



BANK OF ENGLAND

News release

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Prudential Regulation Authority: the future approach to insurance supervision

The Bank of England (the Bank) and the Financial Services Authority (FSA) have published a joint paper *The Bank of England, Prudential Regulation Authority - Our approach to insurance supervision* setting out the current thinking on how the future Prudential Regulation Authority (PRA) will approach the supervision of insurers.

Recognising that the risks posed by insurers are different from the other firms it will supervise, the PRA will have a specific insurance objective and a distinct approach to supervising insurers.

The PRA will be responsible for the prudential supervision of over 2,000 firms, of which around half will be insurers, with the remainder deposit-takers and certain investment firms. The PRA will supervise companies specialising in life insurance, general insurance and wholesale insurance (including reinsurance), and companies that undertake a composite of these activities. On current data, it will regulate 636 general insurers, around 300 of which operate in the UK under a passport from other EEA countries, 123 life insurers (of which 70 will be EEA authorised), 133 friendly societies and around 132 insurers which are involved in the London Market.

Hector Sants, FSA chief executive and PRA chief executive designate, said:

"The PRA will be a focused prudential regulator for insurers. In setting out the PRA's approach to insurance supervision, we have looked closely at the lessons arising from previous episodes of insurance company distress.

"Reflecting the uncertain nature of insurers' liabilities, prudential insurance regulation will be forward-looking and judgement-based. Much of the PRA's proposed approach will be achieved in practice through the application of Solvency II, the new European framework for insurance supervision."

Julian Adams, FSA director of insurance, said:

"We recognise that the nature of insurers' business models exposes them to a different set of risks than banks. The PRA's regulation of insurers will seek to promote the safety and soundness of insurers to deliver two aims: to secure appropriate protection of policyholders and to contribute to the stability of the system.

"The PRA will concentrate its resources and actions on those insurance firms and issues that pose the greatest risk to its objectives. The risk assessment framework for insurers will explicitly take into account the need to protect policyholders, the various risks to which insurers are exposed and the different way in which insurers can fail."

Andrew Bailey, FSA director of UK banks and building societies and PRA deputy chief executive designate, said:

"Insurance companies can in some circumstances pose risk to the stability of the financial system - via a range of channels, including as providers of funds to banks. The insurance supervisors will work closely with the Financial Policy Committee, who will assess system-wide risks."

Today's paper outlines:

- the principles underlying the PRA's approach;
- the scope of the PRA;
- the PRA's risk assessment framework;
- the PRA's forward looking, judgement-led approach to supervision;
- the approach to policy-making that will support the judgement-led model; and
- the approach to authorising firms and approving individuals.

A companion paper was published in May 2011 to cover the PRA's approach to supervising deposit-takers.

The joint paper The Bank of England, Prudential Regulation Authority - Our approach to insurance supervision will be presented and discussed at a conference in London today for CEOs and senior managers of insurers that will come under the PRA's supervisory control.

Notes to Editors

1. The joint BoE and FSA publication can be found on the FSA website and the BoE website.
2. A webcast of the conference can be seen on the FSA website or on the BoE website.
3. In July 2010 the Government issued a consultation document on proposed changes to the UK regulatory framework. On 17 February, the Government published **A new approach to financial regulation: building a stronger system**. This document provided more detail on the Government's proposals to disband the

Financial Services Authority and establish a new system of more specialised and focused financial services regulators:

- the creation of an independent Financial Policy Committee (FPC) in the Bank of England;
- the establishment of a new Prudential Regulation Authority (PRA) as a subsidiary of the Bank; and
- the creation of an independent conduct of business regulator, the Financial Conduct Authority (FCA), which was formerly provisionally titled the consumer protection and markets authority.

4. The FSA regulates the financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; securing the appropriate degree of protection for consumers; fighting financial crime; and contributing to the protection and enhancement of the stability of the UK financial system (this last objective was enacted in April 2010).

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Key Resources

[The Bank of England, Prudential Regulation Authority, Our approach to insurance supervision](#)

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[Speech by Hector Sants, given at the Prudential Regulation Authority insurance conference, The Brewery, Chiswell Street in London](#)

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