



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Hollick
Chair of the Industry and Regulators Committee
House of Lords
London
SW1A 0PW

28 April 2022

Dear Lord Hollick,

Thank you for your letter of 6 April on behalf of the Industry and Regulators Committee regarding the Committee's recent inquiry into commercial insurance and reinsurance regulation. I would like to thank you and the other members of the Committee for the opportunity to provide evidence to the inquiry.

I am pleased the Committee has found that the London Market continues to thrive and that the UK's regulatory regime is globally recognised. Well-respected and robust regulation helps to make the London Market an attractive place to do business and ensures policyholder protection. There is, of course, always the potential for further improvement. I appreciate the efforts of the Committee in exploring these issues and providing an important opportunity to reflect on where concerns might exist.

For instance, I note that some of the evidence to the Committee focused on the perceived inflexible application of rules and a lack of proportionality. The Committee noted that this might be hindering the adaptation of new forms of insurance in the UK, such as insurance-linked securities. Whilst the application of the rules are a matter for the expert, independent regulators, the Government remains committed to supporting the evolution and innovation of the UK insurance market. We will continue to work closely with the regulators and the insurance market on this important issue.

The Government, following the UK's departure from the EU, is re-examining its regulatory regime to ensure the UK retains its world-leading position. This includes through the Future Regulatory Framework (FRF) Review, which will allow the regulators to become increasingly responsive, with greater capacity to adapt quickly to new challenges, and effectively tailor rules to better fit an evolving markets' needs. On Solvency II, we are also taking steps to ensure that the regime is properly tailored to the structural features of the UK insurance sector.

Turning to the Committee's recommendations as set out in your letter, I would like to take this opportunity to share the Government's position on these issues.

With regards to the appropriate regulatory objectives for insurance, the policy aims encapsulated by the current regulatory objectives are vital to ensuring a stable and fair financial system in which the UK public and international stakeholders can have confidence. As set out in the strategy document published alongside the Chancellor's Mansion House speech in July 2021, *A new chapter for financial services*, the UK will remain a global leader in promoting high international standards. Alongside this commitment, the Government stated its intention to ensure that the financial services sector is delivering for businesses and consumers across the UK. The Government considers that the regulators' current objectives are each important in helping to deliver these outcomes. Robust regulatory standards encouraged by these objectives are the cornerstone of the UK market's attractiveness, and the stability and soundness of the UK's market remains an important priority for the Government.

As set out in the November 2021 FRF Review consultation and in my evidence to the Committee, the Government considers that an additional, secondary growth and competitiveness objective strikes the right balance. A secondary objective will introduce a new focus on these important issues while maintaining the regulators' focus on their existing objectives of ensuring that UK firms remain safe and sound, that the UK's markets function well, that there is effective competition in the interests of consumers, and that consumers and users of financial services receive an appropriate degree of protection. Resilient and efficient markets, underpinned by effective regulation and competition, are, as you recognise in your letter, essential prerequisites for fostering an internationally competitive financial services sector that in turn facilitates growth and enhances the competitiveness of the UK economy.

I am pleased to see that the Committee has also concluded that there are strong arguments in favour of a secondary competitiveness objective. I note that the Committee has recommended that a secondary competitiveness objective should be supplemented with efforts to improve the proportionality of regulatory rules, regular reviews by the regulators of their rulebooks, more open and transparent communication with industry, including via statutory panels, and clear criteria and performance metrics for regulators.

The Government has proposed that both regulators will be required to report on their performance against their growth and competitiveness objective on an annual basis. We anticipate that this would be similar to the PRA's current reporting requirement for its secondary competition objective, but the Government will bring forward further detail in due course. In addition, the PRA and the FCA will continue to be required, as part of their consultations on draft rules, to set out how their proposals are compatible with their duty to advance their objectives, including the proposed growth and competitiveness objective.

The Government agrees that the regular review of rules is an important part of maintaining high standards, and the November 2021 FRF Review consultation proposed that the regulators be required to publish frameworks for reviewing their rules. This will incentivise the regulators to clearly systematise their review process as a part of setting it out publicly. The proposed power for HM Treasury to require the regulator to review

their rules will complement this framework and enable HM Treasury to require a review when ministers consider it is in the public interest.

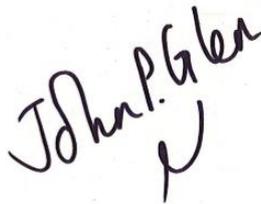
The opportunity for relevant stakeholders to engage with and scrutinise the development of policy proposals is essential for two main reasons. First, policymaking is at its most effective when it draws on the views, experience, and expertise of those who may be impacted by regulation. Good policymaking should, as far as possible, be based on evidence, and so should take into account evidence that external stakeholders may be able to provide. Second, meaningful engagement by stakeholders helps support the policymaking process, making it more likely that final proposals are effective, understood, and accepted as fair and reasonable by stakeholders.

Following the implementation of the FRF Review, the regulators will take responsibility for determining the direct regulatory requirements that apply to firms that were previously set by the EU. This is likely to result in the regulators making more rules across a broader range of topics. This will in turn increase the opportunities for the regulators to consult their statutory panels from the outset of policy and regulatory development, which was not possible to the same extent while the UK was a member of the EU. The Government and the regulators believe this will strengthen the panels' important ability to provide stakeholder input into the development of policy and regulation. The Government has therefore proposed a number of measures to ensure that there is consistency in the panels' status, that the panels represent a diverse range of stakeholders, and that the regulators are transparent about where they have engaged the panels, maintaining their crucial 'critical friend' role.

I would like to reiterate my thanks to the Committee for its important work examining this vital area of the UK financial services industry and economy. I will continue to reflect on the findings of the inquiry as we take forwards the work to re-examine our regulatory regime.

I have sent copies of this letter to the Chief Executive Officer of the Prudential Regulation Authority and the Chief Executive of the Financial Conduct Authority.

Yours sincerely,

A handwritten signature in black ink that reads "John P. Glen". The signature is written in a cursive style with a large initial "J" and a stylized "G".

JOHN GLEN