BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Business Plan

2021/22

Prudential Regulation Authority

Business Plan 2021/22

ISSN 2633-5956

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Foreword by Chief Executive Sam Woods

The last year has been dominated by managing the impact of Covid-19, but we hope that in 2021/22 we will be able to focus more on business-as-usual priorities and on moving forward with key strategic pieces of work.

I mentioned in last year's report that I was planning to mark the PRA's seventh birthday by reflecting on the need for the organisation to evolve for the next phase of its existence. We have now very largely completed a strategic review of the PRA, and will set out its findings in good time to inform next year's budget and business plan. But in brief, while we think the PRA has succeeded in delivering its objectives over the last eight years it is clear that we will need to make some improvements to enable that to continue through the next decade. In the nearer-term we will look to strengthen our approach to risk and our targeting of resources, smooth out any unintended variations in supervisory approaches and improve our governance structures and processes. Beyond this we will need to take on some larger challenges: we will need to transform the way we make policy due to changes to our role as a result of leaving the EU; in order to promote competition and safety and soundness, we want to build on recent successful experience and make it easier for firms to exit the market without impacting our objectives; and we want to take a further step forward in our use of data and technology.

In making these changes we will not depart from the existing core philosophy of the PRA, but they are necessary to enable us to navigate the terrain ahead. And in all of this, we will ensure that the PRA's strategic priorities support the wider priorities of the Bank in delivering monetary and financial stability.

Maintaining a sustainable and resilient financial framework in the UK following the UK's exit from the EU is at the centre of our planning for the year ahead. We have already taken on substantial new rule-making responsibilities – this represents a significant shift for us as an organisation, and we will be making changes to our policy operating model to reflect this change. And subject to Parliament's further decisions in this area, we will continue to work with the Government to support the development and implementation of its proposed Future Regulatory Framework.

We are also getting on with some changes to our regulations now that we have left the EU. All of these aim to improve how well our rules work for UK markets, without reducing resilience. One of the key pieces of post-Brexit policy-making we announced this year was our proposal for creating a simpler but still resilient prudential framework for smaller non-systemic banks and building societies, which we are calling 'strong and simple'. We are planning to engage closely with stakeholders on developing the first step of this framework. On the insurance side, we will work with HM Treasury and engage with industry on the review of Solvency II, which provides a good opportunity to tailor the regime for the UK market while maintaining the fundamental principles underlying the regime and the level of protection it provides to policyholders.

We will follow through on the commitments set out in our response to the Future of Finance Report to develop further our RegTech strategy. A new RegTech, Data and Innovation Division will expand the technical support provided to all areas of the PRA, improve our use of artificial intelligence and machine learning, and enable more research into relevant advanced technologies. Alongside this, we plan to advance our work with industry and the Financial Conduct Authority (FCA) to transform data collection from the UK financial sector over the next decade.

Diversity is another important theme for the year ahead – both for us as a regulator and for us as an organisation. On the first, working jointly with the FCA we will push ahead with work on improving diversity in the financial sector, with plans for a discussion paper this summer. And on the second, as part of a wider effort across the Bank we will take additional steps to improve the diversity and inclusion of the PRA itself, by attracting and retaining people from a diverse range of backgrounds and fostering an inclusive environment.

There are a number of other important pieces of work for us to deliver during 2021/22. If last year is anything to go by then at the time of writing we do not know what all of these will turn out to be, and we may therefore need to flex our resources to accommodate changes in the environment around us. But we can be confident that we will make significant further progress on our climate work, stress test the major UK banks, work with firms on the transition away from LIBOR, and support the implementation of the Resolvability Assessment Framework.

I am very grateful to everyone in the PRA for the hard work they have put into supporting the resilience of the UK financial system and therefore the wider economy through the disruption of the last year, and would like to thank them for their efforts. This Business Plan sets out how in 2021/22 we will continue to support the UK's financial infrastructure through any remaining Covid-related disruption, make some changes to the way the PRA does its job, and progress work on our strategic priorities.

Sam Woods
Deputy Governor and Chief Executive Officer

Overview of responsibilities and approach

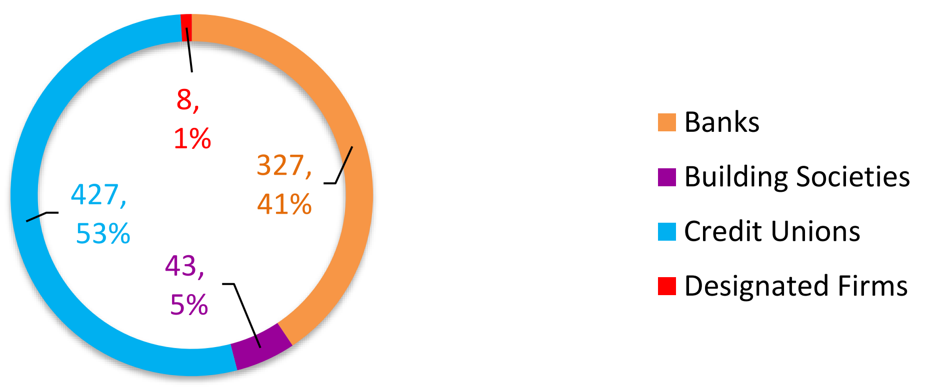
The PRA, part of the Bank of England, regulates around 1,400 deposit-takers, building societies, credit unions, insurers, and major investment firms in the UK.

The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms we regulate; and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. We also have a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms.

