

# UK Government powers on with reforms to Solvency II

News story

The UK's world-leading insurance industry will be able to invest tens of billions of pounds more in long-term UK infrastructure and green projects under proposals published today.



- Solvency II consultation published today (28th April) as government powers on with post-Brexit reforms
- Proposals will unlock tens of billions of pounds of investment in UK infrastructure and green projects
- Move is part of government push to go further and faster to capitalise on the UK's Brexit freedoms and level up the country

The consultation on reforms to the Solvency II regime capitalises on the UK's post-Brexit freedoms to spur a vibrant, innovative and internationally competitive insurance industry.

It cuts EU red tape and unlocks investment, helping to create jobs while also maintaining a high level of protection for policy holders. The reforms will also help to increase access to market for new insurers and offer greater consumer choice.

The move is part of government commitment to go further and faster to capitalise on the benefits of Brexit.

**Economic Secretary to the Treasury, John Glen said:**

Today's consultation demonstrates our commitment to go further and faster to deliver the benefits of Brexit.

Our reforms will unlock tens of billions of pounds of investment in the UK economy, spur innovation in the market while protecting policy holders – and will cement the UK's position as a global hub for financial services.

The Economic Secretary announced the government's intention to reform Solvency II legislation in a speech to the Association of British Insurers in February 2022, with a commitment to consult in April. The consultation sets out detail on the reforms, including:

- A substantial reduction in the risk margin for long-term life insurers, including a cut of around 60-70%, and consulting on the appropriate level for general insurers. This step will release capital on insurers balance sheet.
- A more sensitive treatment of credit risk in the matching adjustment. The matching adjustment provides incentives for insurers to issue long-term life insurance products by 'matching' them against assets with similar characteristics, helping to increase the availability of this type of product on the UK market.
- A significant increase in flexibility to allow insurers to invest in long-term assets such as infrastructure.
- A meaningful reduction in the current reporting and administrative burden on firms, removing EU bureaucracy including by doubling the thresholds for the size of insurers before the Solvency II regime applies.
- Deliver further reforms to EU derived legislation, which will increase access to the market for new insurers and offer greater consumer choice. For instance, the government will introduce a new mobilisation regime to encourage new insurers into the market to boost competition, drive growth and create jobs.

The proposals outlined today form part of wider changes proposed by HM Treasury to the UK's financial services regulatory framework, so that we maintain a coherent, agile, and internationally respected approach to financial services regulation that is right for the UK.

They are just one of the ways the government is capitalising on its post-Brexit freedoms, ensuring our regulations are tailored to the needs of the UK economy, rather than the needs of 28 countries across the EU.

The consultation will run for 12 weeks closing on 21 July. The government will then consider and publish a response to the consultation in due course. The PRA will also publish a consultation of their own at a later date.

#### **Further information**

- Solvency II sets out the prudential regulatory requirements for insurance firms within the EU. This includes financial resources,

governance and accountability, risk assessment and management, supervision, reporting and public disclosure. It was introduced to harmonise EU-wide insurance regulation and came into force in 2016.

- A detailed technical consultation will be published by the PRA later in the year.
- The government recently published a policy document setting out how the UK is capitalising on the benefits of Brexit and how the government will use its new freedoms to transform the UK into the best regulated economy in the world: [The benefits of Brexit – GOV.UK](#)
- The Prudential Regulation Authority will also publish papers on the same day, including a statement and supporting documents.
- Read our consultation here: [Solvency II Review: Consultation – GOV.UK](#)

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