

PRA PRIORITIES

Insurance Sector 2022



In January 2022, the PRA wrote to CEOs of insurance firms to set out the prudential regulatory priorities for the industry over the coming year. During a speech at a Norton Bright Fulbright hosted event on 2nd March 2022, Charlotte Gerken, Executive Director of Insurance at the PRA, elaborated on the priorities set out in the letter and provided further indication of where attention should be directed.

The speech focused on the following four areas:



It opened by conceding that the priorities set out would not be a great surprise to many; however, it aimed to provide an insight into where the PRA's continuous assessment may focus its future efforts. In essence, the objective of communicating priorities is to provide an opportunity to test the views of individual firms, alongside understanding if boards are contemplating similar priorities.



Climate change and ESG

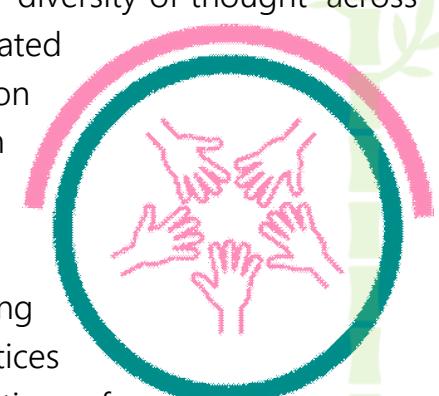
It is widely acknowledged that increasing supervisory attention is being directed towards identifying the financial risks posed by climate change. Over the past few years, PRA communications have set out expectations for regulated firms as it aims to ensure the financial sector is equipped for assessing, managing and mitigating the emerging risks. It is expected that insurance firms should now have a high-level strategy capable of adjusting to a range of future climate scenarios and dynamically responding to developing climate-related industry transformations.



Over 2022, focus will shift to supervising climate change risks and will be supplemented by the Climate Biennial Exploratory Scenario, where participants will be asked to complete a qualitative questionnaire on likely management actions and responses to climate stresses. A report summarising the outcomes will be released later this year.

Diversity & Inclusion

On diversity and inclusion, the PRA aims to promote 'diversity of thought' across the industry. A discussion paper released in 2021 facilitated a discussion in the hope of accelerating the proliferation of diversity and was supported by research which suggests that diversity improves risk management, innovation and workplace culture.



The BoE recognises its own challenges in addressing such issues and endeavours to promote inclusive practices within its own operations. Successful implementation of diversity and inclusion within the insurance industry should help to limit misconduct incidence, while continuing to tackle unhealthy decision-making identified by the aftermath of the financial crisis

Operational resilience

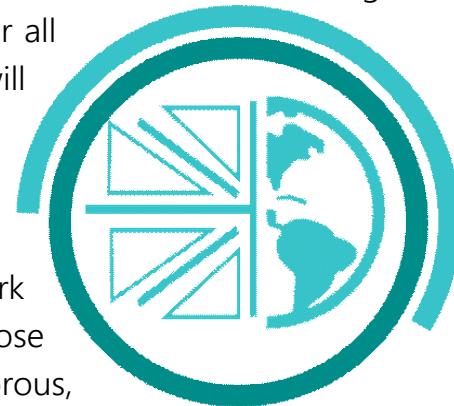
Following a substantial shift in operational habits, operational resilience remains an important consideration. Forming plans for flexible working arrangements and



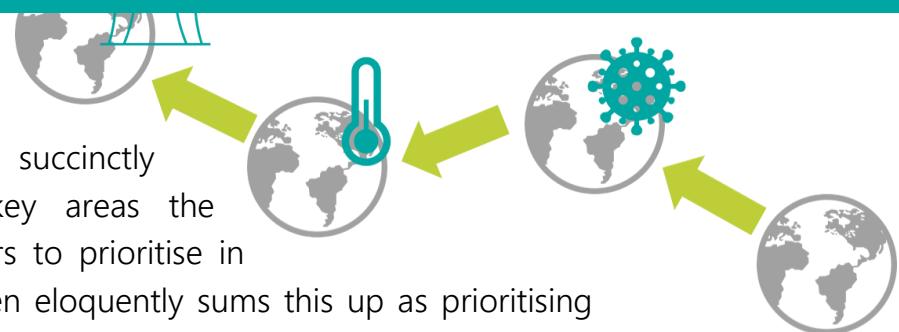
guarding against cyber-attacks remain high on the agenda as firms adapt to the new 'normal'. Changeable operational landscapes have emphasised the requirement for firms to understand their business models, customers needs and employee expectations. It is crucial that insurers make provisions to protect themselves as many covid-induced changes become permanent and plans should be in place to guarantee strong governance procedures.

Non-EU Insurers in the UK market

The UK market has a long and successful history of attracting overseas insurance firms aiming to exploit a vibrant market, underpinned by a strong regulatory framework. There are currently hundreds of non-UK based insurers operating in the UK market under a transitional relief arrangement for quantitative reporting. Going forwards, all applications to enter the UK market shall be measured against a defined set of guidelines and applied equally for all participants. Firms operating insurance branches will not be held to less stringent standards which could subjugate competition and jeopardise policyholder protection.



UK-Based supervisory authorities continue to work closely with insurance branch operators whose domestic regulatory standards are agreeably rigorous, yet not to the extent that non-UK branches are subject to less demanding regulatory standards. In many cases, the regulator expects overseas insurance firms to set up UK-based subsidiaries, instead of branches. Insurance companies looking to operate in the UK should continue to submit high-quality applications and concentrate on supervisory engagement.



Overall, the speech succinctly explains the four key areas the regulator asks insurers to prioritise in

2022. Charlotte Gerken eloquently sums this up as prioritising 'financial resilience in the face of multiple external uncertainties, of which climate change is just one'. The pandemic and geopolitical uncertainty exacerbates the risk currently present in the market; the imminent 2022 Insurance Stress Test will be a key disclosure in helping the PRA form a view of insurance firms' risk exposure and risk management processes. The fundamental principle of the stress testing exercise is to guarantee the successful operation of the industry (under stressed conditions) and support the stability of the financial markets.

The speech concluded reiterating the four key matters it hopes will attract consideration:

- Progressing with an orderly transition to a net zero industry through increasing regulatory engagement.
- Enhancing diversity and inclusion in the hope it will improve decision-making and risk management processes.
- Assessing operational risk exposures and building towards a flexible operational model in a post-pandemic world.
- For relevant firms, making progress with non-UK applications.



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