We advance these objectives through regulation and supervision. Through regulation, we develop standards and policies that set out what we require and expect of firms. Through supervision, we assess whether firms are meeting our requirements and expectations, the risks that firms pose to our objectives and, where necessary, we take action – supervisory or enforcement – to reduce those risks. Our approach to regulation and supervision is forward-looking, judgement-based, and focused on the issues and firms that pose the greatest risk to the stability of the UK financial system and policyholders, and is set out in 'The PRA's approach to supervision of the banking and insurance sectors'.[1]

We currently regulate around 1,400 firms and groups.[2] This includes around 800 banks, building societies, credit unions[3] and designated investment firms (DIFs), and over 600 insurers of all types (general insurers, life insurers, friendly societies, mutuals, the London market, and insurance special purpose vehicles (ISPVs)). Of the circa 1,400 firms, 266 have a deemed Part 4A permission in the Temporary Permissions Regime scheme (TPR) and 11 have a deemed Part 4A permission in the Supervised Run-Off (SRO) regime. Our focus is primarily at the individual firm and sector level, with the most important decisions taken by the Prudential Regulation Committee (PRC). The PRC works with other areas of the Bank of England (the Bank) and its committees, including the Financial Policy Committee (FPC), which has responsibility for the stability of the UK financial system as a whole. The PRA also works closely with the conduct regulator, the Financial Conduct Authority (FCA).

Chart 1: PRA supervised deposit takers, as at January 2021



1 Available on our website at https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.

2 The exact number of PRA-authorised firms and groups changes as new firms enter, other firms close or vary their permission, and entities within groups restructure. Last year, the PRA regulated a total of 1,456 firms, including inward-passporting branches of EEA firms; some of those branches have since left the PRA's regulatory scope, and a small number exited the UK market. There has also continued to be a decline in the number of credit unions. Concurrently, some EEA firms previously operating in the UK as freedom of service providers entered the PRA's regulatory scope during the year, through the Temporary Permissions Regime. The total number of firms is therefore 1,424 as of January 2021.

3 Banks, building societies, and credit unions are collectively referred to as deposit-takers, as they are the only UK financial institutions authorised and regulated to collect deposits from the general public.

Chart 2: PRA supervised insurers, as at January 2021

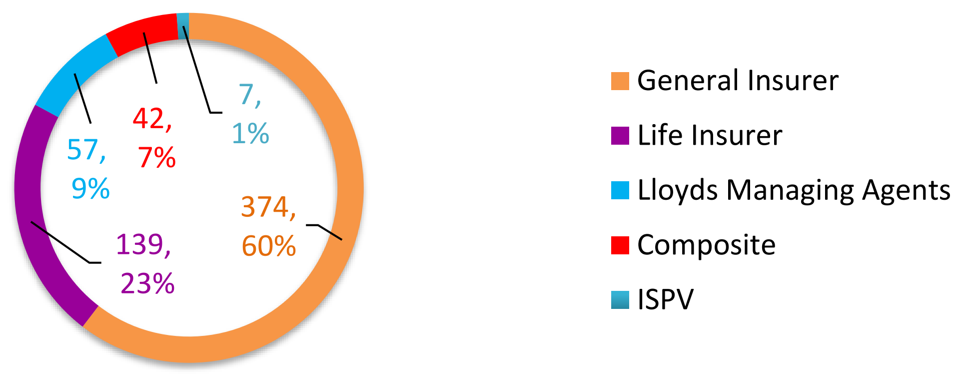
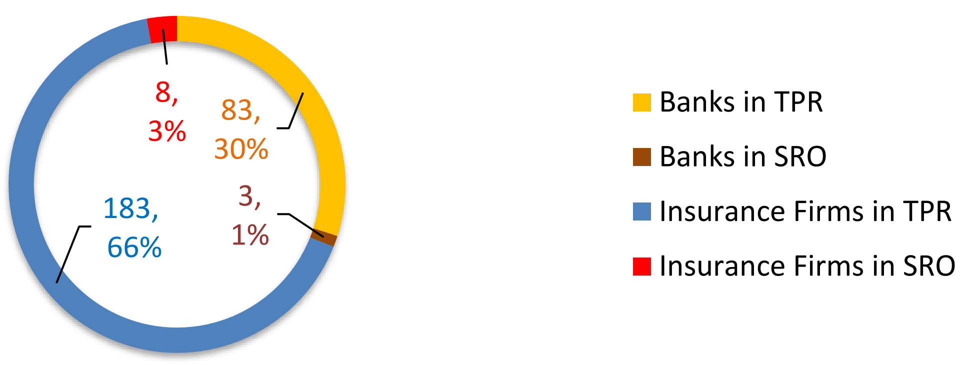


Chart 3: PRA supervised firms in TPR and SRO, as at January 2021



The PRA's strategy

This strategy will be achieved in close co-operation with other parts of the Bank, the FCA, and international counterparts. The continued excellent engagement of our staff will be integral to ensuring the successful delivery of our goals.

Shaping the PRA's strategy

Each year, the PRA is required by law[4] to review, and if necessary, revise its strategy in line with its statutory objectives:

- the general objective to promote the safety and soundness of PRA-authorised firms;
- specifically for insurance firms, to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders; and
- a secondary objective to act, so far as is reasonably possible, in a way which facilitates effective competition in the markets for services provided by PRA-firms.

In addition to the statutory objectives, our strategy is shaped by other responsibilities, such as the requirement to implement legislation, changes necessary to meet international standards, and continuing to adapt to market changes in areas such as climate change and FinTech. Furthermore, as part of the Bank, we contribute to the delivery of the Bank's wider financial stability and monetary policy objectives.

