

<b>Title:</b> The Insurance and Reinsurance Undertakings (Prudential Requirements) (Amendment and Miscellaneous Provisions) Regulations 2024  <b>SI (Statutory Instrument) No:</b> <a href="#">Click here to enter text.</a>  <b>Other departments or agencies:</b> N/A  <b>Contact for enquiries:</b> Joe Jones, <a href="mailto:Joe.Jones@hmtreasury.gov.uk">Joe.Jones@hmtreasury.gov.uk</a>	<b>De minimis assessment</b>
	<b>Date:</b> 07/05/2024
	<b>Type of regulation:</b> Domestic
	<b>Dates measures come into force:</b> <b>The day after the day which the SI is made</b>  02/09/2024 31/12/2024
<b>Cost of Preferred (or more likely) Option</b>  Under £5m	<b>Equivalent Annual Net Direct Cost to Business per year</b>  None

<p><b>1. What is the problem under consideration? Why is government intervention necessary?</b></p> <p>Prudential regulation ensures that insurance firms act safely and reduces the chance of them getting into financial difficulty. The Government is reforming the UK's insurance regulatory regime (Solvency II) in order to bolster the competitiveness of the UK as a global financial centre and deliver better outcomes for customers and businesses.</p> <p>Many of the Solvency II reforms are being implemented by the Prudential Regulation Authority (PRA) through changes to its rulebook, including changes to replace aspects of assimilated EU law that will be revoked by the government to deliver a Smarter Regulatory Framework ('SRF') for financial services. However, where there is a significant public policy objective that could not be achieved through the regulators acting in accordance with their statutory objectives alone, the government will retain certain requirements relating to the Solvency II regime (with modifications where necessary) by restating relevant legislation onto the UK statute book.</p> <p>The Insurance and Reinsurance Undertakings (Prudential Requirements) (Amendment and Miscellaneous Provisions) Regulations 2024 makes a series of technical amendments to legislation to ensure that the UK's insurance regulatory regime functions as intended following implementation of the Solvency II reforms and the revocation of assimilated EU law at the end of 2024.</p>
<p><b>2. What are the policy objectives and the intended effects?</b></p> <p>There are four main policy objectives to this instrument:</p> <ol style="list-style-type: none"> <li>1. To restate the reformed risk margin ensuring it remains in effect and give powers to the PRA to allow firms to continue using simplified calculation methods (needed in force by 1 September 2024).</li> <li>2. To save parts of assimilated EU law regarding the UK's insurance regime for Gibraltarian groups and undertakings until the Gibraltar Authorisation Regime (GAR) comes into force, to maintain the effective functioning of the UK insurance regime after the revocation of assimilated EU law at the end of 2024 (needed in force by 31 December 2024).</li> <li>3. As part of the Solvency II reform package and in line with the principles of the SRF, to permit the PRA to disclose firm-specific insurance stress test results (needed in force by 31 December 2024).</li> </ol>

4. To make amendments to other legislation to reflect the revocation of assimilated EU law at the end of 2024 in line with the principles of the SRF (needed in force by 31 December 2024).

### **3. What policy options have been considered, including any alternatives to regulation? Please justify preferred option**

#### Option 1: Do nothing

If no legislation is made, the following effects for the following policy objectives would occur:

- Risk margin. The existing provisions on the risk margin in legislation would be revoked and regulation would be set by the regulator acting in accordance with its statutory objectives alone. This would result in the Government's desired reforms to the risk margin, which are set out in the explanatory memorandum and impact assessment for SI 2023/1346, being reversed as they are outside of the PRA's statutory objectives. It would also stop firms from being able to use simplified calculation methods as they are currently able to.
- Gibraltar insurance regime. Given revocation of assimilated EU law at the end of 2024, the existing regime would be incomplete, impacting the ability of Gibraltar firms to operate in the UK and potentially creating barriers between UK and Gibraltar firms.
- Disclosure of firm-specific insurance stress tests by the PRA. This objective of the Solvency II reforms would not be achieved and the PRA would be unable to publish firm-specific stress tests from the end of the year.
- Other amendments. UK legislation would retain, for example, a number of references to assimilated EU law that has been revoked at the end of the year, and retain definitions out of scope with the principles of the SRF.

