firms

- GWP threshold increased to £25 million
- Technical Provisions threshold increased to £50 million
- If a firm has fallen out of scope of Solvency II:
  - it will be subject to the NDF prudential regime without the need for an application to PRA
  - PRA encourages firms to notify their supervisors of any expected change in status
- PRA expects a total of 15 firms to have fallen out of scope of Solvency II
- Work is being undertaken separately to streamline reporting received from NDFs

2. Solvency II reforms: towards Solvency UK

Solvency II (UK) implementation: background

Review objectives

Spur a vibrant, innovative and internationally-competitive insurance sector

Protect policyholders and ensure safety and soundness of firms

Support insurance firms to provide long-term capital to underpin growth

Implementation

Five-year journey

Close working between HMT and PRA

Lots of expertise and hard work

Reforms implemented in a staggered way from YE 2023 into 2025

Solvency II (UK) reporting reforms
Implementation for smaller firms and branches

- The PRA sought to avoid duplication of reporting requirements
  - to streamline data collection across multiple regulators
  - support PRA's secondary competitiveness and growth objectives
  - to ensure reporting requirements are efficient and aligned internationally

- Final Rules and reporting requirements published in PS 15/24 on 15 November 2024
- Industry roundtable on taxonomy v2.0.1 held on 12 November
  - over 230 attended from firms and software providers
- Two external test windows (July 15 and 18 Nov 2024), a further planned in early Q1 2025
- New requirements effective from Tuesday 31st December 2024

3. 2024 year-end implementation and support

Implementation considerations for YE24

- Consent to modifications of existing waivers and rule modifications
  - Risk of existing waivers and rule modifications not being transferred/ expiring if action is not taken by 31st December 2024. Affected firms have received a request for consent to modification of existing waivers and rule modifications. Firms should action these requests as soon as possible.
  - If you were expecting a request and haven't received one, please contact the PRA as soon as possible.

4. Transforming Data Collection (TDC)

Transforming Data Collection
What's happened to date

- TDC started in 2020, when Bank undertook a data collection review
  - to understand the issues industry and we face in supply and collection of data.

- Vision:

  'Regulators get the data they need to fulfil their mission, at the lowest possible cost to industry.'

- Central to achieving our vision are three key reforms:
  - defining and adopting common data standards
  - modernising reporting instructions
  - integrating reporting to move to a more streamlined, efficient approach

https://www.bankofengland.co.uk/paper/2021/transforming-data-collection-from-the-uk-financial-sector-a-plan-for-2021-and-beyond

Q&A

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Engaging with PRA- Practical Experiences of working with the PRA

Anthony Brown, Head of Insurance Supervision - Retail Life

If you do not have a named Supervisor you can contact us via the following;

All firms (Category 1 to 4)
PRA.FirmEnquiries@bankofengland.co.uk

All firms (Category 1 to 4) telephone
Firm Enquiries Team on **020 3461 7000**

General Insurance firms (Category 4)
PRASupervision-SmallerInsurers-Prudential@bankofengland.co.uk

Life Insurance firms (Category 4)
PRALifeInsurance@bankofengland.co.uk

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Breakout session

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Q&A panel

Sam Woods, Deputy Governor Prudential Regulation
Gareth Truran, Executive Director Insurance Supervision
Shoib Khan, Director Insurance Supervision

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Keynote Remarks by David Roberts (Chair of Court)

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Closing remarks

Please contact us through your regular supervisory contact

Shoib Khan, Director Insurance Supervision