We maintain the flexibility to respond to changes in markets, developments in the economy, and other risks that can affect our statutory objectives and priorities, and reprioritise activities as needed. For 2021/22, such changes relate to the impacts of competing priorities, the challenges resulting from Covid-19, key person risk and staff shortages, access to the right technology and data, operational risks, and dependencies on external parties.

Strategic goals for 2021/22

Our strategy outlines our intentions over the medium- to long-term and was set by the PRC in consultation with the Bank's Court of Directors. Our strategic goals for 2021/22 are to:

- have in place robust prudential standards, and hold regulated firms, and those who run them, accountable for meeting these standards ('robust prudential standards and supervision');
- continue to adapt to changes in the markets in which we are involved and pre-empt and mitigate risks to our objectives ('adapt to market changes and horizon scanning');
- ensure that firms are adequately capitalised, and have sufficient liquidity, for the risks they are running or planning to take ('financial resilience');
- develop our supervision of operational resilience in order to mitigate the risk of disruption to the provision of important business services ('operational resilience');
- ensure that banks and insurers have credible plans in place to enable them to recover from stress events, and that firms work to remove barriers to their resolvability to support the management of

[4] Section 2E of the Financial Services and Markets Act 2000 (FSMA).

failure – proportionate to the firm's size and systemic importance – in an orderly manner ('recovery and resolution');

- facilitate effective competition by actively considering the proportionality of our approach as it contributes to the safety and soundness of the UK financial system ('competition');
- continue to deliver a sustainable and resilient UK financial regulatory framework following the end of the transition period arising from the UK's exit from the European Union ('EU withdrawal'); and
- operate efficiently and effectively by ensuring that resources are allocated to work that best advances our strategy and reduces the greatest risks to the delivery of our statutory objectives, and by providing an inclusive working environment in which all staff can perform to their potential ('efficiency and effectiveness').

PRA Business Plan 2021/22

This section sets out how we will deliver our strategic goals over the coming year.

Robust prudential standards and supervision

Have in place robust prudential standards, and hold regulated firms, and those who run them, accountable for meeting these standards

We will focus on maintaining robust prudential standards and supporting the FPC's commitment to upholding levels of resilience, to ensure continuity in the supply of vital financial services to the real economy throughout the cycle. We will continue our core work of setting and implementing effective supervisory strategies (including for key jurisdictions). This will include consideration of the impacts that developments within the economic environment, including the UK's withdrawal from the EU and Covid-19, have had on our supervisory priorities.

During 2021/22, we will engage with stakeholders on creating a simpler prudential framework for smaller non-systemic banks and building societies ('strong and simple') We will also continue to work closely with HM Treasury and engage with industry on the review of Solvency II, the regulatory regime for insurers.

We will continue to make policy to maintain robust standards and implement international reforms. We finalised the remaining EU Exit Instruments and Temporary Transitional Power (TTP) Directions in our remit; the remaining EU Exit instruments commenced at the end of the transition period. This ensured an operable legal financial services framework by the end of the transition period. We also published final rules to implement the Capital Requirements Directive V (CRD V). Our final policy on the Capital Requirements Regulation II will be published in the second half of 2021, and we will consult on the implementation of Basel 3.1, working with HM Treasury to update our rules in time for firms to be able to make the necessary changes by the implementation date, set by the Basel Committee on Banking Supervision (BCBS), of 1 January 2023.

Earlier this year, we published a consultation paper proposing our approach to the supervision of international banks operating in the UK.[5] This included proposals on how we would like to receive information concerning the risks in the wider group, and for how regulated entities and their supervisors should co-operate so that the PRA can be satisfied that firms are meeting its threshold conditions. We have received responses to this consultation, and expect to publish the final policy in summer 2021.

Our work will continue on the transition away from the London interbank offered rate (Libor), with the Bank, the PRA, and the FCA supporting market-led efforts through the Working Group on Sterling Risk-Free Reference Rates, as well as acting individually to remove barriers to transition. We will seek to mitigate any financial stability risks posed by exposures to Libor by phasing out firms' reliance on it for new and existing business, and will also support insurance firms in their efforts to move away from Libor through the production of final policy and technical information based on the Sterling Overnight Index Average (SONIA). Additionally, we will maintain our engagement with firms on Libor transition through our supervisory interactions, reviewing management information, assessing progress, and taking supervisory action where necessary.

5 CP2/21 'International banks: The PRA's approach to branch and subsidiary supervision, January 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/international-banks-branch-and-subsidiary-supervision.

The insurance sector has a crucial role to play in supporting economic recovery through provision of risk pooling to individuals and businesses, long-term investment, and providing security of retirement income. We will exercise effective prudential supervision so that insurers can adapt and respond to changes that threaten to disrupt their business models, while maintaining standards of governance, risk management, and resilience that result in the continued provision of services to the real economy. This will also contribute to protection for policyholders, in line with our statutory objectives.

HM Treasury's review of Solvency II provides an opportunity to tailor the regulatory regime to the UK market, while continuing to support the fundamental principles underlying Solvency II. We will engage closely with HM Treasury and industry throughout 2021 in order to assess any proposed reforms ahead of consultation. We will also continue our work with the International Association of Insurance Supervisors (IAIS), including development of the Insurance Capital Standard and the Holistic Framework Implementation Assessment, as well as contributing to the Financial Sector Assessment Programme's assessment of compliance with insurance core principles.

In October 2019, we announced that we would undertake skilled persons reviews, under section 166 of the Financial Services and Markets Act 2000 (FSMA), related to the reliability of banks' regulatory returns. However, we paused these due to the impact of Covid-19. In 2020/21, we will be commissioning and providing policy support for these reviews, which are an important supervisory tool. We will also push forward with work on improving diversity in the financial sector, and with developing our policies on remuneration and the Senior Managers and Certification Regime (SM&CR).

