Association of British Insurers (ABI) – Written evidence (SCG0033)

The UK insurance and long-term savings market and the ABI

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than 300 firms within our membership, including most household names and specialist providers, providing peace of mind to customers across the UK.

We are a purpose-led organisation: Together, driving change to protect and build a thriving society. On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is trusted by customers, is invested in people and planet, and can drive growth and innovation through an effective market.

A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.5 trillion, pay over £17.2 billion in taxes to the Government and support communities and businesses across the UK.

Executive summary

1. The Association of British Insurers (ABI) welcomes the launch of the House of Lords Financial Services Regulation Committee inquiry into the Financial Conduct Authority's (FCA) and the Prudential Regulation Authority's (PRA) new Secondary Competitiveness and Growth Objective (SCGO).

2. The UK's insurance and long-term savings sector is a productive, inclusive and thriving sector that not only anchors and grows regional economies but also powers trade and enables future industries.

3. Our world leading sector has a vital role to play in boosting economic growth and supporting the government to respond to the current challenges our country faces. We are achieving this by boosting the nation's savings and investments, enabling the transition to clean energy, increasing the UK's resilience to climate change, identifying emerging risks and providing peace of mind to customers when they need us most.

4. The ongoing strength of the UK insurance and long-term savings market for the wider financial services sector is central to the resilience and growth of the UK's national and regional economies. The UK's insurance and long-term savings has a key role to fulfil in helping to achieve and deliver the government's growth mission.

5. Through our Investment Delivery Forum, we are delivering the £100 billion investment commitment from Solvency UK reforms for green and good projects across the UK. We provide vital products and services that boost productivity and support people to stay fit, healthy and in work.

6. We welcome the introduction of the new objective, and recognise the novelty, progress, and potential challenges embedding these into the work and culture of the regulators. The proposed Industrial Strategy and the call for evidence to the Financial Services Growth and Competitiveness Strategy is a critical opportunity for the government to explore and clearly demonstrate leadership and set out its expectations for regulators in meeting the SCGO.

7. We believe that to enable our sectors to thrive, an overly-cautious and burdensome approach to regulation brings its own downsides. Carefully measured risk is appropriate where this brings benefits to consumers and the economy. We have already seen some examples of this, for example the reforms to the Solvency UK Matching Adjustment and also the listings reform.

8. We welcome the publication of the PRA's final policy statement paving the way for the full implementation of the new Solvency UK regime at the end of 2024. This represents the culmination of several years of hard work by the ABI, our members, the PRA, the Treasury and many other stakeholders. We look forward to continuing this engagement in the future and to further refine the regime in important areas.

9. In recent years, the regulators have put in place a significant volume of regulatory reform. While we support most of these reforms individually, for example the Consumer Duty, firms are growing increasingly concerned about the impact of the growing

cumulative burden of regulation. This burden affects firms' ability to allocate resources into product development and innovation and can scare away investment in UK firms from their international parent companies.

10. We are encouraged by the FCA's early work to promote its SCGO. This includes culture changes to embed its secondary objective as well as new policy policy work including the review of requirements in light of the Consumer Duty. Efforts to streamline the FCA's requirements are an important opportunity to consider in earnest how to reduce the growing compliance burden on firms while maintaining high standards of consumer protection. However, changes to the rulebook come at a cost to industry and therefore must lead to meaningful change.

11. Generally, we acknowledge the tangible steps the PRA has taken in meeting the new secondary objective on economic growth and competitiveness. For instance, we welcome the PRA's engagement with industry via a number of PRA-industry Subject Expert Groups, including those covering the Matching Adjustment (MA) and the Investment Accelerator Sandbox.

12. We encourage the PRA to continue to keep the momentum in meeting this objective and continue to deliver tangible results.

Regulatory accountability

13. We welcome the introduction of the SCGO for the FCA and the PRA under the Financial Services and Markets Act 2023. Section 26 of the Financial Services and Markets Act 2023 sets out the reporting requirements of the regulators on how they have advanced the new secondary objectives.
14. Under the Act, the FCA and PRA are required to report to the Treasury on the action taken by regulators to embed the new objectives in its operations, processes and decision-making and how any rules and guidance has advanced the objectives 12 months and 24 months following the Act coming into force.

15. After 24 months, the Treasury can request the regulators to report on how they are meeting their new objectives. This inclusion within legislation is welcome and a positive step for

ensuring regulatory accountability.

16. The passage of the Financial Services and Markets Act has seen a significant number of powers and responsibilities granted to regulators. While we strongly support the principle of regulatory independence from government, we believe the transfer of powers and responsibilities to regulators must be accompanied by more scrutiny and greater oversight.

17. We believe there should be a more regular process for assessing the regulators' performance against the new secondary objectives.

18. The reporting exercise should go beyond two years and be placed on a permanent and annual basis, and is an opportunity for this government, subsequent governments, and for Parliament to assess and demonstrate further leadership on how the regulators are performing and embedding the SCGO.

Metrics

19. We welcome the Treasury's recognition and commitment to adopt metrics to measure the regulators performance in enacting the SCGO. The metrics set out in the consultation response in 2023 we believe should be considered as a starting point with the metrics evolving where necessary.