#### Option 2: Restate or save parts of assimilated EU law into legislation, amend the Financial Services and Markets Act 2000 (FSMA) to permit the PRA to disclose firm-specific stress test results and make amendments to other legislation – preferred option

By making the instrument, the following effects would occur:

- Risk margin. Preserve the effect of the existing provisions on the risk margin in legislation, maintaining the Government's planned reforms for the risk margin. This will also give the PRA powers to allow firms to continue using simplified methods. The PRA requires this to come into force on 2<sup>nd</sup> September 2024 to give certainty to firms.
- Gibraltar insurance regime. Save the Gibraltar regime until the GAR comes into effect ensuring consistency for Gibraltar firms to minimise any disruptions when the remainder of the assimilated Solvency II law is revoked at the year end.
- Disclosure of firm-specific insurance stress tests by the PRA. This would permit the PRA to disclose firm-specific insurance stress test results, a key part of the Government's Solvency II reform programme and is needed to come into force with the new regime on 31 December 2024.
- Other amendments. The amended legislation would work coherently with the government's programme to repeal assimilated EU law, and fully support the key SRF objective of delivering a dynamic and agile regulatory regime from 31<sup>st</sup> December 2024.

### **4. Please justify why the net impacts (i.e., net costs or benefits) to business will be less than £5 million a year.**

Risk margin and Gibraltar provisions being saved

For the risk margin and Gibraltar regime, there will be no impact on the operations of insurance firms because the legislation preserves the existing arrangements for both of these. All costs to understand the legislation have already been incurred as this simply restates the status quo.

### Stress tests

Firms that participate in the PRA's insurance stress test may see an incremental increase in costs due to public disclosure of these results by the PRA. Familiarisation costs with this legislation will be the most likely upfront cost for firms to understand what is required of them. The estimated familiarisation costs are shown below.

Number of words in amendment (rounded up to nearest 100)	Words read per minute	Hourly rate (£)	Number of businesses affected	Familiarisation costs per firm (£) (rounded to 2 significant figures)	Total familiarisation costs (£) (rounded to 2 significant figures)
200	100	385	400	£13	£5,200

Note of methodology: There are around 400 insurance firms in the UK. 54 of these took part in the PRA Insurance Stress Test 2022. We have calculated this from the number of insurance firms in 2022 as opposed to those who took part in stress tests for a maximalist view. We have based the cost of this legal advice on the government guidelines on solicitors' hourly rates, using an hourly rate of £385, based on the following assumptions:

- a. As legal expertise in financial services resides predominantly among City law firms, we have used a London, rather than UK-wide value for legal costs.
- b. As this work will be undertaken by a variety of individuals with varying levels of experience at different firms, therefore we have used the middle range value for a Solicitor/Associate with 2-5 years' experience.

It is assumed that, as legal experts, readers will generally be familiar with this type of literature, so we have taken the upper bound of the reading speed of difficult text, i.e. 100 words per minute. Furthermore, it is assumed that this form of familiarisation will be undertaken on a one-off basis.

### Other amendments

For other amendments, there will be no impact on the operations of insurance firms as they do not involve changes in the requirements placed on firms.

**5. Please confirm whether your measure could be subject to call-in by BRE (Better Regulation Executive) under the following criteria. If yes, please provide a justification of why a full impact assessment is not appropriate:**

- a) **Significant distributional impacts (such as significant transfers between different businesses or sectors)**  
No
- b) **Disproportionate burdens on micro, small, and medium businesses (below 500 employees).**  
No
- c) **Significant gross effects despite small net impacts**  
No
- d) **Significant wider social, environmental, financial or economic impacts**

No  
e) **Significant novel or contentious elements**  
No

Sign-off for de minimis assessment: SCS

***I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.***

**SCS of Insurance and Pensions Markets team**

Signed: 

Emma Kavanagh

Date: 24/04/2024

**SCS of Better Regulation Unit**

Signed: ***Jonathan Edwards***

Date: 25/04/2024

Sign-off for de minimis assessment: Minister

***I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.***

Signed: ***Bim Afolami***

Date: 07/05/2024