Adapt to market changes and horizon scanning

Continue to adapt to changes in the markets in which we are involved, and pre-empt and mitigate risks to our objectives

In March 2021, HM Treasury sent the PRC an updated recommendation letter about aspects of the UK Government's economic policy to which the PRC should have regard when considering how to advance its objectives and when considering the application of the regulatory principles set out in FSMA.[6] In line with these recommendations, the PRC will have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions. Throughout 2021/22, we will continue our work on setting out expectations for firms and building internal expertise on climate change, including climate disclosures, climate-related policy, ensuring delivery of the Bank's Climate Biennial Exploratory Scenario (BES), and acting on the 2019 Insurance Stress Test (IST) climate scenario outcomes. We will further embed supervision of the financial risks from climate change into routine supervision, making it part of our 'business as usual' and ensuring that firms see it as a priority. We will also continue to actively engage with firms and other stakeholders through the Climate Financial Risk Forum, and internationally through our leadership of the Sustainable Insurance Forum, the IAIS, and the Network for Greening the Financial System, for all of which the PRA currently holds chair roles.

We will maintain and build on our risk identification and horizon scanning processes, identifying new and crystallising risks such as geopolitical risks arising from international tensions, and those resulting from Covid-19. This includes continuously developing our frameworks for identifying key risks and ensuring that they remain in line with the PRC's risk tolerance.

Our contribution to the Bank's work on FinTech is ongoing, including on payment systems, digital currencies, and international work on prudential banking treatments. We will also work with the Bank on developing prudential frameworks for stablecoins and cryptocurrencies. The PRA continues its

6 Available at: https://www.bankofengland.co.uk/about/people/prudential-regulation-committee.

commitments to further develop our RegTech strategy, as set out in our response to the Future of Finance report.[7]

We will continue to gather supervisory intelligence and insights on trends and risks across the financial sector to inform wider international initiatives. During the coming year, this will include:

- using working groups to deliver collaborative work across the sector, and to review and analyse potential efficiencies, as well as identify cross-firm issues and prioritise mitigation of risks arising from Covid-19;
- using specialist reviews to deliver a more risk-based approach to non-systemic firms;
- leveraging supervisory knowledge to inform wider Bank international work, and drawing upon institutional knowledge from elsewhere in the Bank where it is relevant to our objectives; and
- interrogating cross-firm supervisory information to draw insights on trends and risks across the financial sector, and inform firm-specific supervisory strategies.

Financial resilience

Ensure that firms are adequately capitalised, and have sufficient liquidity, for the risks they are running or planning to take

Ensuring that firms have adequate financial resources for the risks they are running is crucial to our objective to promote the safety and soundness of regulated firms.

Through core supervision, delivering workplans following periodic meetings, technical risk reviews, and maintaining minimum requirements, we will ensure that firms are adequately capitalised and have sufficient liquidity for the risks they are planning to take. We will help to shape the Bank's response to the impacts of Covid-19, analysing and adopting lessons learned from other jurisdictions where appropriate, while continuing to closely monitor any capital challenges that arise for firms, anticipate risks, and seek to mitigate these by focusing on contingency planning.

We will drive consistent adoption of International Financial Reporting Standards (IFRS) 9 and embed PRA110 liquidity reporting, alongside other work on regulatory reporting and data collection. Our work to embed CRD V, to review mortgage risk weight floors, and to engage with external auditors on our reporting requirements also supports greater financial resilience across the UK financial sector.

Stress testing

Our regular stress testing regime,[8] which examines how firms cope with stress scenarios, will resume following the decision to pause it while firms adjusted to the stresses of the Covid-19 outbreak. This will enable us to build on previous exercises and further develop stress testing as a supervisory tool for measuring sector resilience to specific shocks, and to provide a top-down assessment of firms' capital management.

We will assess the potential impact of any moves toward greater consolidation in the banking and insurance sectors, from both a strategic and an execution perspective, with a view to safeguarding both

7 June 2019: https://www.bankofengland.co.uk/research/future-finance.
8 https://www.bankofengland.co.uk/stress-testing.

financial and operational resilience, and will introduce target risk scores into firms' risk models to help analyse firms' progress.

International engagement

We have now published a consultation paper setting out our approach to the supervision of international banks operating in the UK.[9] We will continue to engage with other jurisdictions during the finalisation and then after the publication of our final policy, as part of our continuing work with international authorities to promote consistent implementation of international standards, to play a leading role in the global debate on prudential standards, and to encourage further openness between jurisdictions. Banking and insurance are global industries and, to a large extent, the policy framework for supervising banks and insurance companies is agreed internationally. Therefore, effective cross-border engagement and co-operation is essential to our success. At the international level, we will continue to be involved in negotiating policy in international fora including the Financial Stability Board (FSB), the BCBS, and the IAIS. We will also continue our preparations for the final Basel III package, for which the implementation date has now been deferred to 1 January 2023.[10] We will be co-ordinating internationally to ensure that implementation will happen alongside other major jurisdictions, and will engage with the UK Government on the legislative approach.

We will continue to build on the Memoranda of Understanding already agreed with the European Central Bank, European Banking Authority, European Insurance and Occupational Pensions Authority, and 27 National Competent Authorities, and pursue discussions with the remaining National Competent Authorities. Our participation in global supervisory colleges will continue remotely and, when possible, in person.

We are continuing our involvement in the five-year monitoring period for the International Capital Standard for insurers that commenced last year, and will work to implement the IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups, and the holistic framework for the assessment and mitigation of systemic risk in the insurance sector.