20. A critical starting point should be measuring the regulators' performance. Regulators should be required to publish information collated internally, not outsourcing this work to firms with further reporting requirements unless absolutely necessary. For example, collecting post implementation costs relating to the implementation of significant regulatory changes, such as the implementation of the Consumer Duty.

21. This would be a key metric in holding regulators to account and will ensure regulators are providing and publishing information to support the government and Parliament in their monitoring and scrutiny, and /or support a change of approach, which has seen the development of an overly conservative culture at the regulators which is to the detriment of the UK's economic growth and international competitiveness.

22. The regulators already have been publishing information related to the metrics in the consultation outcome, which is welcome. However, these publications can be scattered across various web pages or documents making it more challenging to piece together.

23. All of the information relating to the published metrics should be brought together and published in one place, so the government, Parliament and other stakeholders have a full and clear picture of how the regulators are performing.

Regulatory burden and cost

24. Our members are committed to delivering good outcomes for their customers, however, we’re aware that an especially active few years of regulatory activity is presenting challenges to firms. The burden and cost of regulation and ongoing supervision, and therefore the resources firms must allocate, have been significant.

25. One example is the Consumer Duty. The Duty is a significant shift towards regulation based on what good looks like for customers – it builds on existing regulation and our members’ hard work to deliver good value and high quality services. Our members have embraced the Duty and there are many examples of good practice to demonstrate that. At the same time, we are aware of examples where firms have spent much more than originally anticipated in the FCA’s cost benefit analysis on implementing and embedding it.

26. Assessments of the burden and cost imposed on firms from regulation and regulatory reform should not stop at the cost benefit analysis (CBA) stage during the consultation period. Our view is that assessments of actual costs imposed should be made after implementation or largescale regulatory reforms. For example, as part of their post-implementation review. This could be supported by the CBA panels.

27. We welcome the Chancellor of the Exchequer’s commitment to abolish and replace the Senior Managers and Certification Regime (SMCR) in the Mansion House speech this month. This will help ensure greater proportionality in the regulation of our

sector. We look forward to responding to the consultation once it has been published.

FCA Handbook review

28. We welcome the new government's commitment to work with the industry to streamline the FCA's Handbook following the implementation of the Consumer Duty, and its related proposals relating to the commercial and bespoke insurance markets.

29. The Consumer Duty has resulted in some overlapping rules and duplication of requirements, and the FCA review to streamline its requirements presents an important opportunity for positive change. Streamlining the regulatory rulebook has the potential to benefit businesses and the economy while maximising the Duty's effectiveness.

30. To make the most of this opportunity, it will be important for the FCA to continue to encourage and take on board industry feedback on how to reduce the growing compliance burden on firms while maintaining high standards of consumer protection.

31. However, the success of the review should not be determined by the number of rules that are removed or changed, but by outcomes and how this would further support the new objectives. Rules should not be changed or removed if doing so does not result in positive change – rule changes come at a cost to industry and this would be counter productive.

32. We believe that the key outcomes from the review should ensure:

- Insurers can better support consumer outcomes (for example by providing extra flexibility in the type or form of a service a customer can receive);
- Promote an effective market where competition works in the interest of consumers;
- Genuinely reduce regulatory burdens for firms (i.e go beyond removing duplication) and;
- Create space for innovation, where this benefits consumers.

Regulatory culture

33. The FCA has recently taken measures to embed the SCGO into the fabric of the organisation. These include investing in capacity and extensive staff training, as well as embedding the objective into policy evaluation and scrutiny processes from the Board down. This is an encouraging start. Embedding the SCGO is a significant cultural change. It is therefore important that the FCA continually reviews and looks for ways to strengthen how it supports the objective as an organisation.

34. There is a disconnect within the PRA regarding how the secondary objective is being considered in the technical aspects of policy making and how it is embedded at senior levels. This is also apparent when applying the objective when making policy versus the supervisory powers of the PRA.

35. We are supportive of the Bank of England's (BoE) Independent Evaluation Office recommendations for how the PRA can make progress towards its SCGO. In particular:

- Clarifying the PRA's vision and desired culture for supporting competitiveness and growth across all its activity.
    - Further clarifying the PRA's vision for advancing competitiveness and growth, including how it will affect policymaking priorities.
    - Setting out the culture and behaviour the PRA wants (and does not want) in its day-to- day activities, to support the SCGO.
- Ensuring staff across the PRA have a consistent understanding of the new objective, and what they have to do to support it.
    - Extend a version of training to supervisors and authorisation teams, making clear what they are (and are not) expected to do to advance the new objective.
    - Update training for policy teams and other key contributors to clarify ambiguities and facilitate

consistent application of the SCGO.

36. We welcome the publication of the new remit letters following the Chancellor’s Mansion House speech, clearly setting out the government’s expectations for the FCA and PRA to further embed its new secondary objectives.
37. We agree with the Chancellor, as referenced in the remit letters, that there is “more to do to build momentum” and the importance of the regulators of fully embedding the SCGO throughout the organisations accelerating its adoption in policymaking.

