

<p>Title: The Insurance and Reinsurance Undertakings (Prudential Requirements) (Transitional Provisions and Consequential Amendments) Regulations 2024</p> <p>SI (Statutory Instrument) No: 594</p> <p>Other departments or agencies: N/A</p> <p>Contact for enquiries: joe.jones@hmtreasury.gov.uk</p>	<p>De minimis assessment</p>
	<p>Date: 18/04/2024</p>
	<p>Type of regulation: Domestic</p>
	<p>Date measure comes into force: 30/06/2024</p>
<p>Cost of Preferred (or more likely) Option</p>	<p>Equivalent Annual Net Direct Cost to Business per year</p>
<p>Under £5million</p>	<p>None.</p>

1. What is the problem under consideration? Why is government intervention necessary?

Prudential regulation ensures that insurance firms act safely, reducing the chance of them getting into financial difficulty. The matching adjustment is a mechanism that may be applied when calculating the value of insurance liabilities. The matching adjustment allows insurance firms to recognise upfront as capital part of currently unearned cashflows, through ‘matching’ assets with ‘fixed’ cashflows to liabilities, so reducing the value of their liabilities. This incentivises firms to match long-term annuities with long-term assets, contributing to their overall financial stability. It is subject to eligibility conditions and regulatory approval. Insurance firms apply to the Prudential Regulation Authority (PRA) for permission to use this benefit, and it must be granted if certain eligibility criteria are met.

As part of wider reforms to the prudential regulation of the insurance sector, a new matching adjustment regime is coming into force on 30th June 2024. This legislation ensures that firms’ existing matching adjustment approvals remain valid following the new matching adjustment regime coming into force on 30th June 2024. This eliminates the need for insurance firms to re-apply to the PRA.

This instrument also makes amendments consequential to the revocation of provisions relating to the matching adjustment in assimilated law. This legislation is needed to maintain the meaning of existing legislation at the point that references to the matching adjustment in assimilated law are revoked on 30th June 2024.

2. What are the policy objectives and the intended effects?

There are two policy objectives to this instrument:

1. To eliminate the need for insurance firms to re-apply to the PRA for their matching adjustment permission from 30th June 2024. This will avoid firms losing out on their existing matching adjustment benefit and PRA capacity and resources being taken up by the need to re-approve existing portfolios which would already be eligible as the reform creates a more flexible regime. It also remains consistent with the approach outlined publicly by HMT, to ensure all existing Part 4 approvals (of which the matching adjustment is one) remain valid following the start of the reformed Solvency II regime. The instrument does this by ensuring existing matching adjustment approvals remain valid from 30th June 2024.

2. To maintain the meaning of existing legislation, where the matching adjustment is referenced in assimilated law due to be repealed on 30th June 2024. The instrument does this by making consequential amendments to the legislation.

**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, insurance firms will have to re-apply to the PRA for a matching adjustment permission under the new regime from 30th June 2024, when their existing approval will fall away. Reapplication would take up capacity in both insurance firms and the PRA, which would likely be costly and time consuming. From 30th June 2024, firms would also lose their existing matching adjustment benefit and would not be able to utilise this until a new permission was granted by the PRA. Such reapplications would therefore have no practical benefits given firms' likelihood to be approved under the new wider regime.

If no amendments consequential to the revocation of provisions relating to the matching adjustment are made, the meaning of legislation will change at the point at which assimilated law is repealed on 30th June 2024. This is undesirable as it would change the original intent of legislation and cause confusion for insurance firms. It would also impact how the reformed matching adjustment regime functions from 30th June, which is undesirable and would undermine the broader reforms to Solvency II.

Option 2: Ensure existing matching adjustment approvals remain valid and make consequential amendments to legislation – preferred option

By ensuring existing matching adjustment approvals remain valid, this instrument eliminates the need for firms to re-apply to the PRA for a matching adjustment permission from 30th June 2024. Firms and the PRA will not lose capacity as a result of re-applications, and firms can continue to use their matching adjustment benefit.

By making consequential amendments relating to the matching adjustment, this instrument maintains the meaning and original intent of existing legislation (amendments to which were outside of the parameters of Solvency 2 reform, as many related to other financial regimes). It also ensures that the reformed matching adjustment regime functions as intended.

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

To do this, please set out the following:

- What will businesses have to do differently?

Businesses will not have to do anything differently. Ensuring firms' existing matching adjustment approval remain valid eliminates the need for them to re-apply to the PRA from 30th June. Consequential amendments maintain the meaning of existing legislation and ensure the reformed matching adjustment regime works as intended from 30th June 2024.

- How many businesses will this impact per year?

Only insurance firms who currently hold a matching adjustment permission will be impacted. According to the PRA, 19 entities hold a matching adjustment portfolio¹.

- What is the direct cost/benefit per business per year?

The only cost to business is likely to be familiarisation costs for firms to check the instrument in order to understand how existing matching adjustment approvals will remain valid.

The estimated familiarisation costs are shown below. This is a maximum estimate which assumes all firms holding a matching adjustment approval prior to 30th June 2024 will need to familiarise themselves with the SI.

Number of words in SI (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)
1800	100	385	19	£120	£2,200

Note of methodology: 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:

- 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.
- 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.

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:


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

¹ PRA's CP19/23: <https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/review-of-solvency-ii-reform-of-the-matching-adjustment>

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, Financial Services

Signed:  Emma Kavanagh Date:  05/04/2024

SCS of Better Regulation Unit

Signed:  Rob Mackie  Date:  12/04/2024

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.

(Name, Ministerial role)

Signed: ***Bim Afolami, Economic Secretary to the Treasury*** Date:  22/04/2024