Asset quality

Taking a risk-based approach, we will review firms' asset quality and management of investment risk. Where we find weaknesses, we will address them appropriately through supervisory action and setting regulatory expectations and/or requirements.

In 2021/22, we will continue to assess credit risk and asset quality in PRA-regulated banks and insurers using:

- supervisory tools such as firm meetings, data analysis, written auditor reports, and interactions with auditors;
- PRA specialist-led reviews, including assessments of firms' credit risk management, provision coverage, and asset quality;
- thematic reviews, combining financial stability and risk specialist resources to provide both micro and macro-impact assessments for particular asset classes and sectors;

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9 CP2/21 'International banks: The PRA's approach to branch and subsidiary supervision', January 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/international-banks-branch-and-subsidiary-supervision.

10 https://www.bis.org/press/p200327.htm.

- solvency stress testing for large UK banks, which includes continuing to assess the resilience and vulnerabilities of non-systemic firms under a range of scenarios (including the 2021 solvency stress test scenario);
- reviews of firms' Internal Capital Adequacy Assessment Processes (ICAAPs) while pausing the mid-tier enhanced ICAAP project for one year; and
- the Climate BES to explore the impact of climate change on credit risks in major UK banks and insurers.

In 2021/22, we will continue our focus on the credit risks resulting from Covid-19 across both commercial and retail activities.

On commercial activities, thematic and firm-specific asset quality reviews will continue to be targeted to key vulnerable sectors (eg aviation, hospitality and leisure, retail), asset classes (eg small and medium-sized enterprises and mid-corporates), and the assessment of banks' risk management capabilities, with particular focus on problem debt. Alongside this, we will continue to undertake the annual UK corporate real estate underwriting survey, which captures loans written by major bank and insurance participants. We will also undertake a similar data collection for leveraged lending and highly leveraged corporates to help monitor and mitigate the risks these activities pose to firms.

On retail credit, we will continue to focus on the expiry of the remaining Payment Deferrals and will closely monitor firms' arrears and forbearance levels over the coming months. In addition, we will undertake thematic and firm-specific asset quality reviews on potentially higher risk portfolios, products, and segments, as determined through our horizon-scanning activities.

We will continue to review insurance firms' risk management and governance of illiquid and other assets, including their internal ratings within their Solvency II matching adjustment (MA) portfolios, to assess firms against our expectations. Where we have concerns about particular internal ratings, firms' internal rating approach, or internal rating validation, we may commission an opinion from an external credit assessment institution using our powers under section 166 of FSMA.

Following the publication of our expectations for firms' implementation of the Prudent Person Principle (PPP), which states that insurers should invest only in assets where they can properly identify, measure, monitor, manage, control, and report risks, firms may be asked to evidence how they are meeting our expectations.[11]

Our asset quality reviews will continue to focus on those areas of risk that Covid-19 has affected, and changes to firms' risk profiles. We will also continue to assess firms' asset quality in various cross-firm exercises, such as IFRS 9 provisions benchmarking, the solvency stress test, and the Climate BES (see the stress testing section).

Operational resilience

Develop our supervision of operational resilience in order to mitigate the risk of disruption to the provision of important business services

We define 'operational resilience' as the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover, and learn from operational disruptions from whatever cause, including cyber

[11] SS1/20 'Solvency II: Prudent Person Principle', May 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/solvency-ii-prudent-person-principle-ss.

threats. Operational disruption can impact financial stability, threaten the viability of individual firms and financial market infrastructures, or cause harm to consumers, policyholders, and other parts of the financial system. We published our operational resilience policy in March 2021,[12] alongside parallel policies from the Bank and the FCA (and alongside our policy on outsourcing and third party risk management).[13] The policy requires firms to identify important business services, set impact tolerances for those important business services, and take action to deliver their important business services during severe but plausible disruptions. In 2021/22, the PRA will assess whether firms can meet the policy expectations by the time they come into force on 31 March 2022.

The BCBS also published operational resilience guidance in March 2021. The PRA and BCBS approaches are well aligned and are seeking to achieve the same outcomes. This alignment will help us communicate and act in a joined-up fashion with our international regulatory counterparts.

We continue to support the Bank's operational resilience strategic goal through:

- supporting the FPC agenda on cyber and operational resilience;
- embedding the supervisory approach to operational resilience;
- supporting the Authorities Response Framework;
- engaging with the UK sector (under the Cross Market Operational Resilience Group) on sector exercises and other cross-industry projects;
- influencing international policy and supporting international activities, including the G7 Cyber Expert Group;
- seeking to standardise operational resilience engagement in periodic meetings with firms; and
- aiming to develop and deliver a longer-term approach to supervising cyber risks and incident reporting, co-ordinated with other regulators.

Recovery and resolution

Ensure that banks and insurers have credible plans in place to enable them to recover from stress events, and that firms work to remove barriers to their resolvability to support the management of failure – proportionate to the firm's size and systemic importance – in an orderly manner

We will continue to influence, contribute to, and support the implementation of the Resolvability Assessment Framework in the revised timelines, and ensure that firms are held accountable for their recovery, resolvability, and (where appropriate) have credible plans in place to wind down their UK operations safely without presenting a risk to UK financial stability.

We are planning to take forward implementation of the Resolvability Assessment Framework by publishing our final policy jointly with the Bank in the first half of 2021, which will set out how the resolvability of UK banks and building societies will be assessed. This will coincide with the publication of our policy on operational continuity in resolution, for which we launched a consultation in October

12 PS6/21 'Operational Resilience: Impact tolerances for important business services': https://www.bankofengland.co.uk/prudential-regulation/publication/2018/building-the-uk-financial-sectors-operational-resilience-discussion-paper

13 PS7/21 'Outsourcing and third party risk management': https://www.bankofengland.co.uk/prudential-regulation/publication/2019/outsourcing-and-third-party-risk-management.