38. There is an opportunity for the government to demonstrate further leadership in how the regulators approach risk taking, while balancing its commitments to protecting consumers and competition.

Innovation

39. The Innovation roundtable is a positive example of PRA taking tangible steps to meet the SCGO.

40. However, we are concerned that the resources currently required by firms to meet regulatory obligations prevents their ability to allocate resources into product development and innovation. This limits the potential of firms to generate growth and meet consumer needs.

Annual reports

41. We agree with the IEO Recommendation that the PRA refine transparency and oversight mechanisms to build trust in the PRA’s approach.

42. We agree that the PRA should perform periodic reviews of its external reporting on how it has advanced its secondary objectives.

43. We also agree with and support the recommendation that the PRA strengthen governance reporting to ensure its leadership has sufficient oversight of how the SCGO is being embedded.

PRA Matching Adjustment review and sandbox

44. We welcome the publication of the PRA’s final policy statement paving the way for the full implementation of the new Solvency UK regime at the end of 2024.

45. This statement represents the culmination of several years of hard work by the ABI, our members, the PRA, the Treasury and many other stakeholders.

46. We look forward to continuing this engagement in the future and to further refine the regime in important areas.

47. To deliver on the new government’s economic growth mission, it will be crucial for it to work with the PRA to ensure that the scope of investable assets for insurers is broadened, for example, by the extension of Matching Adjustment (MA) eligibility criteria.

48. We have been working closely with the PRA, through the PRA-industry Sandbox Subject Expert Group (SEG), to explore mechanisms by which insurers may accelerate their investment in productive assets. This has led to a proposal for an Investment Accelerator sandbox, on which we expect the PRA to consult in 2025.

49. The Investment Accelerator seeks to speed up the application process that insurers have to follow before an investment can be deemed eligible for the MA, a critical consideration in determining the economic attractiveness of any asset.

50. The sandbox mechanisms we are developing with the PRA will allow for new types of assets to be included in limited amounts within insurers’ MA portfolios (under a controlled / safe environment), prior to the PRA giving formal MA approval. The complex technicalities are being developed between industry and the PRA via the Sandbox SEG.

51. Ensuring this work is progressed efficiently and at pace will help to address the regulatory challenges in encouraging greater investment in UK infrastructure and delivering on the government’s growth mission.

Industrial Strategy

52. The Industrial Strategy Green Paper is a welcome opportunity for the government to set how it will work in partnership with industry to deliver its missions, particularly on growth. We welcome the commitment from the government to develop sector specific roadmaps in the Industrial Strategy Green Paper, including for financial services, and would like to see this taken even further including the key industries as set out in the National Wealth Fund policy paper.

53. We are calling for the development of a specific roadmap for our world leading sector acknowledging the strength of our expertise and unique role in delivering growth and investment rather than a sub-sector of the wider financial services industry.

54. As major investors we are critical to securing stronger economic growth and delivering vital infrastructure throughout the UK, from clean energy to housing to transport, giving more people and places the opportunity to contribute to and benefit from economic progress. With the right regulatory and policy framework, we can support growth and unlock the UK's full economic potential.

55. As mentioned earlier, our Investment Delivery Forum is bringing together major insurance and long-term savings firms to identify and accelerate investment in large-scale infrastructure.

56. Our Forum is a major opportunity to implement much needed regulatory reform in partnership with government.

57. We formed our Forum to ensure reforms to the UK's Solvency II insurance regime, which have resulted in the new Solvency UK framework, have the intended effect of accelerating much needed investment in the UK's infrastructure and will be critical to the success of the proposed Industrial Strategy.

58. To ensure its success, we urge the government to use the Industrial Strategy setting out its plan on strengthening economic security, growth, a national transition plan for

reaching net zero, addressing potential barriers to growth and investment, and how the government will work with industry.

59. We welcome the principle of "long term stability" and commitment from the government to "promote stable regulatory frameworks to give businesses the certainty they need to invest".

60. To truly underpin this work and to promote the UK as an attractive destination for investment, a stable and predictable political environment, and a competitive regulatory regime is essential.

Financial Services Growth and Competitiveness Strategy

61. We warmly welcome the launch of the call for evidence to support the development of the Financial Services Growth and Competitiveness Strategy following the Chancellor's Mansion House speech.

62. As mentioned above, the ABI is calling for the development of specific roadmap for the UK's world leading insurance and long-term savings sector.

63. Insurance and reinsurance are rightly acknowledged as one of the Chancellor's five priority growth opportunities within the financial services strategy.

64. The consultation on captive insurance setting out a new regulatory approach to strengthen the UK's offering is a welcome step from the Treasury.

65. Captive insurance is a fast growing area within our sector and ensuring our world-leading position remains competitive globally is critical to delivering the government's growth mission.

66. Regulation, and how the regulators meet and embed their new secondary objectives, must be a key consideration in the development of the strategy. We believe there is an opportunity for government to lead and set out how regulators should meet these objectives and ensure accountability.

67. We will be responding to the Treasury's call for evidence and look

forward to supporting the strategy’s development and the wider Industrial Strategy.

5 December 2024