2020,[14] and will take into account the Bank's ongoing work on minimum requirement for own funds and eligible liabilities (MREL), as well as the letter from Dave Ramsden to the CEOs of major UK banks on Resolvability Assessment Framework preparations.[15]

In 2021, we will develop our approach to recovery and resolution planning for insurers. Although the PRA operates a non-zero failure regime, we have very low tolerance for disorderly failure. We will expect firms to demonstrate – in a manner proportionate to their impact – that they have a suitable structure and business model, and adequate contingency plans to be able to exit the market smoothly.

We will also work with HM Treasury to secure enhancements to the insolvency regime for insurers.

Competition

Facilitate effective competition by actively considering the proportionality of our approach as it contributes to the safety and soundness of the UK financial system

Our secondary competition objective states that 'when discharging its general functions in a way that advances its objectives, the PRA must so far as is reasonably possible act in a way which facilitates effective competition in the markets for services provided by PRA-authorised persons carrying on regulated activities'.

HM Treasury's recommendation letter, about aspects of the UK Government's economic policy to which the PRC should have regard when considering how to advance its objectives and when considering the application of the regulatory principles set out in FSMA, reiterated the importance of having an open and competitive economy that allows free enterprise to flourish, as well as the Government's commitment to UK financial services being effectively regulated. In the coming year, we will continue with the work introduced in our 2019/20 plan, remaining focused on:

- for new and small firms:
  - implementing a tailored approach to the supervision of new and fast-growing non-systemic banks and building societies;[16]
  - implementing our new approach to operational resilience in a proportionate manner;[17]
  - implementing some of the remaining Basel III standards, with enhanced proportionality for smaller firms;
  - considering how we might design and implement a 'mobilisation' phase for insurers; and
  - continuing to support prospective new entrants, and authorising new entrants that comply with PRA requirements, into the banking and insurance sectors;
- for policy review and development:

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14 CP20/20 'Operational continuity in resolution: Updates to the policy': https://www.bankofengland.co.uk/prudential-regulation/publication/2020/operational-continuity-in-resolution.

15 February 2021: https://www.bankofengland.co.uk/letter/2021/february/firms-raf-preparations.

16 PS8/21 'Non-systemic UK banks: The Prudential Regulation Authority's approach to new and growing banks', April 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/new-and-growing-banks.

17 PS6/21 'Operational Resilience: Impact tolerances for important business services', March 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/building-the-uk-financial-sectors-operational-resilience-discussion-paper.

- developing the strong and simple regime for non-systemic banks and building societies;[18]
- finalising our supervisory expectations on the minimum level of internal ratings based (IRB) UK mortgage risk weights;[19]
- reviewing Solvency II to tailor it better for the UK market, including a more proportionate approach to reporting requirements;
- consulting on implementation of the Basel 3.1 package, including application of the output floor, which would mitigate the risk that banks with model approvals can obtain risk weights that are too low, especially when compared to banks on standardised approaches;
- reviewing the leverage ratio; and
- conducting further analysis on the complexity of the PRA Rulebook for banks and building societies, to identify aspects that could be simplified.

EU withdrawal

Maintain a sustainable and resilient UK financial regulatory framework following the UK's exit from the European Union

The PRA has now taken on substantial new rule-making responsibilities. In addition, around 270 EEA firms that were previously 'inward passporting' are now supervised under the Temporary Permissions Regime (TPR) (the TPR allows EEA firms that were formerly using a passport to operate in the UK for a limited period while they seek authorisation from the PRA).[20] We will complete the authorisation process for these firms in a robust and timely manner.

We will implement changes to the approval regime for holding companies, the designation of investment firms, and set out the PRA's approach to supervising international banking groups operating in the UK.

We will work with the UK Government and other regulatory authorities to understand the new regulatory environment and put in place processes to develop a revised regulatory approach. We will continue to deepen our relationships with supervisors and regulatory authorities around the world to advance our supervisory and regulatory objectives. We will ensure our supervisory approach can continue to be applied, including through the Memoranda of Understanding and other co-operation agreements the PRA has signed. In the context of the UK's new relationship with the EU, we will continue to co-operate with and support the FCA and HM Treasury, where relevant, including following the agreement by HM Treasury and the European Commission on a Memorandum of Understanding on financial services regulatory cooperation.

We will adopt our new responsibilities as rule-maker, which will require changes to our policymaking operating model. This will include developing further our engagement with the Government's proposed Future Regulatory Framework, from second stage consultation through to legislation, and co-ordinating the related financial services legislation. In addition, we will:

18 DP1/21 'A strong and simple prudential framework for non-systemic banks and building societies', April 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/strong-and-simple-framework-banks.

19 CP14/20 'Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture', September 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/internal-ratings-based-uk-mortgage-risk-weights-managing-deficiencies-in-model-risk-capture.

20 https://www.bankofengland.co.uk/eu-withdrawal/temporary-permissions-regime.

- review and transition the Future Regulatory Framework from pilot to steady state;
- set out our vision for policy identification, policymaking and a simpler PRA Rulebook, and for the speed and method of absorbing the acquis;
- develop, launch, and communicate a new policy approach to guide the way we do policy as an independent rule-maker; and
- adapt our internal structures and processes to facilitate the transition to rule-making, including through the new PRA target operating model.

Efficiency and effectiveness

Operate effectively and efficiently by ensuring that resources are allocated to work that best advances our strategy and reduces the greatest risks to the delivery of our statutory objectives, and by providing an inclusive working environment in which all staff can perform to their potential

We will complete a strategic review of the PRA, share its findings, and take forward any recommendations, while embracing new technologies to improve our efficiency and effectiveness. Internally, we will continue to advance our diversity and inclusion agenda, and focus on our resource management while taking into account the impacts of Covid-19, to ensure that our resources are well-aligned to our highest priorities.

All areas of the PRA are looking at how they can make additional efforts on diversity and inclusion, by attracting and retaining people from a diverse range of backgrounds and fostering an inclusive environment. As part of the commitment we made in 2020, we will continue to implement cross-organisational initiatives that support our agenda in this area, such as pooled recruitment, while looking for opportunities to do more as part of wider work taking place across the Bank.

We are committed to supporting staff and helping them navigate the challenges that they face by developing people’s skills and abilities through training, development, secondments, and job rotations. We will also, as part of the strategic review currently underway, refresh our approach to data and analytics (D&A) capabilities within the PRA. To support this effort, and building on the success of the PRA Data Innovation team, this area will now grow into a RegTech, Data and Innovation Division to expand the support provided to all areas of the PRA, improve our internal use of artificial intelligence and machine learning, and increase our research into relevant advanced technologies. It will work with a number of teams, networks, and areas focused on supporting the improvement of the PRA’s and the wider Bank’s D&A capability. The new division will expand on several workstreams already underway: improving data analytics, digital skills, data governance, and internal and external engagement on data issues. We will align to the Bank’s D&A strategy, and embed the tools and technology required for frontline supervision, establishing and maintaining clear, consistent expectations on supervisory processes, minimum standards, and maintaining core deliverables.

We will also advance further our work with firms and the FCA to transform data collection from the UK financial sector over the next decade. We will seek ways to decrease the burden on industry and to increase the timeliness and effectiveness of data in supporting supervisory judgements. The latest step in our work in this area was to publish our transformation plan for data collection in February 2021, alongside a letter to CEOs of firms.[21] The publication of the transformation plan concludes a review of data collection that we committed to in June 2019, in the Bank's response to the Future of Finance report. The transformation plan lays out three long-term reforms needed for better data collection: developed and adopted common data standards, modernised reporting instructions, and integrated reporting. As part of the first phase of the plan, we are setting up a joint work programme with industry and the FCA. The work programme will design solutions that we hope will be fully developed and adopted as part of the future data collection process.

Robust planning and financial management will ensure that we have a clear business plan and an accurate, realistic budget to deliver it. We will continue to ensure that decisions (for internal and external committees) are taken at the correct level, based on adequate information, cognisant of relevant precedents, and properly documented.

Risks to the delivery of the PRA Business Plan

Operating in a complex and fast-moving environment inevitably gives rise to risks to the delivery of our Business Plan. These risks are monitored, actively mitigated (where possible), managed, and reported to the PRC and Supervision, Risk and Policy Committee (SRPC) on a regular basis.

People

The impact of competing priorities on staff stretch and delivery of our objectives is a key challenge for the PRA in 2021/22 and beyond. To reflect additional responsibilities, we have had to increase headcount following a period of reductions, to be allocated to specific activities where we have new responsibilities or increased scope, such as changes to our work following the UK's withdrawal from the EU. We will therefore still need to impose discipline on how we deploy our budget to ensure that we are allocating our limited resource appropriately. Continuing to work in a budget-constrained environment, coupled with the fallout of the pandemic, geopolitical challenges, and all areas of the PRA facing significant demand, means that there will be pressure on areas, and difficult prioritisation decisions will still need to be made.

Uncertainties in the economic environment can make prompt risk identification more difficult, which can impede our ability to respond nimbly and strategically to changes in the risk horizon. Firm vulnerabilities could translate to increased challenges for us if risks crystallise. We will address this challenge by: i) continuing to reprioritise when new risks arise; ii) using initiatives such as working groups to horizon-scan and deliver cross-firm analytical work, which can trigger deeper reviews into outliers; and iii) using risk committees to identify emerging or crystallising risks, and inform decisions on workplans and resourcing to ensure we are prioritising correctly.

In addition to the impact of Covid-19 and external factors on our workload and the firms we supervise, we also need to consider the impact that it was having internally. Remote working, while being overall successful, has meant that integrating new functions and new people into the PRA has become more complex. We are conscious of the number of new staff who as yet have not physically met their team, and the additional time, effort, and investment that is required to fully integrate them, including ensuring they are appropriately trained so the PRA can continue to deliver effective supervision. Continuous working from home also presents some internal staff challenges with respect to wellbeing and other benefits to productivity and output that come from face-to-face interaction. Overall wellbeing continues to be monitored through staff engagement and initiatives such as regular surveys, and regular de-prioritisation exercises will remain in place for as long as these are required. A move to future ways

21 'Transforming data collection from the UK financial sector: a plan for 2021 and beyond', February 2021: https://www.bankofengland.co.uk/paper/2021/transforming-data-collection-from-the-uk-financial-sector-a-plan-for-2021-and-beyond.

of working later in the year will ensure that the PRA can operate safely and sustainably in a post-pandemic environment.

Key person risk, staff shortages, and the overall impact on our diversity and inclusion agenda is also a focus for the PRA in 2021/22. Staff availability and productivity will likely continue to be affected by Covid-19, though we expect that this will be to a much lesser extent than experienced in 2020/21 due to the success of the ongoing Covid-19 vaccination programme. Generally, the PRA has been able to retain staff during 2020, with most staff moves being internal within the organisation, and we anticipate this trend continuing as the effects of the pandemic persist into 2021/22. To further our diversity and inclusion efforts while turnover is expected to be low, we have in place a number of initiatives to ensure that our external recruitment reaches as diverse range of applicants as possible. These include continuation of our career returners and early careers programmes, as well as ongoing support for Government employment schemes related to the pandemic, including Kickstart and Generation 2020.

Technology

Having access to the right technology and data is another area of focus in 2021/22. There is a risk that we may be unable to deliver our intended technology capability to support future effectiveness and efficiency improvements, because technology resources will not be able to support key projects. This could have a significant impact on the PRA's ability to meet its objectives. This risk is compounded by the volume of change the wider Bank needs to undertake. We will address this challenge by raising our concerns at Bank-level where appropriate, engaging with the PRA's digital skills strategy and the Bank's data and analytics strategy, developing our data analytics, collaborating with other areas within the Bank, and leveraging data from firms.

Dependencies

Dependencies on external parties, such as the FCA, HM Treasury, and other overseas regulators, bears a risk for the PRA, as a number of our projects, authorisation processes, and supervision activities are contingent on maintaining relationships and co-operation with these parties. Following the completion of the UK's withdrawal from the EU, the dynamic of the PRA's dependencies and relationships with EU regulators and authorities has fundamentally shifted, and work will continue during the coming year to strengthen those relationships as we develop our rule-making capabilities.

Internal factors

We ensure that our staff are allocated to work that advances our strategy and reduces risk to the delivery of our statutory objectives. We will continue to ensure we meet high standards of governance, alongside continually improving our people management skills through the following actions:

- facilitating working across boundaries to achieve PRA and wider Bank objectives;
- maximising the use of dynamic structures, including those enabled by developments in technology;
- regularly reviewing the prioritisation of work to ensure goals and objectives can be delivered while maintaining a good work/life balance for our staff;
- targeting training and recruitment to ensure that our resources are used creatively and flexibly to do what matters most; and
- fostering an inclusive culture through the continued development of a diverse workforce, most notably by making measureable progress on the recruitment and career progression of female employees and those from different ethnic backgrounds.

Measuring progress

We draw on a variety of information to monitor, and to provide assurance over, the progress of delivery against our statutory objectives, strategy, and Business Plan on an ongoing basis. For example, we assess our supervisory approach through: i) self and peer reviews, where staff assess their own performance and receive independent challenge at regular intervals, as well as reviews carried out by other bodies (such as the International Monetary Fund); ii) regular reviews of how firm-specific risks are being managed; and iii) feedback from firms, and independent or external reviews.

We have governance in place through executive committees that receive information on a regular basis, including both quantitative and qualitative measures and indicators, to enable them to assess the delivery against our strategy, Business Plan, statutory objectives, and risk tolerance. This enables the PRC to report to the Chancellor on the adequacy of resources, and to provide sufficient information on supervisory processes and outcomes.[22]

[22] The annual report of the PRC to the Chancellor of the Exchequer for 2019/20 is available in 'The Prudential Regulation Authority Annual Report 1 March 2019 to 29 February 2020': https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-annual-report-2019-20.

PRA Budget 2021/22

The PRA's budget for 2021/22 is £296.6 million, including implementation and transaction fees of £8.9 million. This is an increase of £11.9 million (4%) on the 2020/21 budget.

The PRA's costs have increased, principally due to an increase in its responsibilities following the UK's withdrawal from the EU, and the priorities of operational resilience, cyber resilience, and developments in data analytics and technology. There has been some offset from lower budgeted costs associated with reduced levels of travel in relation to the ongoing Covid-19 pandemic, and a reduction in pension service costs. Overall, headcount for the PRA in 2021/22 will increase to 1,341, rising from 1,294 in 2020/21.

We explain how the PRA proposes to fund its budget in our annual fees consultation paper.[23] It includes proposals for allocating the cost of the PRA's 2021/22 ongoing regulatory activities across PRA fee payers.

[23] CP8/21 'Regulated fees and levies: Rates proposals 2021/22', April 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/regulated-fees-and-levies-rates-proposals-2021-22.

Abbreviations

Bank	Bank of England
BCBS	Basel Committee on Banking Supervision
BES	Biennial exploratory scenario
CEO	Chief executive officer
CMORG	Cross Market Operational Resilience Group
Covid-19	Novel Coronavirus disease
CRD	Capital Requirements Directive
CRD V	CRR and CRD collectively
CRR	Capital Requirements Regulation
DIF	Designated investment firm
ECAI	External credit assessment institution
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FinTech	Financial technology
FPC	Financial Policy Committee
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act 2000 (as amended)
G7	Group of Seven
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICAAP	Internal capital adequacy assessment process
ISPV	Insurance special purpose vehicle
Libor	London interbank offered rate
MREL	Minimum requirement for own funds and eligible liabilities
PPP	Prudent Person Principle
PRA	Prudential Regulation Authority
PRC	Prudential Regulation Committee
RegTech	Regulatory technology
SONIA	Sterling Overnight Index Average
SRO	Supervised Run-off
SRPC	Supervision, Risk and Policy Committee
TPR	Temporary permissions regime
TTP	Temporary Transitional Power
UK	United Kingdom

Contacting the Bank of England and the PRA

Please send any enquiries related to this publication to PRA.Communications@bankofengland.co.uk.

Bank of England
Threadneedle Street
London EC2R 8AH

020 3461 4444
www.bankofengland.co.uk

Public Enquiries
020 3461 4878
enquiries@bankofengland.co.uk

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

020 3461 4444
https://www.bankofengland.co.uk/prudential-regulation

Firm Enquiries
020 3461 7000
PRA.FirmEnquiries@bankofengland.co.uk

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